



2019 ANNUAL REPORT



Krka, d. d., Novo mesto

Living a healthy life.

- BLANK PAGE -

Contents

INTRODUCTION	4
STATEMENT BY THE PRESIDENT OF THE MANAGEMENT BOARD	4
2019 SUPERVISORY BOARD REPORT	7
FINANCIAL HIGHLIGHTS	17
AT A GLANCE	18
2019 HIGHLIGHTS.....	22
SUBSEQUENT EVENTS	24
BUSINESS REPORT	26
CORPORATE GOVERNANCE STATEMENT	26
DEVELOPMENT STRATEGY	43
MACROECONOMIC FORECAST FOR 2020	47
RISK MANAGEMENT	51
INVESTOR AND SHARE INFORMATION.....	67
BUSINESS PERFORMANCE	70
MARKETING AND SALES	76
PRODUCT AND SERVICE GROUPS	88
RESEARCH AND DEVELOPMENT.....	108
PRODUCTION AND SUPPLY CHAIN	116
INVESTMENTS	119
INTEGRATED MANAGEMENT SYSTEM AND QUALITY	122
SUSTAINABLE DEVELOPMENT	132
EMPLOYEES	133
INVESTORS.....	141
CUSTOMERS.....	142
EQUIPMENT SUPPLIERS AND CONTRACTORS	144
SUPPLIERS OF RAW AND BASE MATERIALS	145
CORPORATE SOCIAL RESPONSIBILITY	145
NATURAL ENVIRONMENT	150
KRKA'S SUSTAINABLE DEVELOPMENT INDICATORS FOR 2019.....	162
FINANCIAL REPORT	164
INTRODUCTION TO THE FINANCIAL STATEMENTS	165
STATEMENT OF COMPLIANCE.....	165
CONSOLIDATED FINANCIAL STATEMENTS OF THE KRKA GROUP	166
FINANCIAL STATEMENTS OF KRKA, D. D., NOVO MESTO	229
ENCLOSURE 1: REPURCHASED TREASURY SHARES.....	295
SIGNING OF THE 2019 ANNUAL REPORT AND ITS CONSTITUENT PARTS	297

INTRODUCTION

Statement by the President of the Management Board

Dear shareholders, business partners and employees,

I am very pleased to announce that business performance in 2019 has been the best since Krka was founded 65 years ago. Despite fierce competition, constant changes and a rapid turn of events in the global market, the Krka Group increased sales of products and services by 12% year-on-year, and generated €1,493.4 million.

Earnings before interest, tax, depreciation and amortization (EBITDA) increased by 12% to €385.4 million in 2019. Operating income (EBIT) increased by 18% and reached €274.2 million. Net profit generated by the Krka Group totalled €244.3 million, up 40% on 2018. Return on equity (ROE) improved by almost 4 percentage points and reached 15.2%.

The results testify to our high standards, business flexibility, innovative mindset, and stemming from all this, efficiency.

Record Sales to Date, Growth in All Sales Regions

Dispersed international operations and the vertically integrated business model ensure the Krka Group's stable performance despite diverse macroeconomic situations in the markets. We serve our customers and users of our products and services through six sales regions and operate in more than 70 countries. Last year we generated almost 94% of our sales revenue in countries outside Slovenia.

Region East Europe remained our largest sales region in 2019. Sales totalling €481.2 million were primarily on the back of good results in the Russian Federation and Ukraine, with high growth rates also recorded in the majority of other regional markets. The Russian Federation yet again proved to be the most important and largest regional and individual market. Sales were valued at €310.5 million, a 13% year-on-year rise, while rouble-denominated growth reached 12%. In Ukraine, we generated €79.8 million through product sales, up 42% on 2018.

Region Central Europe generated product sales of €339.6 million, up 7% on the previous year. Sales grew in all markets except for the Czech Republic. Growth in terms of value was most significant in Poland and in relative terms in Lithuania. In Poland, the largest market in the region and our key market, product sales topped €159.5 million, up 7% on 2018.

Sales in Region West Europe, which we regard as key markets, grew 17% to €336.1 million. Germany, the Scandinavian countries, Spain and Italy were our largest markets in 2019, while prescription pharmaceuticals were our main product group accounting for 91% of total sales. In Germany, our most important regional market, we generated sales totalling €85.4 million, up 18% on 2018.

Product sales in Region South-East Europe totalled €191.3 million, a 9% year-on-year increase. Most regional markets contributed to growth, but Bulgaria stood out in absolute and relative terms. Prescription pharmaceuticals accounted for 86%, non-prescription for 10%, and animal health products just short of 4% of total regional sales.

Holding an 8.4% market share, we remained the leading medicine provider in Slovenia in terms of sales volume. An independent sales region caters for the demand of on the national market. In Slovenia, 2019 sales of our products totalled €52.9 million, and our health resorts generated €39.5 million.

Region Overseas Markets, our smallest sales region, generated €48.6 million in product sales. This market has been growing steadily, last year by 12%, and is gaining prominence. All three regional sales offices, the Middle East, Far East and Africa, and Americas, recorded growth. Prescription pharmaceuticals accounted for 91% of sales and were primarily marketed under our own brand names.

Marketing Authorisations for 20 New Products

We are committed to manufacturing high-quality products. Development of these products is the result of a multitude of inventive and innovative solutions, using of the state-of-the-art production equipment, and the most advanced analytical procedures and apparatus. Long-term growth relies primarily on the constant expansion of our quality product range based on our own research-and-development solutions.

Pharmaceutical products remain the core business of the Krka Group. In 2019, Krka received marketing authorisations for 20 new products in 43 pharmaceutical forms and strengths. The majority, 13, were prescription pharmaceuticals, three were non-prescription products, and four were from the animal health range.

Our vertically integrated business model enhances flexibility and increases the degree of innovation. This is why we can develop medicines in new pharmaceutical forms and strengths, consider differences in market conditions, and at the same time provide for suitable treatment options for patients. Some of our innovative pharmaceutical forms designed for easy administration are new to the market.

In addition to new product launches, managing the life cycle of established products is important as well. We scrutinise all latest scientific discoveries and legislative updates that refer to our existing range of products. In 2019, we submitted more than 30,000 regulatory variations to improve the quality and competitiveness of our products.

€112.6 Million for Investment

In 2019, we invested primarily in finished product manufacturing, and increasing and upgrading research-and-development infrastructure.

At the beginning of October 2019, we opened the product development and quality control facility Razvojno-kontrolni center 4 (RKC 4). This €55.6 million investment is another key phase in the technological development, allowing for coordinated research and development, production and control. The new eight-floor building houses 18,000 square metres of usable floor area with state-of-the-art laboratory, analytical and technological equipment. The facility has almost doubled our capacities for development, control and analytics, and raised the level of our research-and-development activities, the core of our vertically integrated business model.

In December 2019, the multi-purpose warehouse for finished products, raw materials and packaging materials at our central site in Novo mesto passed its final technical inspection and was issued with operating permits. This new €36-million facility will allow for more rapid and flexible production, and improve the availability of products and market supply.

The demand for additional production capacities has led to the decision to start equipping the new packaging facility at our plant for manufacturing solid dosage forms, Notol 2. Last year we allocated €18 million to this end. Total investment is estimated at €41 million.

We invested €21.1 million in increasing our capacities in the Russian Federation, Croatia, Germany, and China.

Development Strategy Updated

In November 2019, the Management and Supervisory Boards amended and updated the 2020–2024 Krka Group Development Strategy.

The strategy addresses rapid changes and a variety of challenges in the external environment in the light of new opportunities for the Krka Group. Mid-term trends and projections remain favourable on all our markets. In consideration of feasible patent rights, we included new products from various therapeutic categories in the strategy. We updated the investment plan and included funds for our China venture, and further detailed our commitment to produce high-quality products and carry on our business processes, our key competitive advantages over the past few years. We also included digitalisation in our strategic guidelines.

Higher Krka Share Price

In 2019, the Krka share price rose by 26.6% exceeding SBITOP growth, the blue-chip index of the Ljubljana Stock Exchange, by more than 11 percentage points. In 2019, Krka shares were the most frequently traded security on the Ljubljana Stock Exchange. The average daily trading volume amounted to €0.5 million per day. Not surprising, Krka received the 2019 Prime Market Share of the Year award of the Ljubljana Stock Exchange.

Among generic pharmaceutical providers, Krka is known for high dividend yield. In 2019, we continued our stable dividend policy. The shareholders were paid out €3.20 gross per share, or 10.3% more than a year ago.

Continuing Employment in 2019

Employees are essential for good business performance. At the end of 2019, the Krka Group had 11,696 employees, 306 more than a year ago. The share of employees with at least university-level qualifications was 52%. Our workforce is relatively young, 40 years of age on average, and well diversified with staff from a range of countries where Krka operates. In line with our mission and values, we have been striving for over 65 years to create a culture of cooperation, continuous learning, and responsible work. We place particular emphasis on attracting, recognising, and developing young talent. By doing so we ensure the company's success going forward. We are a renowned employer and remain the first choice for many educated and accomplished professionals seeking employment.

Dedicated to Values and Sustainable Development

Numbers are not the only measure of success. Social responsibility and encouraging a healthy life style are two of our fundamental principles. We achieve them through balanced and sustainable development while keeping the environment clean and healthy for present and future generations.

By improving energy efficiency, we cut CO₂ emissions by 17,000 tonnes over the past few years, much the same as if we planted 85,000 saplings. In 2019, we sent 451 tonnes of waste composites for processing, from which a contractor recovered 166 tonnes of aluminium and 252 tonnes of plastics. We reduced waste deposits by 3%, and replaced 1.6% of river water for cooling towers with clean rinse-water from production, and another 2.5% with rainwater. Krka allocated €7.7 million to environmental protection in 2019.

Sales Growth Projected to Continue in 2020

The Krka Group plans to increase sales in 2020. We intend to allocate €134 million primarily for investment projects to increase and upgrade production capacities and infrastructure. According to our plans, employee numbers will rise by approximately 3%. We intend to pursue the stable dividend policy, and in consideration of the Krka Group's planned investments and financial requirements, we will allocate more than fifty percent of net profit of majority shareholders to dividends.

I believe we will recognise how to maintain the trust of our shareholders and customers. We have many reasons to be confident. We develop and produce various high-quality products in advanced pharmaceutical forms, have a sound track record on our markets and are venturing into new ones, while our medicines are well established in many countries. All this, but above all, the trust of patients who take our medicines is the foundation for building our future.



Jože Colarič
President of the Management Board and CEO

2019 Supervisory Board Report

Dear shareholders and stakeholders,

In 2019, Krka performed exceptionally well across the board, with many areas returning their best results to date. These results were recognised through several awards. Two of them, the Prime Market Share of the Year award and Best Investor Relations Award, are also significant for shareholders and were conferred by the Ljubljana Stock Exchange.

Below, I outline our work in 2019 on behalf of the members of the Supervisory Board.

The Work of the Supervisory Board

Krka's Supervisory Board has nine members. The shareholder representatives are Prof. Dr Julijana Kristl, President of the Supervisory Board Jože Mermal, Deputy President of the Supervisory Board Andrej Slapar, Dr Boris Žnidarič, Borut Jamnik, and Mojca Osolnik Videmšek. The employee representatives are Deputy President of the Supervisory Board Franc Šašek, Dr Mateja Vrečer, and Tomaž Sever. Krka's Supervisory Board is composed of three women and six men, all with diverse qualifications, work experience, age, and fields of work. The Supervisory Board members are aged from 47 to 71 years. Their knowledge is versatile and covers various fields, including pharmacy, chemistry, law, economics, mathematics, social sciences, mechanical engineering, organisational sciences, and management. Throughout their careers, they have managed and supervised many companies, organisations, and processes.

Hans-Helmut Fabry was a member of the Supervisory Board until 12 March 2019, when he took up a leading position with a competitor and stepped down as a Krka Supervisory Board member. On 4 July 2019, the 25th Annual General Meeting (hereinafter: AGM) elected Mojca Osolnik Videmšek to his position.

At the 2nd meeting of the Works Council on 18 February 2019, Tomaž Sever, Franc Šašek, and Mateja Vrečer were elected to the Supervisory Board as employee representatives for five-year terms of office, commencing on 21 June 2019. The AGM was informed of their election on 4 July 2019.

Work and decision-making of the Supervisory Board are based on monitoring the objectives of Krka and the Krka Group in accordance with legislation, sound national and international practices, and bye-laws. Meetings provide an opportunity for the Supervisory Board members to voice their opinions and concerns, while working to reconcile any differences in opinion in order to pass unanimous resolutions.

In 2019, we also received all requisite data, reports, and information. Krka departments promptly implemented upgrades and offered technical support to the Supervisory Board. The Supervisory Board used a safe, certified digital platform eNS (English abbreviation: eSB) for the distribution of materials and to aid their work throughout the year. The Slovenian company Ixtilan developed the platform. The Management Board submitted the materials seven days prior to each Supervisory Board meeting through a secure website.

Apart from one member who was absent twice for justified reasons, the members regularly attended the meetings. Generally, members of the Supervisory Board, members of the Management Board, and the Supervisory Board Secretary were present at the meetings. If necessary, but definitely when adopting the annual report, certified auditors from the external audit firm attended the meetings as well. Representatives of relevant Krka departments occasionally attended the meetings as rapporteurs to present any details concerning the topic under discussion. However, the Management Board remains responsible for reporting.

In 2019, the Supervisory Board members met at six regular meetings and discussed 48 agenda items. Members of the Supervisory Board committees met nine times and discussed 41 agenda items, which they reported and advised on to the Supervisory Board.

The Supervisory Board discussed Krka's past and current operations, financial and business risks, information on human resources, investments, products, and implementation of the current strategy. We discussed and agreed with the revised strategy for the following five-year strategic period from 2020 to 2024. We monitored what strengths, weaknesses, risks and opportunities highlighted by the professional community and analysts in their reports with regard to Krka. We compared Krka's

operations with those of competitors, received regular updates on new developments in the Company, the pharmaceutical industry, and the business environment. We also evaluated the work of the Management Board. Together with Management Board members, we prepared materials for the AGM and a motion for the appropriation of distributable profit. The Supervisory Board also discussed and agreed with the 2020 business and financial plans prepared by the Management Board. In 2019, the Supervisory Board continued to improve its work, assessed its own activities, and adopted an action plan.

Key Areas Discussed at Supervisory Board Meetings in 2019

The Annual Report Within the statutory time frame, the Supervisory Board thoroughly examined the 2018 report of Krka and the Krka Group and discussed the auditor's report issued by audit firm Ernst & Young d. o. o., Ljubljana. The report stated that the financial statements, which form part of the annual report, presented fairly, in all material respects, the financial position of Krka and the Krka Group, their financial performance, and their cash flows in accordance with the *International Financial Reporting Standards* (hereinafter: IFRS). The Supervisory Board had no comments on the auditor's work or the report. The Board also compiled and adopted a report on its work in 2018 and, together with the Management Board, drew up the *Compliance Statement* regarding Krka's compliance with the *Slovenian Corporate Governance Code for Listed Companies* (hereinafter: *Corporate Governance Code*).

In November 2019, the Slovenian business daily *Finance* held a contest for best annual report and announced the *2018 Annual Report of Krka* as winner in the large company category. In the contest's two-decade history, Krka has won six awards for best report in the large company category.

Interim Results The Supervisory Board regularly reviewed the first-quarter, half-year, and nine-month performance reports of Krka and the Krka Group for 2019. The Audit Committee discussed the accounting and financial aspects of interim results and risks, and reported to the Supervisory Board on all interim reports. During each analysis of the interim results, the Audit Committee and the Supervisory Board were briefed about foreign exchange risks and their management.

Supervision of Krka Group Subsidiary Performance The Supervisory Board discussed the business operations of Krka subsidiaries and focused primarily on production and distribution, distribution and marketing, and marketing companies abroad, whose employees constitute approximately one half of total Krka Group workforce. The Management Board reported to the Supervisory Board on the business model of subsidiaries, their performance, important business information, any business challenges encountered, etc. The Supervisory Board members were briefed about all significant accounting information pertaining to these companies, especially the book value of Krka investments in them, the number of employees, the value of inventories, assets, equity, operating income and operating expenses, operating profit or loss, and net operating results.

2020–2024 Krka Group Development Strategy

At the 2019 November meeting, the Supervisory Board agreed with the revised Krka Group development strategy for the period from 2020 to 2024. The strategy retained key elements, objectives, and guidelines from the strategy that was significantly updated two years ago. The Management Board revised industry trends and projections, which are now more optimistic than two years ago. Considering patent options, several new products were added to various therapeutic classes. The investment plan, which also includes plans for significant investments in China, was also revised. The strategy emphasises commitment to product quality, which has become a considerable competitive advantage for Krka over the past few years. One of the strategic guidelines of the Management Board is also further digitalisation. In certain sections, the strategy and objectives of business functions were also revised and optimised where necessary to reflect trends and needs.

The strategy projects growth in terms of sales volume and value at an average of at least 5% annually, EBITDA margin (the difference between operating income and expense plus accumulated depreciation and amortization) between 21% and 25%, ROE (net profit/average shareholders' equity in the year) between 9% and 12%, and investments at €136 million annually. Up to 10% of sales is to be earmarked for research and development.

As with every year so far, the revised strategy points out that Krka aims to remain an independent company.

Krka Group Operational Plans for 2020 At their meeting in November 2019, the members of the Supervisory Board and the members of the Management Board discussed the 2020 operational plans of the Company and the Group. They were prepared by the Management Board, which outlined them to the Supervisory Board at the July meeting.

The plan includes detailed information about sales by region and product group, new products, planned investments in research and development, the purchase of fixed assets and investments, the employment plan, and projections of business results. The 2020 business plan is based on the revised 2020–2024 development strategy and was also approved by the Supervisory Board.

Convening and Holding the Annual General Meeting As in previous years, the Supervisory Board together with the Management Board drafted the agenda and materials for the AGM of 4 July 2019 and prepared a proposal for the appropriation of distributable profit. The Supervisory Board proposed that the AGM discharge the Management and Supervisory Boards of liability for 2018. The Supervisory Board also proposed to the AGM that Ernst & Young d. o. o., Ljubljana be appointed as the auditor for 2019, 2020, and 2021.

Following the resignation of Supervisory Board member Hans Helmut Fabry, the Supervisory Board prepared a motion to elect a new member – shareholder representative. The Human Resource Committee identified, nominated, and evaluated candidates in accordance with the *Rules of Procedure*, and advised the Supervisory Board on the matter. During the candidate evaluation stage, the Supervisory Board members took into account eligibility criteria set out in the *Rules of Procedure of the Supervisory Board* and *Corporate Governance Code*. We decided to nominate Mojca Osolnik Videmšek as the new member. The nomination was approved by AGM on their meeting of 4 July 2019.

Investments The Management Board regularly reports to the Supervisory Board on investments in their quarterly and annual business reports. Once a year, the Management Board prepares a detailed overview of all major investments and reports on the work progress, fulfilment of deadlines, and budgeted cost and accounting value, and also shows photographs, diagrams and other presentations of construction sites and buildings. In 2019, the members discussed particularly the information about Razvojno-kontrolni center 4 (hereinafter: RKC 4), Krka's key new research and development facility that we visited during our July meeting. The members were briefed about this key new investment, a multipurpose warehouse at the main site of Krka in Novo mesto, which became operational at the beginning of 2020. The warehouse has the capacity to store packaging materials, raw materials, and finished products for a period of ten years. Another major investment was Packaging Room 2 (Pakirnica 2), which will further increase the capacities in Notol 2, the main Krka production plant. Rooms will be refurbished and several additional packaging lines installed one by one. Completion is due in 2021. We were also briefed about the opening of a new office building in Ljubljana, which we visited after our November meeting, the construction of a new hazardous materials warehouse, and increased production capacities in our Krka-Rus subsidiary.

Risks The Management Board regularly reported to the Supervisory Board on currency, business, and legal risks, including risks relating to intellectual property and quality. As in previous years, it presented to the members an overview of procedures broken down by individual product and market, the planned deadlines, and risks related to patent and other disputes involving Krka. When we examined interim reports, we also discussed the risks and the Management Board reported to the Supervisory Board on potential market and regional risks, such as measures taken by authorities or regulatory bodies in individual countries. Risks identified in internal audit reviews were reported by the Internal Audit of Krka to the Audit Committee, which in turn reported to the Supervisory Board.

In 2019, the Directive regarding the prevention of the entry of falsified medicinal products into the legal supply chain (Falsified Medicines Directive – FMD) entered into force. Krka was very well prepared and, therefore, faced no issues with regard to this matter.

During the discussion of interim performance results, the Management Board briefed the Audit Committee and the Supervisory Board on currency risks. The sales-side exposure in Russian roubles was the Group's main exposure in 2019. US dollar exposure on the purchase side has been gradually increasing; however, the volatility of the US dollar is significantly lower than that of the rouble. In 2019, Krka was hedging part of its currency exposure by way of forward contracts, whereby the Group continues to pursue its key policy of eliminating foreign currency exposure by natural hedging.

Business Trends in the Pharmaceutical Industry and Analytical Reports on Krka In 2019, Krka operations were monitored by six financial analysts from banks or financial companies and by analysts of large owners. As in previous years, the Supervisory Board was briefed about the findings of external analysts, fair value assessments of Krka shares, and benefits, opportunities, weaknesses, and dangers with respect to Krka operations. It also discussed up-to-date information about the pharmaceutical industry.

The Company stepped up investor relation activities in 2018 and double downed on them in 2019. In December 2019, Krka received two top awards by the Ljubljana Stock Exchange: the Prime Market Share of the Year award and Best Investor Relations Award.

Benchmarking Krka Performance Against Comparable Companies The Supervisory Board regularly compares Krka operations with those of its competitors. In 2019, the Supervisory Board again learnt about the performance of the Krka Group compared to other generic pharmaceutical companies, in particular Gedeon Richter, Stada, Lek, and Hikma. It mainly analysed sales, their structure by region and product group, gross profit, operating profit (EBIT), earnings before interest, tax, depreciation and amortisation (EBITDA), profit before tax and profit for the period, margins, ROE and ROA ratios, cost structure, statement of financial position, and share price ratios. According to the ratios, Krka regularly ranked very high among competitors in 2019.

Works Council Report on Worker Participation in Management In accordance with Article 80 of the *Worker Participation in Management Act*, the President of the Works Council presented the Works Council report in July 2019. Its purpose was to inform the Supervisory Board on worker participation in management, draw attention to any shortcomings, and propose measures.

In his oral report, the President of the Works Council assessed that the organisational climate, employee engagement, and satisfaction were at a high level and that employees trust the management.

The President of the Works Council also presented a written report. He concluded that the Works Council worked productively with the Company Management Board, its President, the Worker Director, relevant departments, both unions, and internal employee representatives on the Supervisory Board to benefit all stakeholders. They were rather successful in solving day-to-day employee issues and kept employees regularly briefed about the situation in the Company. The members were involved in humanitarian projects and encouraged employees to develop good interpersonal relationships and teamwork. They were involved in projects promoting occupational health and employee mobility. In 2019, Works Council elections were held. Considering the increase in the number of employees, four additional members were elected and the rules of procedure harmonised and revised.

The members of the Supervisory Board were presented with the report and had no comments on it.

Cooperation with Internal Audit The Supervisory Board approves the appointment, dismissal, and remuneration of the Head of Internal Audit; the documents regulating the purpose, meaning, and tasks of Internal Audit; and the annual and mid-term plans of Internal Audit. It is also briefed about the annual report on the Internal Audit performance.

In 2019, the Supervisory Board determined the performance bonus for the Head of Internal Audit for 2018 and for the first half of 2019. Owing to her strong performance, she received both bonuses.

We were also briefed about the annual report on the Internal Audit performance. We had no comments.

In November 2019, based on the *International Standards for the Professional Practice of Internal Auditing*, Internal Audit prepared a proposal for an update to the *Internal Audit Charter*, which should be reviewed and, if necessary, revised by internal auditors annually. In addition to editorial corrections, the key amendments concerned the requirements on the Internal Audit to assess and make recommendations with regard to procedures for adopting strategic and implementing decisions, supervision of risk management and controlling. They also need to take into account the strategy of the audited area. The line between independence and objectivity became clearer as well. The Supervisory Board agreed with the proposed changes.

It also discussed and approved the Internal Audit 2020 annual work plan.

In each case, the Audit Committee reported and advised the Supervisory Board

Management Board Performance and Remuneration The Supervisory Board measures Management Board performance according to qualitative and quantitative criteria. Quantitative criteria included growth in sales value and volume, increase in cash flows from operating activities and in operating profit, return on equity, and dividends. Qualitative criteria included

activities in new indication areas, the implementation of new requirements, e.g. related to quality, regulatory, and other areas, entry into new markets, new product launches, social responsibility, Krka's reputation, investor and public relations, as well as the areas of information technology, investments, and human resources.

In 2019, the Supervisory Board regularly monitored the work of the Management Board. Twice a year, when determining the variable amount of the members' remuneration pursuant to the rules, their work is assessed based on the above criteria.

The variable amount of the Management Board remuneration is paid in two parts: the first payment is made based on the interim performance results, and the second depending on annual performance.

Shares and Shareholders' Structure Every quarter, the Supervisory Board obtained up-to-date information about shares and reviewed the report on the acquisition of treasury shares, the current shareholders' structure, trading in shares, and the Company share price. In 2019, no major changes occurred in the shareholders' structure, while the share price rose. During the year, the Company regularly purchased treasury shares in line with the restrictions of the relevant legislation and by-laws.

The Supervisory Board was also briefed about the calendar of closed periods, when persons with access to insider information – including all members of the Supervisory Board – are prohibited from trade in Krka shares.

Strengthening the Good Practice of Supervisory Board Performance In 2019, using the methodology of the Slovenian Directors' Association, the Supervisory Board conducted a regular annual self-assessment. The members submitted the completed questionnaires to the Secretary, based on which the Secretary and the President of the Supervisory Board prepared the report. The average score was 3.7 out of 4. The scores demonstrated that the work of the Supervisory Board meets the highest standards. With regard to their current needs in 2019, the members proposed some improvements to their work, which have already been or will be introduced in 2020.

The Supervisory Board also regularly discussed **other current matters** related to Krka and the industry. During our tour of the new the product development and quality control facility, Razvojno-kontrolni center 4 (RKC 4) as part of our July meeting, the members learnt about the operational processes in development and quality assurance. In November, at the opening of the new office building in Ljubljana, we learnt about the marketing and sales processes at Krka.

Corporate Events In addition to the Krka AGM, the members occasionally attended various business and social events related to their work on the Supervisory Board.

Work of Supervisory Board Committees

The Supervisory Board appointed the Audit Committee and the Human Resource Committee, which deal with accounting, auditing, finance, and human resource issues in detail. The committees report to and advise the Supervisory Board, while decision-making remains the remit of the Supervisory Board. In 2019, the Supervisory Board agreed with the opinions tendered by the committees regarding the items they reported and advised on.

Audit Committee

In 2019, the Audit Committee met five times and discussed 29 agenda items. The President of the Audit Committee is Borut Jamnik, and its members are Boris Žnidarič, Mojca Osolnik Videmšek, Franc Šašek, and Borut Šterbenc. Borut Šterbenc is an external accounting and auditing expert and is not a member of the Supervisory Board. The other members are Supervisory Board members.

Tomaž Sever served as a member of the Audit Committee until 31 July 2019. At the July meeting, the Supervisory Board appointed him to the Human Resource Committee, while Mojca Osolnik Videmšek, the newly elected Supervisory Board member, became an Audit Committee member.

The Audit Committee invited the President of the Management Board and the member of the Management Board responsible for economics, finance, and IT, 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 Supervisory Board Secretary attends all meetings. In 2019, two representatives of the audit firm, Ernst & Young d. o. o., Ljubljana, also attended two meetings.

The Audit Committee dedicated most of its time to discussing the following:

Annual Report In 2019, the Committee considered the 2018 annual report of Krka and the Krka Group, the auditor's report and the 2018 Supervisory Board report, and proposed that the Supervisory Board approve them. The audit partner and coordinator from Ernst & Young d. o. o., Ljubljana, the external audit firm, reported twice to the members of the Committee on the audit procedures.

Interim Results When considering interim reports, the Audit Committee discussed these primarily with regard to accounting and finance, and reported back to the Supervisory Board. In 2019, no accounting or financial particularities, or changes to the past practice were established, save for those that are mandatory and stipulated under amendments to *IFRS*.

Cooperating with External Auditors and Proposing an Audit Firm for the Financial Statements Audit The Committee regularly monitored the external audit procedures and worked with the external auditors, who regularly reported to the Audit Committee on the progress of the audit of financial statements for the previous financial year.

Acting on Regulation (EU) No. 537/2014 of the European Parliament and of the Council on specific requirements regarding the statutory audit of public-interest entities and Article 32 of the Act Amending the Auditing Act, which amends Article 47 of the Auditing Act and stipulates that contracts for auditing separate and consolidated financial statements are to be concluded for a term of at least three years, the Committee proposed that Ernst & Young remain the auditors for the 2019, 2020, and 2021 financial statements. The Supervisory Board discussed and agreed with the proposal, while the shareholders approved it at the AGM. The Audit Committee reviewed the contract and advised the Supervisory Board to approve it, which they did.

In the autumn of 2019, the Audit Committee started preparing for the audit of the 2019 annual report of Krka and the Krka Group. Before the start of the audit, Committee representatives usually meet with the audit partner and coordinator to agree on the key areas of work. In 2019, they met in September to review the prepared audit plan and the composition of the audit team more closely, and to reach an agreement with Committee representatives on the guidelines for a more in-depth review of individual business operation areas in 2019. In accordance with the Committee resolution, Company representatives and the Head of Internal Audit attended the meeting.

Cooperation with the auditors in 2019 was productive and their reports thorough. Their valuable and comprehensive work contributed to improved oversight over business operations.

Management of Non-Audit Services Acting on Regulation (EU) No. 537/2014, any member firm within the Ernst & Young network performing a statutory audit of the financial statements of Krka as a public-interest entity shall not provide any prohibited non-audit services to Krka or any of its subsidiaries within the European Union. Other non-audit services may only be provided with prior approval from the Audit Committee of the Supervisory Board of Krka. For approval purposes, the Audit Committee applies the *Protocol for the Preliminary Approval of Non-Audit Services*, which sets forth the fundamental principles for approval, cost limits, the procedure and duration of the approval of permitted non-audit services.

In 2019, in line with the above, the Audit Committee agreed that the statutory auditor provide the following non-audit services: translation of the financial report into English and the preparation of the report on relations with related companies for subsidiaries Terme Krka, d. o. o., Novo mesto and Farma GRS, d. o. o.

Internal Audit

In 2019, the Audit Committee discussed several other topics related to the internal audit. It reviewed the Internal Audit performance report for 2018 and its self-assessment report.

The Committee discussed the Internal Audit performance report for the period January to June 2019, the 2020 work plan, and the revision of the *Internal Audit Charter*. It was briefed about the selection procedure for an independent external quality auditor of Internal Audit, carried out in 2019.

Also in 2019, the Committee proposed to the Supervisory Board performance bonuses for the Head of Internal Audit for 2018 and for the first half of 2019.

In line with good practice, *International Standards for the Professional Practice of Internal Auditing*, and the legislation, the Head of Internal Audit also has to assess any initial information provided by the Audit Committee when preparing work plans. The Audit Committee may provide guidelines for work before Internal Audit prepares a draft work plan for the following year. Based on the presented work of Internal Audit in 2019, the Committee members assessed that the guidelines do not need to be changed as they were useful. They recommended to Internal Audit that it continue with existing good practice when drafting the 2020 Internal Audit plans and to take into account the standards and legislation used for the preparation of its work plans.

The Head of Internal Audit regularly briefs the members of the Audit Committee about the findings of internal audits. At the meeting in March 2019, she reported on audits performed in Pharmaceutical R&D, Warehousing and Transport Services, Media Supply, sales region Central Europe, and Quality Management. She also reported on audits conducted in subsidiaries and representative offices in Bosnia and Herzegovina, Albania, Germany, Romania, Kazakhstan, Kyrgyzstan, Mongolia, Kosovo, and Poland. At the meeting in July 2019, the Head of Internal Audit reported on audit findings in subsidiaries in Serbia and Italy, the representative offices in Moldova, Turkmenistan, and Azerbaijan, and in API Production and department responsible for organisation of employee meals, accommodations, and events at Krka. No significant deviations were identified.

Internal Audit is occasionally reviewed by an independent professional organisation. In accordance with the *Internal Audit Charter, Rules of Procedure of the Supervisory Board Audit Committee, International Standards for the Professional Practice of Internal Auditing – Standard 1312 and Practice Advisory 1312-3* – and the expert interpretation of the Committee of the Internal Auditors' Section with the Slovenian Institute of Auditors, the Internal Audit Committee discussed the proposal for the selection of an external quality auditor for the audit of the Internal Audit performance. A company from Trbovlje, ADAKTA d. o. o., was selected. It was the most suitable due to its professional competences, independence, and eligibility on other grounds. The performance audit was conducted in 2019, while the Internal Audit Committee will be briefed about the results in 2020.

Every year, Internal Audit has to review and, if necessary, propose an update to the *Internal Audit Charter*, which lays down its purposes, powers, responsibilities and tasks. Based on the *International Standards for the Professional Practice of Internal Auditing*, Internal Audit proposed a few amendments, which it outlined in the sub-section 'Key Areas'. The Committee agreed with the amendments and the Supervisory Board discussed them at their meetings in 2019.

Risk Management The Audit Committee regularly discussed financial risks in particular and reported back to the Supervisory Board. At every meeting, it considered currency risks and focused primarily on risks related to the Russian rouble exchange rate fluctuation, which accounts for the majority of Krka's foreign exchange exposure.

Due to their current significance, it discussed the report on cyber risk management and other business risks that have emerged regularly.

Risk management measures were suitable in all areas.

Annual General Meeting The Audit Committee discussed the proposal for the appointment of the auditor for the financial years 2019, 2020, and 2021 and suggested to the Supervisory Board that the AGM propose the audit firm Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana. The AGM approved the proposal. The selected audit firm has been auditing Krka since 2012.

Current Issues and Other Reports As in previous years, depending on the current issues or following the proposal of its members, the Audit Committee also discussed other information, particularly from the accounting or financial perspective and the risk perspective. In 2019, the Head of Internal Audit presented the Committee with a detailed methodology of internal audit planning.

Human Resource Committee

In 2019, the Human Resource Committee met four times and discussed 12 agenda items. The Committee is presided over by Andrej Slapar; and the members are Julijana Kristl, Mateja Vrečer, and, as of 31 July 2019, Tomaž Sever. The Committee invited the President of the Management Board and the member of the Management Board responsible for economics, finance, and IT, and the Supervisory Board Secretary to all meetings. The President of the Supervisory Board may attend the meetings at his own discretion.

Evaluation of Management Board Performance and Remuneration In 2019, the Committee evaluated the work of the Management Board twice: for 2018 as a whole and separately for the first half of 2019. It applied quantitative and qualitative performance criteria 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 for the President of the Management Board and its members for 2018 and the first half of 2019.

Proposal for the Appointment of the Supervisory Board Member – Shareholder Representative On 12 March 2019, Hans-Helmut Fabry resigned as a Supervisory Board member. As a result, the Supervisory Board nominated a new member at the AGM of 4 July 2019. Pursuant to the provisions of Article 16 of the *Rules of Procedure of the Supervisory Board Audit Committee*, the Human Resource Committee is responsible for nominating a member of the Supervisory Board, a shareholder representative. We have concluded that, in addition to statutory requirements, the nominated candidate should meet the eligibility criteria stipulated under the *Rules of Procedure of the Supervisory Board* and primarily by the recommendations of the *Corporate Governance Code*. The nominated member, Mojca Osolnik Videmšek, met all the above requirements, including those of the *Corporate Governance Code*. The Human Resource Committee recommended that the Supervisory Board nominate Mojca Osolnik Videmšek to be elected as the new Supervisory Board member, a shareholder representative, at the AGM. The AGM agreed with the Supervisory Board proposal.

Performance Evaluation of Management and Supervisory Boards

The Supervisory Board monitors the management and business operations of Krka and the Krka Group in compliance with the legislation in force, primarily the *Companies Act (ZGD-1)*, and good practice, especially the *Corporate Governance Code*, while also considering other good practices relevant to Krka as a public limited company.

The Management Board regularly attended all the meetings of the Supervisory Board in 2019. The President of the Management Board primarily reported and answered the questions on behalf of the Company, while individual members provided clarifications or explanations for specific topics. In agreement with the Management Board, the Supervisory Board members occasionally invited the Group directors to present operational details in certain areas of expertise, whereby the Management Board still remained responsible for the reporting.

In 2019, in line with recent practice, the Supervisory Board considered the Management Board performance twice a year, as a separate agenda item when setting the amount of the performance bonus. The performance of the Management Board was assessed based on a model containing seven quantitative and four qualitative performance criteria, an overview of which has already been given in the sections discussing the Supervisory Board and Human Resource Committee. The quantitative criteria include: growth in terms of sales revenue and sales volume, growth of sales revenue compared to competitors, increase in cash flows from operating activities, increase in operating profit, return on equity compared to competitors, and dividend payments. Qualitative criteria included activities in new indication areas, the implementation of new requirements, entry into new markets, new product launches, investments, human resources and information technology, social responsibility, reputation of the company, public relations, and investor relations. For this purpose, the Management Board prepared a detailed report describing or justifying the achievement of individual criteria through financial ratios. The Supervisory Board promptly evaluated the work of the Management Board following each discussion of interim results, compared Krka's performance with competitors, and considered external analysts' opinions about Krka.

In 2019, the Management Board timely collected on time all the necessary data, reports, and information, so that the Supervisory Board could do its work properly. The Management Board acted quickly and effectively on the resolutions of the Supervisory Board. The President of the Supervisory Board and the President of the Management Board remained in contact between the meetings, consulted with each other, and examined various topics together.

The Management and Supervisory Boards cooperated professionally and productively in 2019. We assess the performance of the Management Board in 2019 as successful, since Krka achieved record results in several areas – sales and net profit in 2019 were at an all time high. The same is true of the physical volume of production: in 2019, the Group manufactured record numbers of tablets, film-coated tablets, and capsules.

The Supervisory Board members have discussed numerous subject areas from this report and thoroughly supervised the Company's operations throughout the year. We therefore assess our performance as successful. We were additionally engaged in the preparation of the revised five-year development strategy and the 2020 business and financial plan, with which we agreed in accordance with Article 6.18 of the *Articles of Association*.

All members remained independent in their work in 2019. In line with recommendations of the *Corporate Governance Code*, we completed statements on independence, which Krka published. Should a conflict of interest arise, the *Rules of Procedure of the Supervisory Board* take precedence. A member must refrain from voting particularly in such cases, while other measures may also be taken by the Supervisory Board.

With respect to the work of the Supervisory Board and potential conflicts of interest, I would like to summarise the events relating to the challenging action filed by the PanSlovenian Shareholders' Association (Vseslovensko združenje malih delničarjev) concerning the appointment of Mr Hans-Helmut Fabry as a member of Krka Supervisory Board at the 23rd AGM.

On 23 October 2018, the Company received an invitation from the District Court of Novo mesto to attend a settlement hearing and the first main hearing with respect to the challenging action filed by the PanSlovenian Shareholders' Association, requesting the annulment of the resolution passed by the AGM to appoint Mr Hans-Helmut Fabry a member of the Supervisory Board of Krka, d. d., Novo mesto. The Association primarily claimed that Mr Fabry was in a position of a conflict of interest. The Court scheduled a hearing on 19 November 2018 and invited the PanSlovenian Shareholders' Association, Slovenian Sovereign Holding, and Krka to attend. It took evidence and reviewed all submitted documents. On 3 January 2019, the Company received the judgement rendered by the District Court of Novo mesto, which dismissed the action brought by the PanSlovenian Shareholders' Association to annul the appointment of Mr Hans-Helmut Fabry a member of the Supervisory Board of Krka. The Court found that the appointment procedure was conducted properly. At the end of January 2019, the PanSlovenian Shareholders' Association appealed this judgement. The Court of Appeal has not yet ruled on this matter in 2019. As already mentioned, Hans-Helmut Fabry resigned from the Supervisory Board of Krka in March of 2019, as he took up employment with a competitor.

Krka allocated €255,500 for the work of the Supervisory Board and its committees (remuneration, attendance fees, travel expenses) in 2019, whereas €244,350 were spent. In 2019, the Company paid €7,000 in membership fees to the Slovenian Directors' Association. In addition, Krka incurred costs for lease of the eNS application totalling €8,076. There were no other costs or expenses payable to contractors or consultants.

Approval of the Annual Report and Proposal for the Appropriation of the 2019 Distributable Profit

The Supervisory Board discussed the contents of the 2019 annual report at **two** Supervisory Board **meetings** and **two** Audit Committee **meetings**. In addition, the Audit Committee and the Supervisory Board considered the 2019 performance estimates at their January meetings.

The draft 2019 annual report and 2019 unaudited financial statements of Krka and the Krka Group were discussed by the Supervisory Board and the Audit Committee at their meetings of 18 March 2020. The statutory audit firm, Ernst & Young d. o. o., Ljubljana, reported to the Audit Committee on the **findings and 2019 audit procedures** before the meeting of the Supervisory Board on the same day.

The members of the Supervisory Board and of the Audit Committee received the **draft 2019 annual report and the audited 2019 financial statements of Krka and the Krka Group** on 31 March 2020, and discussed them at their meetings of 8 April 2020. Certified auditors reported to the Committee and the Supervisory Board.

The corporate governance statement forms a part of the 2019 annual report. It illustrates key aspects of governance at Krka, particularly the composition and operations of the Company bodies, external audit, internal controls and risk management related to financial reporting, internal audit, corporate compliance, description of diversity policy related to representation in the management or supervisory bodies, and governance in the Group. The Supervisory Board had no comments on this statement.

Based on the draft annual report, the independent auditor's report, and the review by the Audit Committee, the Supervisory Board assessed that the annual report of the Management Board was a true and fair account of the events, and presented a comprehensive view of the performance of Krka and the Krka Group in 2019, and provided detailed information that was otherwise regularly sent to the Supervisory Board throughout the financial year. As the Supervisory Board had no comments or reservations with regard to the draft annual report, the independent auditor's report, and the Audit Committee report, it unanimously approved the 2019 annual report at their meeting of 8 April 2020. **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 appropriation of distributable profit**. In 2019, Krka generated profit of €249,410,661.45, of which €21,698,411.77 was allocated to reserves for treasury shares, and €0.00 to other profit reserves. The remaining profit of €227,712,249.68 and the retained earnings of €43,157,760.41 comprised the distributable profit, which amounted to €270,870,010.09 as at 31 December 2019.

The Management Board and the Supervisory Board proposed to the AGM that the distributable profit be appropriated as follows:

- dividends €133,853,648.00 or €4.25 gross per share;
- other profit reserves €68,508,181.04; and
- retained earnings €68,508,181.05.

The proposal was drawn up by considering the number of treasury shares as at 8 April 2020. As the number of treasury shares changes, the number of shares paying dividends is revealed on the day of the AGM, and the total amount to be allocated to dividends, other profit reserves, and retained earnings are to be adjusted accordingly.

Conclusion

The past business year was successful and the prospects for 2020 are just as bright. The Krka business model emphasises vertical integration, research and development, and commitment to high-quality products and services. The Krka Group is continuously expanding and upgrading its production plants and R&D capacities, increasing employee numbers and, at the same time, strengthening its cooperation with numerous external partners. Krka's growth is centered on new products, increasing the market shares of its wide range of products, organic business growth, and a continuous search for new business opportunities. The Supervisory Board members assess the performance of Krka and the Krka Group over the past year as successful.



Jože Mermal
President of the Supervisory Board

Financial Highlights

€ thousand	2019	2018	2017	2016	2015
Revenue	1,493,409	1,331,858	1,266,392	1,174,424	1,164,607
– Of that revenue from contracts with customers (products and services) ¹	1,489,080	1,326,747	1,260,898	-	-
Operating profit (EBIT) ²	274,195	232,686	198,741	122,435	199,434
EBITDA ³	385,437	343,280	306,638	228,238	306,742
Net profit	244,272	174,008	152,576	108,456	158,185
Non-current assets (year-end)	1,041,833	1,010,811	1,033,008	1,038,067	986,598
Current assets (year-end)	1,142,785	974,258	886,123	873,451	822,606
Equity (year-end)	1,667,516	1,540,270	1,487,699	1,444,444	1,405,984
Non-current liabilities (year-end)	160,905	123,058	121,182	115,313	110,982
Current liabilities (year-end)	356,197	321,741	310,250	351,761	292,238
R&D expenses	152,421	130,700	125,864	117,994	115,393
Investments	112,568	96,293	105,088	131,817	95,889
RATIOS	2019	2018	2017	2016	2015
EBIT margin	18.4%	17.5%	15.7%	10.4%	17.1%
EBITDA margin	25.8%	25.8%	24.2%	19.4%	26.3%
Net profit margin (ROS)	16.4%	13.1%	12.0%	9.2%	13.6%
Return on equity (ROE) ⁴	15.2%	11.5%	10.4%	7.6%	11.5%
Return on assets (ROA) ⁵	11.7%	8.9%	8.0%	5.8%	8.8%
Liabilities/Equity	0.310	0.289	0.290	0.323	0.287
R&D expenses/Revenue	10.2%	9.8%	9.9%	10.0%	9.9%
NUMBER OF EMPLOYEES	2019	2018	2017	2016	2015
Year-end	11,696	11,390	10,832	10,889	10,564
Average	11,484	11,129	10,823	10,774	10,532
SHARE INFORMATION	2019	2018	2017	2016	2015
Total number of shares issued	32,793,448	32,793,448	32,793,448	32,793,448	32,793,448
Earnings per share (EPS) in € ⁶	7.73	5.46	4.74	3.35	4.86
Gross dividend per share in €	3.20	2.90	2.75	2.65	2.50
Closing price on LJSE at the end of the period in €	73.20	57.80	57.50	52.90	65.20
Price/Earnings ratio (P/E)	9.47	10.59	12.14	15.81	13.41
Book value in € ⁷	50.85	46.97	45.37	44.05	42.87
Price/Book value (P/B)	1.44	1.23	1.27	1.20	1.52
Market capitalisation in € thousand (31 Dec)	2,400,480	1,895,461	1,885,623	1,734,773	2,138,133

¹ 2019 and 2018 revenue complies with IFRS 15. 2017 revenue from contracts with customers on sales of products and services has been presented adequately.

² The difference between operating income and expenses

³ The difference between operating income and expenses plus accumulated depreciation and amortization

⁴ Net profit / Average shareholders' equity in the year

⁵ Net profit / Average total asset balance in the year

⁶ Profit for the year attributable to Krka Group equity holders / Average number of shares issued in the year, excluding treasury shares

⁷ Equity as 31 December / Total number of shares issued

At a Glance

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 30 subsidiaries outside Slovenia.

The Group develops, produces, markets, and sells human health products (prescription pharmaceuticals and non-prescription products), animal health products, and health resort and tourist services.

Production takes place at the controlling company in Slovenia and at Krka subsidiaries in the Russian Federation, Poland, Croatia, and Germany. In addition to production, these subsidiaries, apart from Krka-Rus in the Russian Federation, deal with marketing and sales. Other subsidiaries outside Slovenia carry out marketing and/or sales of Krka products but do not have production capacities.

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

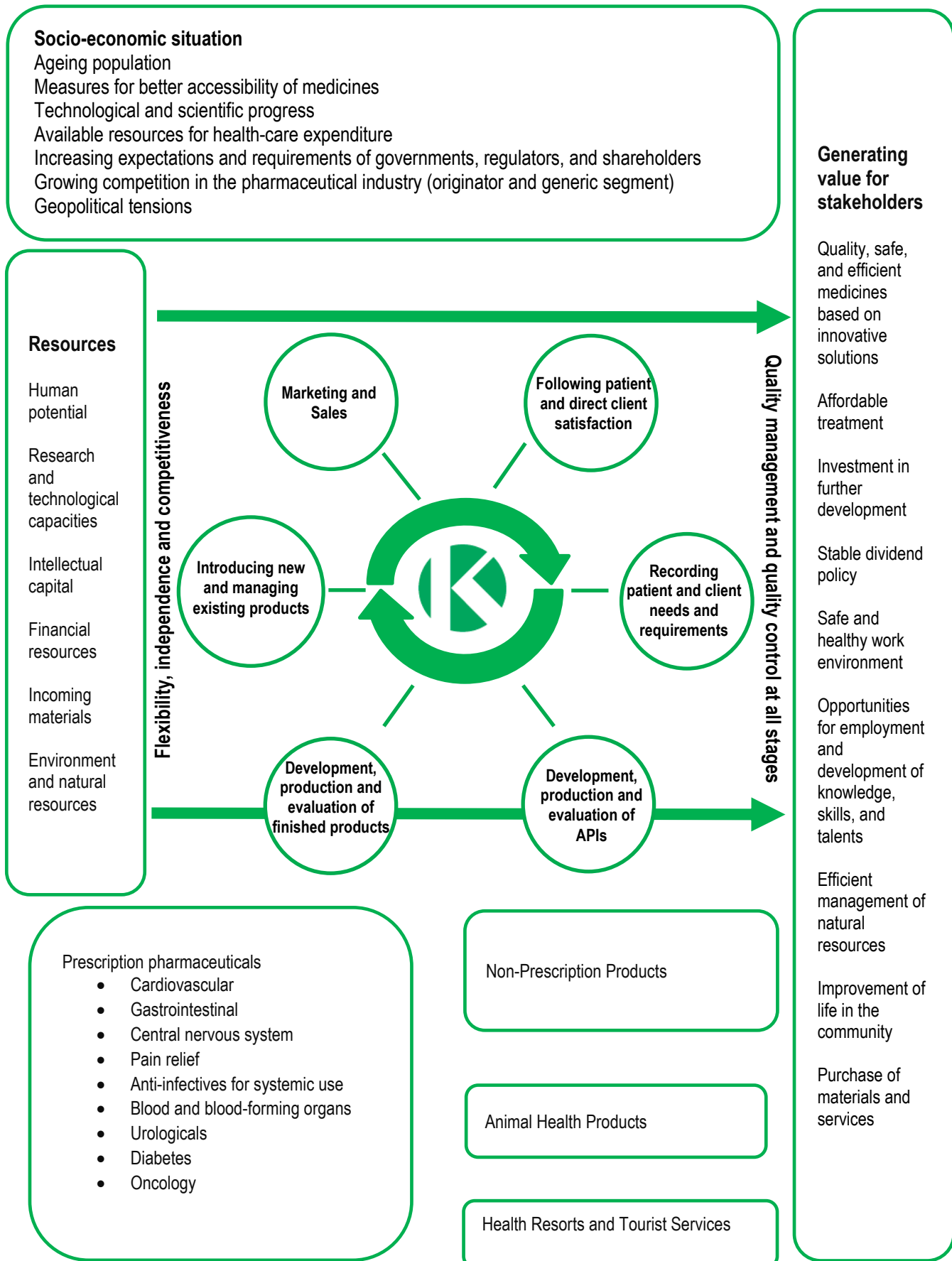
Farma GRS, d. o. o. was established in partnership with companies from the pharmaceutical, and pharmaceutical and process manufacturing industries. The company develops new pharmaceutical products, new technological products for pharmaceutical production, and contributes to more efficient pharmaceutical production in terms of energy, environment, and business operations. Farma GRS is the sole owner of six micro companies.

In 2019, a subsidiary, KRKA HELLAS SINGLE MEMBER LTD, was established in Athens, Greece, with share capital of €10,000, which is wholly owned by the controlling company.

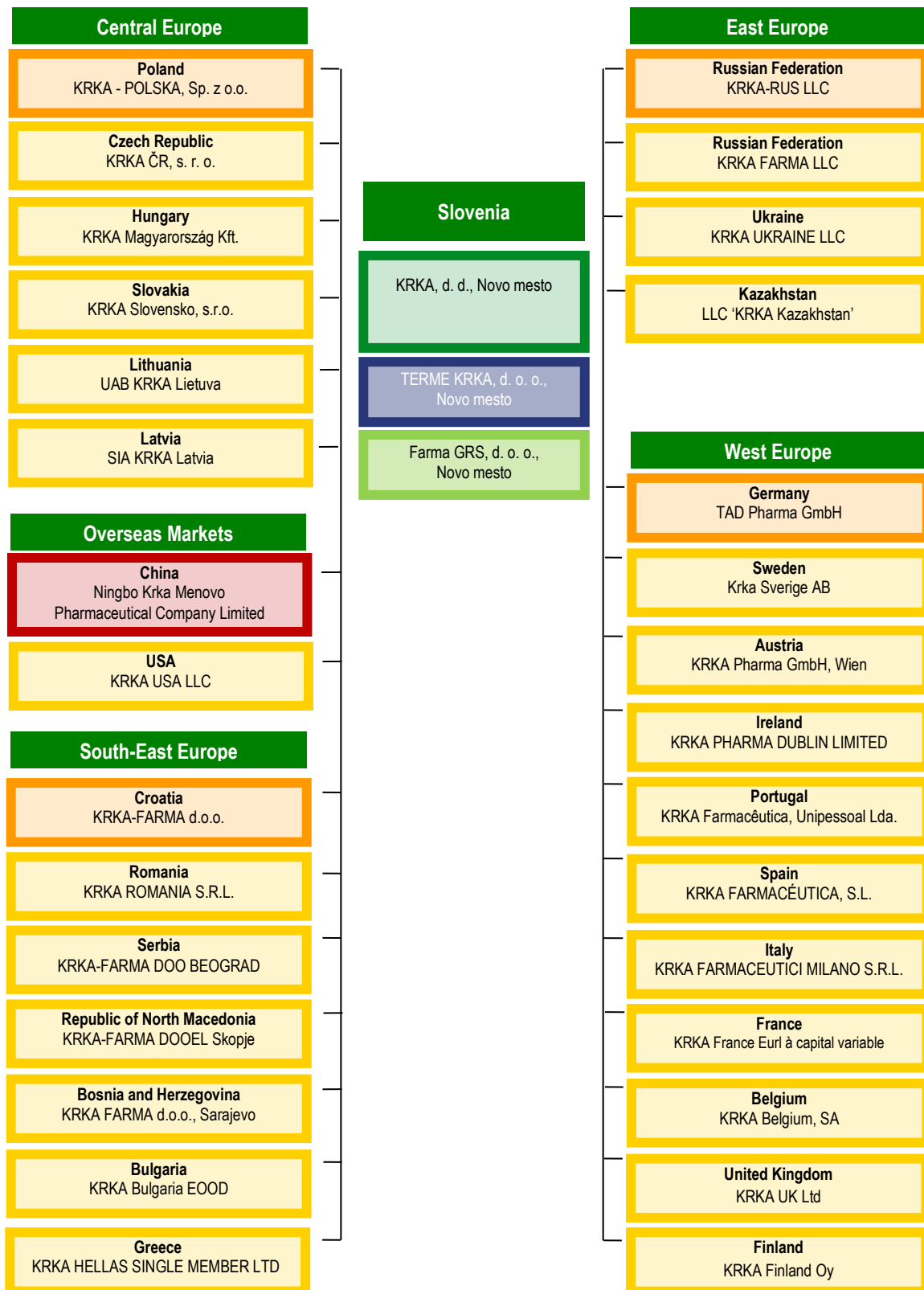
ID Card

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	Manufacture of pharmaceutical preparations
Business classification code	21.200
Year established	1954
Registration entry	1/00097/00, District Court of Novo mesto
Tax number	82646716
VAT number	S182646716
Company ID number	5043611000
Share capital	€54,732,264.71
Total number of shares issued	32,793,448 ordinary registered no-par value shares

Krka Group Business Model



Krka Group Organisational Chart



The chart includes companies in operation as at 31 December 2019.



Short company names are used in the remainder of this document.

Krka's Presence in Global Markets



2019 Highlights

Events

- In January, elections to the Works Council of Krka for four-year terms of office (2019 to 2023) were held in Slovenia.
- At the beginning of the year, fifteen worker assemblies were held at Krka in Slovenia, where members of the Management Board briefed employees on performance results, plans for the current year, the strategy, and other current issues.
- In March, we organised the thirteenth consecutive meeting with local sponsored parties whose main sponsor is Krka. At the meeting, three young people were recognized as rising stars of 2019 based on their achievements in sports and culture.
- We also foster good relationships with representatives from our social environment, above all with our closest neighbours, so in March we invited them to a traditional meeting at Krka.
- We organised a socially responsible campaign Krka's Week of Charity and Volunteering for the eighth consecutive time in April. The campaign brought together 1,250 employees, more than 20% of all Krka employees in Slovenia. Employees from 24 subsidiaries and representative offices abroad joined the campaign as well.
- In April, we celebrated Krka's 65-year anniversary. We marked this anniversary by unveiling a statue of a Krka girl with a growing book at the entrance to the Notol 2 plant, our state-of-the-art solid dosage form production facility in Novo mesto.
- A 2019 review of Excellence of Slovenian businesses that included 61 of the most prominent companies in the country showed that, in the eyes of the business community and general public alike, Krka ranked above average in terms of renown, prominence, and social responsibility. The review also showed that the President of the Management Board and CEO Jože Colarič is the most visible and best reputed director in Slovenia.
- At the Krka Awards Day ceremony in May, our most important award, the Boris Andrijanič Award was given to Medical Director and Director of Strategic Marketing Breda Barbič-Žagar and Director of New Products Suzana Kolenc for their exceptional achievements.
- At the Krka Awards Day ceremony, we also conferred plaques to thank the employees who celebrated their many years of service, best employees, best managers, and those who suggested the most useful proposals and improvements.
- Marketing Awards were conferred on the best marketing employees for the 20th consecutive year. The most successful employees in regulatory affairs were also awarded.
- In June, Krka successfully passed GILSiNP, an inspection conducted by the Russian national institute for medicinal products and good practices, and was granted new Russian GMP certificates, which allow us to market medicines, operate, and act flexibly when providing key products for the Russian Federation.
- At the 25th Annual General Meeting, the proposed dividend per share of €3.20 gross, up 10.3% on the previous year, was approved.
- The record number of submitted research papers and a significantly larger number of participating schools marked the 49th Krka Prizes for secondary school pupils because Krka encourages young people to do research.
- We organised the fourth consecutive Krka's Car-Free Day as part of the European Mobility Week. On that day, Krka employees came to work on foot, by bike, or other means of transport.

- In October 2019, an opening ceremony was held for the product development and quality control facility Razvojnokontrolni center 4. This €55.6 million facility has almost doubled our capacities for development, control and analytics in order to ensure high quality of Krka products. Another important phase in the technological development of Krka has been completed. The facility provides for coordinated operations of research and development, and production and control, essential advantages of our vertically integrated business model.
- At the 49th Krka Prizes in October, we awarded 30 of the most promising young researchers, five of whom received the prestigious Grand Krka Prize for their research papers. We would like to point out that quality of the awarded university papers was very high.
- We successfully passed the 24th audit of the integrated management system (IMS) that confirmed the validity of all certificates we hold (ISO 9001, ISO 14001, HACCP, BS OHSAS 18001, and ISO/IEC 27001).
- Our continuous improvement process applies mass innovation activities. From 2003 until the end of 2018, Krka employees submitted 7,867 useful proposals and improvements.
- Krka is the only company in Slovenia that examines and certifies the skills required to acquire the national vocational qualification (NVQ) certificates for the pharmaceutical industry. Last year, we awarded certificates to 108 Krka employees who had successfully passed examination and approval in three pharmaceutical industry qualification programmes.

Awards

- In January, Krka received the Most Reputable Employer of the Year award from the Slovenian employment portal MojeDelo.com for the seventh year in succession. According to a survey, job seekers ranked Krka as top employer again.
- In April, Krka Valsacor received a prestigious award, the Platinum Ounce, in Moscow.
- In May, the Slovenian Pharmaceutical Society conferred the prestigious Minařik decoration on the President of the Management Board and CEO of Krka Jože Colarič, the honorary member of the Society's since 2001.
- Krka's innovators excelled at the innovation ceremony of the Chamber of Commerce of Dolenjska and Bela krajina this year as well. Krka received four gold and three silver awards.
- The Slovenian Chamber of Commerce and Industry bestowed two awards on our innovators, one gold and one silver, to mark Innovation Day. They received the gold award for paliperidone prolonged-release tablets for treatment of schizophrenia, and the silver award for olmesartan/amlodipine single-pill combination for controlling high blood pressure levels.
- In the Russian Federation, Krka received the IQVIA Rx Choice Award as the No. 1 Rx Company.
- The Slovenian business daily *Finance* held the twentieth successive contest for the best annual report, and announced the Krka 2018 Annual Report as winner in the large company category. Krka received the award for the sixth time.
- Krka received the Prime Market Share of the Year award at the Slovenian and Croatian Investor Day organised in December by the Ljubljana Stock Exchange. For the first time last year, the Ljubljana Stock Exchange presented the Best Investor Relations Award, and it went to Krka.

Subsequent events

Below are presented events that have occurred in the period after the end of 2019.

- From 14 to 24 January 2020, the media cited reports by the Romanian internet portal and newspaper Libertatea, claiming the press had obtained information of alleged irregularities involving employees at a Krka subsidiary, Krka Romania S.R.L., Bucharest (hereinafter: Krka Romania). On 17 January 2020, we informed the public that we had appointed a special team to review in detail Krka Romania's operations in light of the allegations. The internal investigation found no evidence to support allegations of corruption in Romania and of medications being marketed unlawfully through bribes to healthcare professionals on instructions from the controlling company. According to the investigation, Krka Romania received correct instructions from the controlling company. However, it cannot be said with certainty that there have not been transgressions in the past by Krka Romania employees in breach of subsidiary bye-laws and employment contracts. On foot of the findings, Krka is implementing measures to further improve transparency and compliance. The Supervisory Board were briefed about the Management Board report and support all measures adopted in relation to this matter.
- COVID-19 is the infectious disease caused by the most recently discovered coronavirus, SARS-CoV-2. In March 2020, the WHO labelled COVID-19 a pandemic.

Krka has adopted measures to curb the spread of infection in order to protect the health of our employees and ensure business continuity. This is the primary goal of every pharmaceutical company and only way to ensure an unbroken supply chain and sufficient supply of medicines on global markets.

We immediately took steps to mitigate sanitary and health risks. These steps are guided by the experiences and measures adopted by our Chinese partners and Italian companies. We promptly set up a team of experts composed of healthcare providers and microbiologists to assist the Health and Safety at Work department at Krka. We adjusted our processes to guarantee social distancing and the availability of personal protective equipment. We eliminated any significant risk factors from the company's premises, limited access to common areas, closed elevators, adapted food catering arrangements, and on 25 February 2020 cancelled the first and later all following group visits, events, social gatherings, and training courses, and replaced them with e-events whenever possible. We set down and implemented disinfection procedures applicable to all employees, rooms, materials, vehicles, and workplaces. All employees entering the company's premises must have their body temperature taken at the entrances and, if necessary, also during shifts. Face masks are compulsory for all. Our relevant departments have issued a series of instructions and recommendations for performing work processes and responsible behaviour at work and home.

In order to further reduce risks, we ordered approximately 50% of our workforce in Slovenia to stay at home on standby for the period from 16 March 2020 to 14 April 2020, including parents of children up to 10 years of age and pregnant women. We obtained an opinion from occupational medicine professionals, on foot of which we asked our employees with chronic diseases belonging to the most vulnerable population group to be on standby at home. In the meantime, only employees directly involved in the production and supply of medicines and vital support processes reported for work at Krka's premises. Employees who were not at their usual workplaces at the company's premises were granted access to IT systems and services. Employees on standby were asked to work remotely from their homes, be on call as needed, and discharge their work duties insofar as possible. Our manufacturing plants abroad functioned normally and carried on marketing and sales activities in compliance with the measures applied in their respective countries.

There was no major impact on average daily production volume of finished products at the Krka Group. During the pandemic, raw and production material purchasing continued with minimal disruption. Quality assurance and quality management went uninterrupted.

The demand for our products increased on most markets. Due to social distancing, we had to change our product promotion approach and our departments adapted their workflow to the current situation and made greater use of e-technologies.

No insurmountable problems arose with logistics, but land transport shipping times have increased, containers have been in short supply for maritime transport, while air transport has been limited.

We have full control over our receivables and have tightened credit control due to the current situation. Krka Group liquidity is centralised, so Krka the controlling company settles all current and non-current financial liabilities as requested by the subsidiaries and absorbs their cash surpluses (i.e. the cash-pooling system).

The Management Board closely monitors the situation in countries where the Krka Group operates. Our business model of vertical integration encompasses development, quality control, a well-organised supply chain, the many production plants that we own, marketing-and-sales activities, and support and cover a wide array of processes and actions on the global level. There is no way to foresee the pace with which the disease will spread, how the situation will develop, what the aftermath will be, and what measures affected nations will take. In the first quarter of 2020 and until approval of the annual report, the Krka Group did not record any negative impact on the supply chain, with demand for our products increasing while maintaining continuity of supply.

The dividend policy and, in line with the AGM authorisation, the treasury share repurchase programme remain unchanged.

BUSINESS REPORT

Corporate Governance Statement

Krka's principles of corporate governance are based on a two-tier system in which the Management Board manages the Company and is in turn controlled by the Supervisory Board. Corporate governance is based on the legislation of the Republic of Slovenia, Slovenian and international good practice, the Company's publicly available *Corporate Governance Policy*, and its bye-laws.

The Company 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 the forum for shareholders to 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 (AGM) once a year, at least one month before the due date. Upon request, all the materials for each AGM may be viewed at the Company's registered office from the day of the call.

All shareholders entered in the shareholder register on the record date published in the notice have the right to attend the AGM and 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 any other restrictions on the disclosure of information.

In the AGM notice, in accordance with Article 6.2 of the *Slovenian Corporate Governance Code for Listed Companies* (hereinafter: *Corporate Governance Code*), the Company encourages all major shareholders to publicly disclose their investment policies with respect to the stakes they hold in the Company, especially with their voting policy, the type and frequency of their engagement in the Company's governance, and the dynamics of their communication with the Company's managerial and supervisory bodies.

At the 25th AGM of 4 July 2019, the shareholders:

- received information about the 2018 annual report of the Management Board, including the information on 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 *2018 Annual Report*;
- adopted a resolution on the appropriation of distributable profit for 2018;
- discharged the Management and Supervisory Boards from liability in 2018;
- received information about the resignation of a Supervisory Board member, Hans-Helmut Fabry, from his function on 12 March 2019;
- elected Mojca Osolnik Videmšek to the Supervisory Board for a five-year term of office commencing on 5 July 2019;
- received information that the Works Council elected Tomaž Sever, Franc Šašek, and Mateja Vrečer as Supervisory Board employee representatives for a five-year term of office commencing on 21 June 2019; and
- appointed the auditor for 2019, 2020, and 2021.

According to the 2020 financial calendar, this year's AGM is to be held on 9 July. The invitation, including the motions, venue and eligibility conditions will be published in the SEOnet system of the Ljubljana Stock Exchange, the ESPI system of the Warsaw Stock Exchange, the daily newspaper *Delo*, and on the Krka website.

Further information on shareholders and voting rights is available under 'Investor and Share Information'.

Supervisory Board

The Supervisory Board supervises the Company 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 preliminarily approves the annual business and financial plan, and the strategy of the Company. The body meets at least four times a year. It also carries out other tasks in accordance with the *Companies Act (ZGD-1)*. It primarily gives approval to the appointment, removal, and remuneration of the head of Internal Audit and to the act which regulates the purpose, meaning, and duties of Internal Audit as well as to the annual and multi-year plan of Internal Audit. It is also briefed about the annual report of Internal Audit. The President of the Supervisory Board concludes a contract with an external auditor.

The **composition** of the Supervisory Board is stipulated by the Company's *Articles of Association*. It is composed of nine members: six are elected by the AGM, and three employee representatives are elected by the Company's Works Council. The President of the Supervisory Board is always elected from the members appointed by the AGM. Members are appointed for a five-year term and may be reappointed. Since the term of office of the previous 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 line with the *Corporate Governance Code*, a nomination committee was formed to advise on the selection of Supervisory Board members. Matej Pirc, who was elected a member of the Supervisory Board by the AGM in 2015, resigned from the Supervisory Board, so his term of office expired on 7 July 2016. On the same day, the AGM appointed Dr Boris Žnidarič as a new member. His term of office lasts until the end of the term of office of the other Supervisory Board members. On 6 July 2017, Simona Razvornik Škofič's tenure came to an end following her resignation, and for Anja Strojín Štampar following her removal from office by the AGM. The AGM elected Hans-Helmut Fabry and Borut Jamnik to their positions as members of the Supervisory Board for five-year terms of office, starting on the day after their election at the AGM of 6 July 2017. On 12 March 2019, Hans-Helmut Fabry resigned from the Supervisory Board, and on 4 July 2019, the AGM elected Mojca Osolnik Videmšek as the new member of the Supervisory Board for a five-year term of office commencing on 5 July 2019.

The President of the Supervisory Board is Jože Mermal. His deputies are Andrej Slapar, a shareholder representative, and Franc Šašek, an employee representative. If the President of the Supervisory Board is absent, the shareholder representative replaces him, and if the latter is also absent, the employee representative replaces him.

The Supervisory Board performance complies with legislation, the recommendations of professional associations, especially the Slovenian Directors' Association, and other good practice recommendations, particularly the *Corporate Governance Code*.

The remuneration, reimbursement, and fringe benefits of Supervisory Board members do not directly depend on Company performance and are disclosed in the financial report under the Note entitled 'Related Party Transactions'. In addition to attendance fees, members receive fixed amounts for performing their duties in line with resolutions of the 16th AGM in 2011.

Members report any acquisitions or disposals of Company shares to the Company and competent institutions. 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 any personal interests or interests of third parties accordingly. All members have completed the questionnaire on conflicts of interest, which is available on the Krka website. Members' conduct in any case of a **conflict 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 work of the Supervisory Board and its committees in 2019 is detailed 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 and in 1979, when the BTC company introduced a one-tier management system, became the President of the Management Board. As the President of the Management Board, he has been successfully managing the (BTC) company for over 26 years. He has worked in many management positions since 1978.

He initiated and managed a project to restructure and transform public warehouses into a successful, dynamic, and rapidly expanding company that has also become one of the largest international business, shopping, sports, and entertainment centres: BTC City. As the founder and strategic mind behind BTC, an advanced company, he has been supporting continuous investments in development to reach the company's long-term goal: 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 society, globalisation, innovation and sustainable development.

Partnering with the Municipality of Ljubljana, he has been involved in setting up a 230 ha urban regeneration project for the city of Ljubljana, the Šmartinska District Partnership. Two projects – the Crystal Palace and Radisson Blu Plaza Hotel – have already been completed, while the third large project, Ikea, is still underway. He also joined forces with the Municipality of Ljubljana to work on the project setup phase for the Intermodal Logistic Terminal (ILT) Ljubljana.

Under his management, ABC Accelerator was established in 2015. Its primary function is the development of a start-up business ecosystem. He also holds key managerial functions in various sports organisations and at international sporting events.

Under his management, BTC received numerous awards and prizes for projects carried out in various communities, as he is engaged in cultural, sporting, educational, humanitarian, and scientific areas, which he supports and is personally involved in due to his wide range of interests.

He received several awards for his work, including Manager of the Year in 1997 and the Primus award for excellence in communication in 2001 by 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 at the BTC earned him the Vision Manager Award in 2012, which is conferred by public relations experts from the South-Eastern Europe. In 2014, the Chamber of Commerce and Industry of Slovenia awarded him for exceptional business and entrepreneurial achievements in the category of large companies for the year 2013. Under Mermal's management, BTC has become the first – and, to this date, the 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 South-Eastern and Central Europe 2016 award, which is awarded by the Independent Agency for the Selection and Promotion of Managers. In 2017, he was given Freedom of the City of Ljubljana, which is the highest honour bestowed by the Municipality of Ljubljana, for his contribution to the reputation, significance, and development of the municipality and its inter-city and international relations.

Andrej Slapar

*Deputy President of the Supervisory Board and
President of the Human Resource Committee*

Andrej Slapar, born in 1972, is from Ljubljana and holds a degree in law. He was a Management Board member at Zavarovalnica Triglav until May 2013, when he took over as the President of the Management Board. He began his career in 1997 as a lawyer handling international claims in this leading Slovenian insurance company. For over a decade, Andrej Slapar was employed at the reinsurance company Pozavarovalnica Triglav Re, also as a Management Board member.

He represents Zavarovalnica Triglav, the leading insurance and financial group in Slovenia and the Adriatic Region, on the Council of the Slovenian Insurance Association, where he also acts as the Chairman. He chairs the supervisory boards of

Pozavarovalnica Triglav Re, Jedrski pool GIZ (a nuclear insurance and reinsurance pool), and is a member of the Supervisory Board of Krka and the Management Board of the Slovenian Directors' Association.

Borut Jamnik

President of the Audit Committee

Borut Jamnik, born in 1970, is from Ljubljana. He graduated from the Faculty of Natural Sciences and Engineering, University of Ljubljana, and started his career at the Agency of the Republic of Slovenia for Restructuring and Privatisation. After completing an internship, he led numerous ownership transformation projects. He later took up employment at Kapitalska družba, d. d. (Pension Fund Management), where he gained experience in IT and analysis, and was involved in establishing the First Pension Fund in Slovenia. From 2003 to 2005 and 2008 to 2011, he was the Chairman of the Management Board at Kapitalska družba and, in between, a Board member at Hit d. d. and Probanka Asset Management, first as a management consultant and later as a Management Board member. In October 2011, he was appointed Chairman of the Management Board at Modra zavarovalnica, d. d., where he is responsible for asset management, compliance, planning and controlling, as well as legal and HR matters. Until 2018 he was a member of the management board of the European Association of Public Sector Pension Institutions (EAPSPI). The Association brings together the representatives of pension fund management institutions from 16 European countries, actively involved in constructing a social Europe. They exchange experience and good practices regarding the development and implementation of pension schemes.

Borut Jamnik is actively engaged in the development of professional and practical areas of corporate governance and the work of supervisory and management boards at the Slovenian Directors' Association, where he has been president since 2012. He is a member of supervisory boards at Krka and Nova KBM. As an executive and supervisory board member, he has been engaged in various complex corporate campaigns and contributed to resolving complex business issues using his long-standing experience and negotiation skills.

Mojca Osolnik Videmšek

Mojca Osolnik Videmšek, born in 1966, is a citizen of the Republic of Slovenia. She graduated in economics at the Faculty of Economics in Ljubljana. She is Director of GB Leasing, d. o. o., where she is primarily responsible for finances, general support services, and risk management. Previously she held senior management roles at Gorenjska banka, d. d. From February to May 2014, she worked as Director of Directorate of Gorenjska banka, was a member of the Management Board until May 2019, and was President of the Management Board for a short period of time. She was in charge of risk management – credit risk assessment, risk control, doubtful receivables, and real estate management. Her responsibilities also included accounting and general affairs, legal affairs, internal audit, and compliance.

Before taking up employment with Gorenjska banka, she was responsible for various complex areas of work at NLB, d. d. She served as Assistant and later Deputy Director of the NLB Group Corporate Governance Directorate, Director of Capital Investments Management and Control, Assistant Director of the NLB Group Governance Division, and Secretary-General and Director of the Office of the Management Board.

She also has experience in dealing with challenging tasks in public administration. Between 2001 and 2003, she was Director of the Administrative Office of the Prime Minister of the Republic of Slovenia and, for a short period of time in 2000, Secretary-General at the Ministry of Foreign Affairs. From September 1994 until April 1999, she worked as Head of the Office of the Prime Minister of the Republic of Slovenia. She is highly experienced in matters of governance and control. She holds a certificate from the Slovenian Directors' Association and is Deputy President of the Management Board of the Slovenian Directors' Association.

Prof. Dr Julijana Kristl

Prof. Dr Julijana Kristl, born in 1953, holds a PhD in pharmaceutical sciences. Since 1977, she has been employed at the Faculty of Pharmacy at the University of Ljubljana. In the meantime, she has upskilled in the pharmaceutical industry and at the University of Geneva. She has successfully held numerous scientific, teaching, and managerial roles. Her research focuses on biomaterials, modern active substance delivery systems, and nanotechnology. Her research articles have been published in numerous renowned international scientific and peer-reviewed journals, and she also owns 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 served as Vice-Dean, Head of the Chair of Pharmaceutical Technology, Dean of the Faculty of Pharmacy for two terms, and for two terms as Vice-Rector at the University of Ljubljana in charge of education, enrolment, and quality. She has held roles as a member of numerous prominent commissions and committees at the Health Council of the Ministry of Health of the Republic of Slovenia and the Agency for Medicinal Products and Medical Devices of the Republic of Slovenia. She remains active in the Slovenian Research Agency and serves on committees at the University of Ljubljana and the Faculty of Pharmacy. She is a member of the Krka Supervisory Board, now in her second term, and holds a certificate from the Slovenian Directors' Association.

Julijana Kristl is renowned in international 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 scientific journals and frequently assesses doctoral dissertations and research projects at foreign universities and agencies. Her expertise covers planning, development and evaluation of medicinal products, and new trends in the field of pharmacy.

Dr Boris Žnidarič

Dr Boris Žnidarič holds a doctorate in social sciences and a master's degree in law. Until his retirement, he served on the Management Board of the investment management company, Kapitalaska družba, d. d., Ljubljana. Before that, he held various roles at the Triglav Group insurance company. He was Deputy President of the Management Board at Zavarovalnica Triglav, where, in addition to managing directors of organisational units, he was also responsible for strategic human resource management in subsidiaries. He was on the Management Board of Triglav Osiguranje in Zagreb, Croatia. He also managed the Celje regional unit of Zavarovalnica Triglav, and led the central department for prevention and detection of insurance fraud. Before taking up that position, he was an adviser to the member of the Management Board for the strategic human resource management in the Triglav Group, and Assistant Director for legal affairs, human resources, and general affairs at the Ljubljana unit. He holds a certificate of professional competence for supervisory board membership. In addition to his diverse career in insurance, he is also a university lecturer.

Employee Representatives

Franc Šašek

Deputy President of the Supervisory Board

Born in 1967, Franc Šašek is a graduate of organisational sciences. He joined Krka in 1984 and is Head of Technical Services. He has worked in engineering and technical services since the beginning, where he was also a technologist, Head of the Technical and Technological Preparations Department, and later served as a senior specialist in maintenance and project management. In 2004, he was actively engaged in implementing the business process management system (SAP) as the SAP PM project team leader and was later appointed process owner for maintenance in the Krka Group. Since 1999, he has also worked in quality assurance as a certified quality officer and quality trainer. As a certified internal quality auditor, he also conducted internal audits in the period from 2000 to 2013. He is jointly responsible for the development and maintenance of the integrated quality system at the Company.

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 2009–2013 and 2014–2018 terms and again for the 2019–2022 term; he assumed his position on the Supervisory Board for a third term of office as an employee representative on 21 June 2019.

Dr Mateja Vrečer

Dr Mateja Vrečer was born in 1966 and has worked at Krka since 1990. She started out as a pharmaceutical engineering graduate and later passed the certification examination in pharmaceutical engineering, obtained a master's degree, and gained a doctorate in pharmaceutical sciences. She first worked in Research and Development, where she drafted technical documentation for products in the pipeline. After their approval, she managed projects leading to registrations 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 Head of International Quality Assurance. In September 2011, she was appointed Director of Quality Management.

She was an employee representative on the Krka Supervisory Board from 2005 to 2009 and 2009 to 2014. In June 2014, she was re-appointed as an employee representative for her third term of office. The Works Council elected her as an employee representative for another term of office, commencing on 21 June 2019.

Tomaz Sever

Tomaž Sever was born in 1967. After graduating as a mechanical engineer, he obtained a master's degree in management and organisational sciences. He has been a Krka employee since 1995. He is now Deputy Director of Sales and Director of Region Central Europe, entrusted with the following tasks: market research, proposing and developing Krka's presence in individual markets, defining product range, proposing pricing strategies for individual markets, being involved in planning of promotional, designing, developing and managing distribution channels, and taking part in establishing sales networks abroad. Before joining 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 already a member of the Krka Supervisory Board as an employee representative from 2005 to 2009, was re-appointed for another five-year term of office in 2009, and started his third term as an employee representative in June 2014. The Works Council elected him as an employee representative for another term of office, commencing on 21 June 2019.

Independent Expert, Member of the Audit Committee

Acting on Article 280 of the *Companies Act*, the Supervisory Board appointed Borut Šterbenc, an independent expert in accounting and auditing, to the Audit Committee. He is not a member of the Company's Supervisory Board.

Borut Šterbenc

Independent accounting and auditing expert, member of the Audit Committee

Certified auditor, Borut Šterbenc, born in 1978 in Ljubljana, is an economist by occupation. He graduated from the Faculty of Economics, University of Ljubljana. As of 1 January 2020, he took over as President of the Management Board at Kolpa, d. d., Metlika and Director of Kolpa Holding, d. o. o. Until 2011, he was a project manager at KPMG and planned, led, and conducted complex audits in many Slovenian companies, including Krka, Intereuropa, Sava, NEK, and Lama. Borut Šterbenc is also a member of the Supervisory Board of Pokojninska družba A, d. d. and an experienced rapporteur to governance and supervisory bodies. He is fluent in English, Croatian, and Russian.

Management Board

The Management Board **duties** are to:

- manage the Company and make business decisions directly and independently;
- adopt the development strategy of the Krka Group with the prior approval of the Supervisory Board;
- ensure appropriate risk management; and
- exercise a duty of care and sound administration and protect the Company's business secrets.

The Management Board is **composed** of 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. Members may be reappointed.

The Management Board **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 line with the *Rules of Organisation* and the *Rules of Procedure of the Management Board*, Management Board members also have executive management duties. Every 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 work of the Management Board:

- Director's Committee;
- 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 Management Board members, managerial staff, and experts from individual departments at Krka. They prepare business policies and strategic guidelines by individual areas and also have some decision-making powers relating to the implementation of annual plans.

Emoluments, reimbursements, and fringe benefits for Management Board members are defined in work 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. In accordance with the *Corporate Governance Code*, the Supervisory Board adopted the **Management Board Remuneration Policy** in 2010. The Supervisory Board amends or updates both documents in the light of business conditions.

Emoluments to Management Board members are paid **in cash** and are presented in financial statements under the Note 'Related Party Transactions', which also discloses the **ownership of Krka shares** by Management Board members.

Members of the Management Board and their related parties report to the Company and competent institutions regarding any acquisition or disposal of the Company's or related parties' shares. 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. None of the members of the Management Board act as members of the management or supervisory bodies of unrelated companies during their term of office for Krka.

At the 23rd AGM of 6 July 2017, the shareholders adopted a resolution to **authorise** the Management Board for **acquisition of treasury shares** over the period of 36 months, provided that total treasury shares, including shares already held, do not exceed 10% of total share capital. The Company informed the public about the programme of repurchase of treasury shares on the web portal of the Ljubljana Stock Exchange, SEOnet (<http://seonet.ljse.si>).

Members of the Management Board

Below are presented 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 department of Finance, where he was initially Head of Foreign Currency Payments, and then Assistant Director. In 1989, he took charge of exports within the department of Import-Export, 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 the future President of the Management Board, making him responsible for nominating candidates for the new Management Board team.

At its meeting of 12 July 2004, the Supervisory Board appointed him President of the Management Board and Chief Executive Officer. His five-year term of office began on 1 January 2005. The Supervisory Board appointed him President of the Management Board at their meeting of 21 January 2009 for another six-year term of office, commencing on 1 January 2010.

Under his stewardship, Krka has developed into one of the leading generic pharmaceutical companies with 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 him President of the Management Board for another six-year term of office, commencing on 1 January 2016. At their meeting of 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 Pharmaceutical R&D and Production

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 earned his 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 and in 1999, Director of Research and Development.

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 reappointed 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. Owing to his solid track record, and having been put forward for nomination by Jože Colarič on 18 November 2015, the Supervisory Board unanimously appointed Aleš Rotar to 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 Chain

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 Services of Product Supply. In 1998, he became a warehouse technologist and then a senior warehouse technologist. In 2000, he assumed the role of Assistant to the Head of Warehouse and Transport Services and in 2002 became Deputy Head of 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 and became 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 a great competitive advantage of the Company. Vinko Zupančič has made a key contribution to the success of this strategy. Having been put forward for nomination by Jože Colarič at the meeting of 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 Finance Department, where he was responsible for several major projects. In 2003, he began working in Sales, Region Central Europe, with a focus on the Polish market. Owing to his solid track record, 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 and his team worked together to make Krka - Polska one of the largest and most successful Krka subsidiaries, doubling its sales and quantity of manufactured products. The subsidiary currently employs approximately 800 people. Krka - Polska and David Bratož received several awards during his management.

David Bratož is well versed in the workings of large companies. At its meeting of 18 November 2015, having been put forward for nomination by Jože Colarič, the Supervisory Board unanimously appointed David Bratož to the Management Board for a term of office from 2016 to 2021.

Milena Kastelic

Member of the Management Board, Worker Director; Head of Semi-Solid, Liquid and Other Products

Milena Kastelic, born in 1968 in Novo mesto, holds a degree in food technology. After graduating from secondary school in Novo mesto in 1986, she enrolled at the Biotechnical Faculty at the University of Ljubljana. In 1991, she won the Prešeren Award for students for her undergraduate diploma thesis, 'Evaluation of glucoamylase activity in yeast *Saccharomyces diastaticus*'. 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 closely linked to production, herbs, herbal medicines, and non-prescription products as well as prescription pharmaceuticals. 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 managed until April 2018. Today, Milena Kastelic is 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 the employees, and against that background the Works Council proposed her as the new Worker Director at the 15th regular meeting of 28 September 2015, and on 18 November 2015, the Supervisory Board unanimously appointed her to the Management Board for a term of office from 2016 to 2021.

2019 Management and Supervisory Board Diversity Policy

Krka's *Corporate Governance Policy* includes a commitment to prevent discrimination. Accordingly, all Krka employees have to have equal opportunities, regardless of gender, race, colour, age, medical condition or disability, religious, political or any other beliefs, trade union membership, national or social origin, family status, financial condition, sexual orientation, or other personal particulars. In 2019, the Company did not yet have any additional formal policies in place to govern the management and supervisory body structures in terms of gender, age, level of education, or other personal circumstances. However, it has been implementing diversity for a long time, especially with regard to gender, nationality, age, and level of education. The structure of employees is further disclosed in the section 'Responsibility to Employees'.

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 incorporated as limited liability companies.

Uniform rules on governance, organisation, and operation are applied to all companies in the Krka Group, unless otherwise required by local legislation. The controlling company defines the strategies and objectives of all individual subsidiaries 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 formal and internal 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 to supervise business functions in subsidiaries. Everyday operations in subsidiaries are monitored by means of regular reports.

A notable exception with regard to the above is Ningbo Krka Menovo Pharmaceutical Company Limited, the joint venture in China, in which Krka holds 60% and the Chinese partner, Ningbo Menovo, a 40% shareholding. Krka has two representatives on the company's three-member Board of Directors, one being the President.

Corporate Compliance

Corporate integrity, compliance, and transparency of operations have always been important for companies. They include all levels of operations and business as well as employees and third parties affiliated with the companies.

Krka's *Code of Conduct*, containing principles and rules of ethical conduct, good business practice, and standards of conduct, is the umbrella document for this area. This framework arrangement is a guideline, while local legislation specifics and transparent business practices are considered in subsidiaries. The *Code of Conduct* applies to all Krka employees. It emphasises that all employees have to endeavour to comply with the principles of ethical, uncorrupted, and legal conduct.

At the Group level, we continuously improve education and employee awareness with regard to the importance of corporate compliance and corporate integrity. Any breach of the *Code of Conduct* or potential fraudulent, corruptive, or other non-compliant activities at the expense of Krka are regulated by internal documents and relevant legislation.

We strive to increase the culture of ethics and protect the reputation and property of Krka. All employees undertake their tasks and duties in line with ethical standards of honesty, loyalty, professionalism, applicable regulations, and Krka's by-laws. We constantly raise employee awareness with regard to fraud indications, non-compliance, and other breaches, as well as how to manage them, and responsibility in identifying and reporting them.

A chief compliance officer is appointed at the Krka Group level, whose autonomous and independent role is to monitor corporate integrity. The chief compliance officer is supported by Risk Management and Corporate Compliance, Legal Affairs, and employees from individual organisational units involved in regulating compliance of operations in individual areas.

We ensure compliance also in relation to personal data protection. We have a data protection officer responsible for the protection of personal data at the Group level and in subsidiaries. We communicate the importance of personal data protection and protection of individuals' rights through our internal publications and our website.

In 2019, we signed the *Commitment to Respect Human Rights in Business*, by we undertake to respect human rights in our business process and prevent potential negative impacts on human rights. Respect for human rights is one of our Company values and is also included in the *Code of Conduct* and other internal documents.

Internal Audit

Internal auditors perform their duties in the Krka Group on the basis of medium-term and annual work plans in accordance with the applicable rules (*International Standards for the Professional Practice of Internal Audit, Code of Ethics*).

In compliance with the 2019 annual plan, eighteen regular internal audits were conducted using the COSO (The Committee of Sponsoring Organizations of the Treadway Commission) methodology.

This methodology is globally recognised and serves as the basis for comprehensive risk management. Internal auditors use these methods to assess the fulfilment of audit objectives in several categories: business operations, reporting, and compliance with the regulations of each audit area.

Internal audits of the following were conducted: sales, purchasing, API production, research and development, information technology, and individual support services. Regular internal audits were also conducted at several subsidiaries and representative offices abroad. Moreover, internal auditors provided consultations in line with the aforementioned standards.

Internal auditors gave assurances that the audited areas and processes had functioning and effective internal control systems in place for achieving set objectives. However, improvements could be made, so they made recommendations, categorised them by individual risk levels and regularly verified their implementation.

Internal auditors also work with the Krka Supervisory Board and its Audit Committee, as well as with external auditors. In 2019, a regular external quality audit was conducted with respect to Internal Audit operations. We received a positive opinion.

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 risks related to financial reporting. The purpose of internal controls is to ensure the reliability of financial reporting, and compliance with the applicable legislation and other internal and external regulations. The implementation of standard information systems in subsidiaries and the development of business information systems improve efficiency in the exchange of accounting data between the subsidiaries and the controlling company, and therefore in the 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 audit

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

Transactions between the Company and the audit firm Ernst & Young d. o. o., Ljubljana, and transactions between Group companies and individual audit firms are disclosed in the notes to the financial statements, see section 'Transactions with the audit firm'.

Composition of the Supervisory Board of Krka as at 31 December 2019

Name and surname	Jože Mermal	Borut Jamnik	Andrej Slapar	Julijana Kristl	Boris Žnidarič	Mojca Osolnik Videmšek	Franc Šašek	Mateja Vrečer	Tomaž Sever
Function	President	Member	Deputy President	Member	Member	Member	Deputy President	Member	Member
First appointment	2015	2017	2015	2010	2016	2019	2009	2005	2005
Term of office until	2020	2022	2020	2020	2020	2024	2024	2024	2024
Representative of	Shareholders	Shareholders	Shareholders	Shareholders	Shareholders	Shareholders	Employees	Employees	Employees
Attendance at meetings	4/6 ¹	6/6	6/6	6/6	6/6	3/3, Since member	6/6	6/6	6/6
Gender	Male	Male	Male	Female	Male	Female	Male	Female	Male
Citizenship	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian
Year of birth	1954	1970	1972	1953	1948	1966	1967	1966	1967
Education and qualifications	University graduate in economics	University graduate in mathematics	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	University graduate in mechanical engineering and master of management and organisational sciences
Independent according to <i>Corporate Governance Code</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Conflict of interest in the financial year	In 2019, no permanent or relevant conflicts of interest were identified for any Supervisory Board member. Statements of independence are published on the Company's website.								
Membership on committees	–	President of the Audit Committee	President of the Human Resource Committee	Member of the Human Resource Committee	Member of the Audit Committee	Member of the Audit Committee	Member of the Audit Committee	Member of the Human Resource Committee	Member of the Human Resource Committee ²
Attendance at regular committee meetings	–	5/5	4/4	4/4	5/5	2/2, Since member	5/5	4/4	1/1, Since member
Membership of supervisory boards of other companies	Members of the Supervisory Board, especially representatives of shareholders, have seats on supervisory and management boards of other companies, but not to the extent that would influence their work on the Supervisory Board of the Company.								

¹ Absent from the meeting of 31 July 2019² Member of the Audit Committee until 31 July 2019

The composition and remuneration of the Supervisory Board members are disclosed in the section 'Related Party Transactions'.

External Members of Committees as at 31 December 2019

Audit Committee

Name and surname	Borut Šterbenc
Function	Independent external expert of the Audit Committee in accordance with Article 280 of the <i>Companies Act</i>
Attendance at meetings	5/5
Gender	Male
Citizenship	Slovenian
Year of birth	1978
Education and qualifications	University graduate in economics with experience in planning, leading, and conducting complex audits
Independent according to the <i>Corporate Governance Code</i>	Yes
Membership in supervisory bodies of other companies	Member of the supervisory board of Pokojninska družba A, d. d.

Composition of the Management Board as at 31 December 2019

Name and surname	Jože Colarič	Aleš Rotar	Vinko Zupančič	David Bratož	Milena Kastelic
Function	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, certain administrative services	Research and development of finished products, new products, quality management, health and safety at work	API R&D and production, supply chain management	Corporate performance management, finance, information technology, relations with trade unions and works council, certain administrative services	Acts as a workers' representative and represents their interests in human resources and social issues.
First appointment to the Management Board	1997	2001	2010	2016	2016
Term of office until	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	University graduate in economics	Doctor of pharmaceutical sciences	Doctor of pharmaceutical sciences	University graduate in economics	University graduate in food technology
Membership on supervisory boards of non-related parties	None	None	None	None	None

The composition and amount of remuneration of the Management Board members are disclosed in the section 'Related Party Transactions'

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.

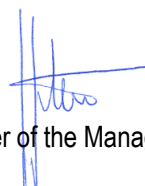
Krka also complied with most provisions of the *Code* relating to companies listed on the Warsaw Stock Exchange, i.e. the *Best Practice for GPW Listed Companies 2016*. The discrepancies are explained in a separate document, published through the dissemination system of the Warsaw Stock Exchange.

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

Non-Financial Statement

The Management Board of Krka, tovarna zdravil, d. d., Novo mesto hereby declares that Krka adheres to the policies of the Krka Group relating to the **social sphere and human resources, respect for human rights and diversity, anti-corruption and anti-bribery management, and the environment.**

The Krka Group operates in accordance with the business model presented in the section 'Krka Group Business Model' and also monitors its own placement in various environments. Further information available in the section 'Risk Management'.

Krka is committed to high ethical standards. The *Krka Code of Conduct* includes principles and rules of ethical conduct, as well as good business practices and standards of conduct in the Group, which are binding on all Krka employees. The *Code* is also the basis for all other Krka bye-laws. The guiding principle is acting in accordance with the highest moral standards, principles governing honesty, loyalty, and professionalism, and consistent compliance with regulations and guidelines provided by international organisations for the pharmaceutical industry, and with Krka's bye-laws. The *Code* is published on the Krka website. All Krka business partners are familiar with the *Code*, and we expect they adhere to it when doing business with Krka.

The Krka Group places strong emphasis on the social sphere and human resources. We realise that employees and their knowledge, experience, and cooperation are key to achieving the planned results of the entire Krka Group. Our success depends on employees' commitment, good and constructive relationships, as well as contemporary and stable management methods which guide our employees towards efficiency, proactivity, improvement and development, and thus support the Krka values. We try to make our overall operations reflect responsibility towards employees, the environment, and stakeholders. Krka values guide us when setting objectives, achieving results, and working with employees, as well as in managing them and developing their potential. Together, we encourage a culture of mutual trust, respect, cooperation and teamwork, lifelong learning, and responsible, efficient, and sustainable work. Krka employees are known to be loyal, innovative, flexible, diligent, and focused on achieving business objectives and results of the Krka Group. For further information, please see the sections 'Employees' and 'Corporate Social Responsibility'.

We provide a safe and healthy working environment and regularly adopt measures to reduce and eliminate potential health and safety risks. We adhere to all regulations and bye-laws related to health and safety at work. Smoking is prohibited anywhere on the premises of Krka.

We respect human rights as defined in internationally recognised principles and guidelines. We operate in accordance with all regulatory requirements and standards relating to human rights in all countries where Krka operates. We respect the dignity, personal integrity, and privacy of each individual. We also respect the freedom of speech and expression of opinions, and we always treat others with respect. We communicate openly with our employees, regardless of their professional qualifications and leadership position. All forms of unfair and unauthorised work are prohibited. Any discrimination against employees is prohibited. We treat all employees equally, regardless of their nationality, race or ethnicity, national or social origin, gender, colour, medical condition, disability, religion or belief, age, sexual orientation, family status, trade union membership, financial standing, or any other personal circumstance.

Any form of harassment and ill-treatment in the workplace is prohibited. We provide adequate working conditions and an open and creative working environment. Our working environment is free from any psychological pressure, sexual or other harassment, or ill-treatment by other employees, superiors, or third parties. All employees are obliged to refrain from any inappropriate actions that would threaten the dignity of another person. Any employee may report mobbing to the relevant company officer.

Krka's diversity policy applies the principle of integration and equal opportunities also in respect of the composition of the supervisory and management bodies, among others. When considering candidates for such roles, we take into account gender, age, education, professional experience, and skills. We also take into consideration professional diversity in an international environment, since we wish to ensure complementarity in the highest management bodies in order to maintain a continuous business process across the Krka Group.

The *Rules on Fraud Prevention, Detection and Investigation*, which are available to the public, govern the prevention of fraud and corruption, measures to combat it, and the responsibility of employees in its detection.

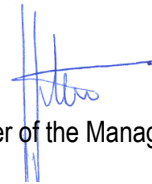
Krka applies the principle of zero tolerance with regard to fraud and corruption prevention, and corporate compliance. This means that no unethical, unprofessional, or unlawful conduct on the part of employees and business partners is allowed. We do not exploit Krka business opportunities, Company assets, and information for personal, commercial, or third-party gain. We do not promise any benefits and do not give gifts to influence the decisions of national authorities, public officials, business partners, or other entities, nor do we accept gifts or any other benefits that may influence our decisions in relation to our work. We ensure that persons who have access to inside information are aware of the confidentiality levels and sensitivity of such information. We have bye-laws governing trading in the Company's financial instruments and we established oversight mechanisms for employees and third parties that handle such information. This gives us a platform to prevent potential abuses and insider trading. Periodic restrictions are in place for all persons with access to inside information, during which time they are prohibited from trading in the Company's financial instruments.

We safeguard the environment and respect environmental regulations, and also work in tandem with the local community and beyond. Our commitment to preserving the natural environment is set out in our environmental policy, and thereby we undertake to safeguard the environment in accordance with the newly issued ISO 14001:2015 standard, and to prevent or reduce our environmental impact to the largest extent possible. More information is available in the section 'Natural Environment'.

The non-financial risks faced by the Krka Group are addressed in the section 'Risk Management', and non-financial indicators and results of the described policies under the section 'Sustainable Development'



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

Development Strategy

The current development strategy of the Krka Group, prepared by the Management Board and approved by the Supervisory Board of Krka in November 2019, covers the five-year period 2020 to 2024. It includes all areas of operation across the Krka Group, focusing on the core pharmaceutical and chemical activity. The strategy treats the Krka Group as an international company, since it operates through subsidiaries and representative offices abroad, and cooperates with partners wherever it is present. It incorporates all business processes within the Krka Group, from development and production to marketing and sales, including all support processes, and is focused on reaching the highest possible added value for the Group as well as for investors. The Krka Group updates its development strategy every two years. The next update is planned for autumn 2021.

Development strategy is based on the mission, vision, and values of the Krka Group.

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 foundation of the development strategy is an in-depth analysis of Krka's position in the global generic pharmaceutical industry. It presents characteristics of the originator and generic pharmaceutical industry, growth projections for the generic market, and Krka's placement in the international generic pharmaceutical industry. Based on this, possibilities and opportunities for further development and independent existence in the future were formed.

In addition to these starting points, it also comprises three different categories: the strategy and objectives at the Krka Group level, objectives by regions and territories with a product range strategy, and strategies of individual business functions and processes. The strategy also includes a draft multi-annual development, financial, and investment business plan.

Part of the strategy concerns risk management, which is incorporated into all Krka Group business processes. Risk management is based on the *Risk Register*. The *Risk Register* provides a comprehensive overview of risks at the Group level and is designed so that factors that could derail the objectives defined in the *Development Strategy* can be identified and managed in a timely fashion. Every time the *Development Strategy* is updated, the *Risk Register* is updated as well. Further information on risks is available in the section 'Risk Management'.

The achievement of strategic objectives is measured at three levels: the Krka Group, product and service groups, and business functions. 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 (Sales Committee; Development Committee; Human Resource Committee; Quality Committee; Economics and Finance Committee; Information Technology Committee; and Corporate Identity Committee). The guiding principle in managing the system of criteria is to increase the competitiveness of the Krka Group as a whole and of individual companies within the Group.

In order to maintain and improve the Krka Group position in an international context, we use all external opportunities and, as much as possible, all internal advantages, especially the coordinated and synergistic functioning of organisational units within the Krka Group, and quality management of all partnerships in the value-added chain.

Key strategic objectives of the Krka Group up to 2024

To attain at least 5% average annual sales growth in terms of volume/value.

To ensure high standards of product quality, safety, and efficacy.

To provide sufficient quantities of manufactured products through an efficient and optimised development-and-production chain in a timely manner and in line with target sales growth and market needs.

To focus on maximising the long-term profitability of the products sold from development and production to sales of finished products, including all other functions within the Krka Group.

To ensure growth by long-term partnerships (including joint ventures) and acquisitions in addition to organic growth, when interesting target companies become available. The primary goals are to secure new products and/or markets.

To maintain the largest possible proportion of new products in total sales and the proportion of vertically integrated products in addition to the existing range of products, also referred to as 'the golden standard'.

To launch a selected product portfolio in selected key markets among the first generic pharmaceutical companies.

To strengthen the competitive advantage of our product portfolio.

To improve the cost-effective use of all assets.

To increase the degree of innovation across all business functions.

To maintain independence.

Key Strategic Guidelines of the Krka Group up to 2024

Markets

To focus primarily on European, central Asian, and Chinese markets.

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

To focus especially on key markets (the Russian Federation, markets of western Europe, Poland, Slovenia, Romania, Hungary, Ukraine, the Czech Republic, Slovakia, and Croatia), with an emphasis on key customers and key products.

To include certain markets of the Region Overseas Markets among the key markets.

To establish and strengthen our presence in western European markets by operating through our own marketing-and-sales subsidiaries and by marketing products under our own brands (Krka and TAD Pharma).

To seek opportunities for acquisition of pharmaceutical companies, business acquisitions, and various types of long-term partnerships (including joint ventures) in selected markets in order to attain new products and thus enter new therapeutic areas and/or markets.

Products and services

To strengthen the pharmaceutical and chemical sectors and increase the range of medicines in the key therapeutic areas of prescription pharmaceuticals (medicines for the treatment of cardiovascular diseases, the gastrointestinal tract, the central nervous system, and for pain relief) as well as in other therapeutic areas (medicines for the treatment of diabetes, medicines for antiaggregant therapy, oncology medicines, and medicines for the treatment of diseases of the urinary tract) while entering new therapeutic areas. We will introduce innovative products in key therapeutic areas (innovative combinations of two or three active ingredients, new strengths and pharmaceutical forms, and delivery systems).

To increase the range of non-prescription products and animal health products, primarily products for companion animals, in selected therapeutic areas.

To further develop health resorts and tourist services, and seek strategic partners outside the Krka Group.

Development and manufacture of products

To allocate up to 10% of annual sales revenue to research and development.

To start developing similar biological medicines and complex peptides through partnerships.

To strengthen vertical integration from product development to manufacture.

To ensure a permanent supply of incoming materials and optimise purchasing with the aim to continually reduce purchase prices.

To develop generic medicines and prepare relevant registration documents prior to the expiry of data protection and obtain marketing authorisation before the product patent or marketing protection expires.

To ensure management and further growth of established products while taking into account new regulatory requirements concerning safety and quality of medicines, and obtaining additional marketing authorisations for new markets.

To manage and link data from various fields to provide product compliance.

To increase outsourcing of production and development of certain active ingredients and finished products.

Quality

To ensure functioning and improvement of the integrated management and quality systems, which provide for the manufacture of safe, effective, and quality products in accordance with cGXP guidelines and regulations on quality in the pharmaceutical industry.

Investments and financial stability

To invest in production, development, and infrastructure facilities in a stable and optimal manner.

To reduce the impact of financial risks on the Krka Group operations.

To pursue a stable dividend policy and consider the Group's financial requirements for investments and acquisitions when determining the net profit share for dividend payout each year, and to allocate at least 50% of net profit of majority shareholders for dividends.

Digitalisation of operations

To further pursue digitalisation of business operations by: i) introducing digital information technology into business processes in order to allow for automation and optimisation of processes and procedures; ii) supporting and strengthening cooperation within the Krka Group and the entire supply chain; and iii) ensuring appropriate data/information for taking business decisions. Our aim is to offer our stakeholders added value.

To introduce information technology efficiently and in compliance with regulatory standards, and ensure high availability (more than 99% for the key information systems and services) and information security of the implemented IT solutions.

International group with responsibility to its business environment

To strengthen all types of connections with external institutions and companies in the field of development and other fields.

To strengthen professional and cost synergies within the Krka Group and maximise the utilisation of competitive advantages in the business environments of Krka subsidiaries abroad.

To strengthen internationalisation within the Krka Group by managing employee potential in an international environment and ensure the activation of all human resource potential.

To maintain our economic, social and environmental responsibilities to the environments in which we operate.

To enhance the visibility and positive image of the Krka Group.

To ensure corporate integrity, transparency, and corporate and business compliance.

Objectives by Markets

To strengthen the reputable and well-known Krka brand in Krka's traditional markets (Slovenia, south-eastern Europe, central Europe, and eastern Europe) among general practitioners, selected specialists and pharmacists, and to continue to market the majority of products under own brand names. To build reputation and recognition among target groups of doctors, specialists, who we will approach with medicinal products from new therapeutic areas.

To strengthen the recognition of Krka (Krka and TAD brands) as well as its market position in western Europe, primarily through subsidiaries and unrelated partners. To take advantage of the potential of the current range of products, expand the product range in the existing therapeutic areas while entering new therapeutic areas, and strengthen our position with pharmacists and selected target groups of doctors.

To market Krka products under our own brands, enter new markets by acquisitions and establishing specialised local joint ventures in which Krka has the majority share (marketing authorisations, marketing, etc.), and continue with marketing through unrelated partners in overseas markets.

Product and Service Portfolio

Prescription pharmaceuticals

To retain cardiovascular diseases, the central nervous system, the gastrointestinal tract, and the recently added new key area – pain relief – as the key therapeutic areas.

To introduce innovative products, in addition to generic products, in the market of leading medicines (innovative combinations, new strengths and pharmaceutical forms, and delivery systems) in the key therapeutic areas.

To supplement the range of combinations for the treatment of high blood pressure (with two or three active ingredients) and innovative combinations for the advanced concomitant treatment of high blood pressure and high cholesterol levels, and for pain relief.

To supplement the portfolio of medicines for the treatment of diabetes, medicines for the antiaggregant therapy, portfolio of oncology medicines, and medicines for the treatment of diseases of the urinary tract with new products. We will enter the therapeutic areas of anticoagulant therapy and treatment of autoimmune diseases.

To provide a wide range of medicines from other therapeutic areas with own products or products of unrelated partners (third parties).

To expand our portfolio of medicines with similar biological medicines and complex peptides.

To plan at least one new therapeutic area.

To provide key sales products through the vertically integrated business model.

To launch products with higher sales potential among the first generics – right after patent expiry.

To adapt the registration of medicinal products and their names (brands and names consisting of international nonproprietary name and marketing authorisation holder, INN MAH) to market situations and regulatory requirements.

To launch at least one medicine with great sales potential and at least five medicines with less considerable sales potential at the Krka Group level every year.

To start marketing at least one medicine with great sales potential on each key market every year.

Non-Prescription products

To strengthen all key therapeutic areas, including cough and cold remedies, medicines for pain relief, products for the gastrointestinal tract and metabolism, and vasoprotectives.

To supplement the umbrella brands of cough and cold remedies, medicines for pain relief, and vasoprotectives with products with new ingredients and pharmaceutical forms.

To supplement our portfolio with products for the treatment of diseases from the key therapeutic areas as regards prescription pharmaceuticals.

Animal health products

To strengthen the key therapeutic areas of products for companion animals (antiparasitics and medicines for pain relief) and farm animals (antimicrobials and antiparasitics).

To introduce new therapeutic areas and new products for companion animals (dermatologicals and medicines for the treatment of cardiovascular diseases).

To supplement the range of products for companion animals with new combinations, pharmaceutical forms, and technologies.

Health resorts and tourist services

To develop and improve health services, such as medical rehabilitation, programmes for maintaining and promoting health, and active leave programmes marketed under the Terme Krka brand in domestic and selected foreign markets.

Delivering on Objectives in 2019

In 2019, the Krka Group generated revenue in total of €1,493.4 million (of which revenue from contracts with customers on sales of products and services amounted to €1,489.1 million, while other revenue from contracts with customers on sales of material and other sales revenue constituted the difference), 12% more than in 2018.

Regional dispersion of sales among the sales regions Slovenia, East Europe, West Europe, Central Europe, South-East Europe, and Overseas Markets is good. The largest sales region was Region East Europe. The Russian Federation remained the largest individual market.

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

Prescription pharmaceuticals remained the most important product group, accounting for 83% of total sales.

EBITDA amounted to €385,437, while EBITDA margin accounted for 25.8%.

Net profit of €244.3 million exceeded our plan.

The number of employees in the Krka Group increased by 3%.

Krka Group Business Objectives for 2020

Sales of products and services are estimated at €1.520 billion.

Sales outside Slovenia are expected to account for almost 94% of total sales.

Prescription pharmaceuticals remain the most important product group, comprising 83% of overall sales.

Profit is planned at more than €210 million.

The total number of employees in Slovenia and abroad is projected to grow by 3%.

We plan to allocate €134 million to investments, primarily for expanding and modernising production facilities and infrastructure.

Macroeconomic Forecast for 2020

Dispersed international operations and the vertically integrated business model ensure stable performance at the Krka Group despite diverse macroeconomic situations in individual key markets.

After a number of consecutive years that saw the macroeconomic situation in individual sales markets improve, economic activity started to cool in 2019. Macroeconomic outlook for 2020 is cautiously optimistic. In 2019, the most important world central banks adopted measures for stimulating economic growth and plan to continue this into 2020. In countries with stable public finances, stimulating fiscal measures are expected. Inflation risk in general remains low, and the instability of currency rates has decreased, even though in individual countries the situation remains tense.

The economic situation and outlooks are relatively stable, and our expectations for the macroeconomic situation in our target markets remain moderately optimistic. According to economic forecasts by the Organisation for Economic Co-operation and Development (OECD), the European Commission, and international business banks, the 2020 macroeconomic situation in our target markets will remain stable, yet less optimistic than last year.

2020 Macroeconomic Forecasts

Country	Pharmaceutical market growth (%)	Projected value of pharmaceutical market at wholesale prices (€ million)	FX rate (currency/€)
Slovenia	4	725	Eurozone
Croatia	8	1,200	7.4
Romania	6	3,700	4.8
Russian Federation	6	15,900	72
Ukraine	1	2,800	27
Poland	3	7,200	4.3
Hungary	6	2,800	330
Czech Republic	4	2,900	25.5
Slovakia	5	1,500	Eurozone
Western Europe	1	279,400	Primarily Eurozone

References (pharmaceutical market forecasts): internal estimates. References (foreign exchange rates): bank reports, internal estimates.

The macroeconomic projections below were summarised primarily according to the forecasts by the European Commission and analysts at business banks that regularly monitor the situation in countries stated below. Upon the coronavirus outbreak we closely followed the epidemiological situation. Depending on further development of the epidemic, the situation on the markets may vary from projections.

Slovenia

In Slovenia, the pace of economic growth slowed down in the first six months of 2019 weighed by weaker foreign demand. Private consumption is expected to remain high, and inflation to rise slightly in 2020 and 2021. Employment has been rising since 2014, and is expected to continue to do so over the coming years. In 2020, the public finances are expected to come under pressure due to growing government expenditure and a slowdown in revenue on the back of a contraction in gross domestic product (GDP). In the short term, the government will have to curb current spending, and in the long term, pension and healthcare systems will have to be reformed. Slight general government budget surpluses made in 2019 and 2020 will see the public debt dip below 67% of GDP in 2020, which accounted for 70% of GDP in 2018. The eminent risk is that various political party programmes in the government coalition could induce excessive government spending, structural deficit rise, and a slowdown of the public debt decrease.

In 2020, we estimate the sales value of pharmaceuticals at approximately €725 million, or 4% more than the year before.

Croatia

As growth in main trading partners of Croatia has moderated, domestic demand will become the main driver of economic activity in the future. Household consumption is expected to bounce back, backed by growing employment rates, increasing wages and pensions, and low inflation. Investment, backed largely by EU funding, is set to continue growing strongly, and government consumption is expected to support economic growth as well. Employment is expected to rise, even though slower than so far, and in some sectors labour shortages have already appeared. In 2019, the country recorded 2.9% economic growth and GDP was for the first time higher than the 2008 pre-crisis level. The public debt is expected to continue to drop due to the current surplus government balance and GDP growth, and is expected to drop to 65% of GDP in 2021. Public finances, monetary and foreign currency markets are expected to remain stable in 2020.

We expect the value of the Croatian pharmaceutical market to grow by 8% in 2020, and amount to approximately €1.2 billion.

Romania

In 2019, GDP growth rose by 3.9% and was primarily driven by extensive private consumption and increased investment. After reaching an annual peak in 2018, inflation is expected to moderate further in 2020. In 2019, unemployment was below 4% for the first time, and is expected to remain in check also in the future. The tight labour market is set to stimulate ongoing wage growth. The National Bank of Romania will pursue its stimulating monetary policy in the mid-term. The major external risk to economic growth is a potential slowdown in Romania's main trading partners that could negatively affect net exports. The 2020 elections pose a risk of political uncertainty that might put the brakes on structural reforms and dampen efforts to reduce macroeconomic imbalances. Increased expenditure for old-age pensions will put public finances under pressure.

We expect the value of the Romanian pharmaceutical market to grow by 6% compared to 2019, and reach €3.7 billion.

Russian Federation

At the end of 2019, the macroeconomic environment was stable in the Russian Federation. In 2019, economic growth dipped below 2%. Deceleration of economic activity results from VAT rates that rose at the beginning of 2019, growing uncertainty in external markets, and a contracting global economy. Inflation began to subside in the first half of 2019 and the trend is expected to continue in 2020, when it is projected to drop to 3% and stabilize at that level. In 2020, the central bank will again lower interest rates in line with deceleration of inflation and in consideration of the dynamics that will keep the domestic currency in check. Especially in the first half of 2019, we observed rapid strengthening of the domestic currency owing to the reduced risk of additional economic sanctions being imposed on the Russian Federation and favourable trends in the global and foreign currency markets. Especially aggravation of external risks, including risks related to global economic growth, oil prices, and global geopolitical environment, could undermine general macroeconomic stability and stability of the domestic currency.

We expect the value of the Russian pharmaceutical market to grow by 6% and reach €15.9 billion in 2020.

Ukraine

In 2019, the macroeconomic situation in Ukraine improved. Political stability was established and as a result the domestic currency strengthened and inflation rapidly curbed almost halving during the year. Economic growth, which reached 3.3%. At the end of 2019, the mission of the International Monetary Fund returned to Ukraine and successfully continued negotiations on extending credit support to Ukraine, so risk will be further reduced in the near future. In line with reduced risk and inflationary pressures, the National Bank will cut interest rates more aggressively to stimulate the economy and prompt economic growth. Wages in the economic sector have gone up spurring private consumption. The trend is reflected in increasing consumer confidence, which has reached a 12-year high.

We expect the value of the Ukrainian pharmaceutical market to grow by 1% in 2020, and amount to €2.8 billion.

Poland

In 2019, GDP remained solid reaching 4%. Private consumption supported by favourable labour market trends and fiscal stimulus is expected to remain the key economic growth driver. Investment growth is projected to moderate due to weaker demand in the private sector, while public investment is expected to continue rising, largely due to EU funding, albeit at a slower pace than in the past. Strong international competitiveness is expected to help Poland continue gaining shares in its key export markets. However, export growth is projected to slow from previous years due to general weakening in the global economic situation. Following several years of rapid reduction, the unemployment rate is set to stabilise at approximately 5.5%. Inflation is expected to peak at 3% at the beginning of 2020 before falling to 2.5% again. The National Bank is not expected to intervene in relation to the monetary policy and interest rates. Also in 2020, monetary and foreign currency markets are expected to remain stable with moderate pressure on the value of the national currency, which is projected at approximately 4.3 Polish zloty in exchange for one Euro.

Given the expected 3% growth, the value of the Polish pharmaceutical market is estimated at approximately €7.2 billion.

Hungary

In 2019, favourable economic growth reached 4.9% and is expected to drop in 2020 according to analyst forecasts due to risk of global trade disputes, decrease in absorption of EU funds, changes in fiscal policy, and reduced bank lending to households and enterprises. The government runs the risk that measures applied to the national economy might not fully compensate economic activities reduced due to external factors. The central bank pursued a stimulating monetary policy in 2019 allowing the value of the national currency to drop, and plans are in place to follow a similar policy also in 2020 if inflationary pressures do not increase. Inflation is expected to peak in the first half of 2020, then decline over the course of the year and gradually near the inflationary level of the European Economic and Monetary Union (EMU).

We expect the Hungarian pharmaceutical market to grow by 6% in 2020, and its value to reach €2.8 billion.

Czech Republic

GDP growth moderated in the second half of 2019. Growth is expected to continue slowing in 2020. Private consumption will increase due to the tight and stable labour market with record employment rate. Household consumption is expected to continue growing for several upcoming quarters. A construction industry on its way to the top of the cycle, similar to 2015, is staple of the economy. Even though manufacturing sentiment is weak, current and forecast operations of the key automotive manufacturer improve the picture despite the expected global pressure on automotive industry in 2020. Inflation reached the highest level in the past few years in 2019 because of favourable domestic demand related to rapidly and steadily increasing salaries and real estate prices. It is expected to moderate in 2020, yet slower than in neighbouring economies. The Czech National bank will therefore not hurry to decrease its interest rate, even though the European Central Bank decreases its key interest rate.

The Czech pharmaceutical market is expected to grow by 4% and its value to reach approximately €2.9 billion.

Slovakia

In 2018, Slovakia saw 4% economic growth, which decelerated to 2.1% in 2019. Deceleration came on the back of weaker external demand and waning domestic private consumption. Lower economic growth in Germany poses risk in the near future. The automotive industry will face risks related to higher tariffs imposed by the U.S. on European car imports and the risk of uncertainties in the face of Brexit. Unemployment has been on a downward trend, hitting a record low of 5.8% in 2019, and is expected to reverse and stabilise at slightly above 6%. Wages are expected to increase due to rising minimum salaries in public sector and higher expenditure vis-a-vis the upcoming 2020 parliamentary elections. Stimulating government expenditure will be constrained in the election year, as the public debt, which dipped below 50% of GDP in 2018, must not increase. Membership in the EMU also ensures macroeconomic stability of the country.

We expect the Slovakian pharmaceutical market to grow by 5%, and its value to reach approximately €1.5 billion.

Western Europe

In 2019, the European economy grew for the seventh consecutive year. Labour market trends in some Member States remain positive and unemployment continues to fall. However, the external environment does not support growth and uncertainty related to economic trends has been growing. The European economy is heading toward a prolonged period of subdued growth and low inflation rates, which we have followed for the past few years. According to projections, the European Central Bank will again lower its deposit facility rate and stimulate asset purchase programmes in 2020, as the inflation rate still ranges around 1% and GDP growth in the eurozone is not supported by exports as before. Fiscal policy will have to take a more supportive role in addition to stimulating monetary measures including the 2% inflation target rate set by the European Central Bank, because the economic growth of the eurozone countries cannot rely on external demand any more.

We expect the value of the Western European generic market to reach €55.6 billion 2020, which is a 3% increase compared to last year. The total value of the Western European pharmaceutical market is projected to increase by 1% to €279.4 billion in 2020.

Risk Management

In accordance with legislation and good practice, risk management is a task and responsibility of the Management Board, which regularly reports on risks and adopted measures to the Audit Committee and the Supervisory Board. Their work in risk management is described in the section '2019 Report of the Supervisory Board'. The Krka Group monitors its exposure to various forms of risk on a daily basis and adopts measures to manage those risks.

Risk management is integrated into all business processes in the Group. The controlling company manages financial risks centrally at the Group level, while the subsidiaries manage business risks independently in accordance with guidelines of the controlling company. We apply over 3,000 standard operating procedures and other bye-laws which determine the type of activities and responsibilities that allow for uninterrupted operations and reduce risks.

Krka uses the *Risk Register* as a support in risk management. The *Risk Register* provides a comprehensive overview of risks at the Group level and is intended for timely identification and management of factors that could derail efforts to deliver on the objectives defined in the current *Krka Group Development Strategy* and the *Quality Manual*.

Below we outline the significant risks Krka encounters in its operations and the way we manage them. Every risk assessment is based on assessing the extent of the damage and the probability of its occurrence. The final assessment of an individual risk is determined by considering the extent of damage and the probability of occurrence at the same time, whereby the impact of control activities has already been taken into account.

OPERATIONAL RISKS AND BUSINESS CONTINUITY			
Risk area	Description of risk	Control activities	Risk assessment
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 improve process resilience against disturbance, incident/accident response procedures, business continuity plans	Moderate
Supply of APIs and finished products	Untimely supply of finished products and ineffective utilisation of production capacities	Careful supply chain planning and provision of adequate production capacities	Moderate
Quality assurance	Loss of a manufacturing authorisation, distribution permit, or marketing authorisation	Compliance with legal and regulatory requirements, and implementation of all activities in the Krka Group that are critical in terms of good quality practice	Moderate
Technical services	Inadequate supplies of production media to processes and inadequate technical maintenance	Redundant power supply resources, robust demand planning for media supply, redundant capacities and planned maintenance processes	Moderate
Information technology	Business process disruption due to a disruption in information resources	Independent security checks and preventive measures to rectify disruption; risk assessment and information technology business continuity plan	Moderate
Employees	Accidents or injuries in the workplace Unplanned increase in absences and lack of personnel in the labour market	Testing technological procedures system for workplace risk assessment, preventive measures Employee interchangeability, new recruitment methods, appropriate and regular communication with employees, employee education and training	Moderate
Protection of property	Alienation and destruction of property	Security plan, systematic threat assessment, and implementation of necessary measures	Moderate

BUSINESS RISKS			
Risk area	Description of risk	Control activities	Risk assessment
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 activities	Responding to changing business conditions in markets, establishing standardised, compliant, and transparent sales and marketing activities, continuously educating and assessing employees' knowledge	Moderate
Intellectual property protection	Infringement of intellectual property rights 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 development, production, and finished products	Precise implementation of systematically prescribed quality management and quality control procedures in all key development and production processes	Moderate
Environmental protection	Waste removal issues, environmental pollution due to hazardous substance spills and emissions during emergencies; deviations from statutory requirements, and loss of reputation due to excessive environmental pollution	Effective control of the environmental management process, emission monitoring; application of best available techniques to reduce environmental impact, and cooperation with several business partners in the field of waste management	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	Issues with providing key and qualified personnel (recruiting and retaining) and social dialogue with employees	Systematic work with key personnel, the remuneration system, employee development, continuous education and training, measuring of the organisational culture and climate	Moderate
Legal matters	Inadequate legal support for all operating processes	Engagement of Legal Affairs in key risk areas, cooperation with external specialised legal experts	Moderate
FINANCIAL RISKS			
Risk area	Description of risk	Risk management method	Risk assessment
Foreign exchange risk	Potential major financial losses due to unfavourable changes in exchange rates	Financial market tracking; monitoring currency exposure; working with leading global financial institutions; following the latest practices in hedging against foreign exchange risks; use of financial instruments; natural hedging	High
Interest rate risk	Unfavourable interest rate changes	Monitoring interest rate changes; negotiations with credit institutions; hedging with appropriate financial instruments	Low
Credit risk	Customers defaulting on payments and accrual of receivable write-offs	Credit rating calculations; limiting maximum exposure to individual customers; active management of receivables; utilisation of instruments for insurance of payments and receivables with a credit insurance company	Moderate
Liquidity risk	Insufficient liquid assets for settling operating and financial liabilities	Credit lines agreed in advance and planned liquidity requirements; cash pooling	Moderate
Risk of damage to property	Damage to property caused by natural disasters and other risk factors	Systematic risk assessment for buildings; taking measures in accordance with fire prevention studies; arranging appropriate insurance	Moderate
Risk of claims for damages and civil actions	Claims for damages by third parties due to loss events caused accidentally by Company activities, property, or products placed on the market	Insurance policies covering civil, employer and ecological liability; product liability insurance; clinical trials liability	Moderate

Risk of financial losses due to business interruption	Financial damage resulting from 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
---	--	--	----------

Operational Risks and Business Continuity

Availability of Critical Resources to Ensure the Production and Sales of Key Products

Major emergencies that stop the production and sales of products for a lengthy 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. We have designed action plans and disaster relief measures for emergencies, measures for reducing direct damage, and emergency operations plans until normal operations can be restored. The Management Board of the Company appointed a business continuity officer.

Risks Related to Supply of APIs and Finished Products

We continuously monitor the supply market, suppliers, and prices of raw materials to ensure the required quantities in accordance with annual and monthly production plans. We carefully plan our inventories and keep contingency stocks in order to ensure uninterrupted access to raw materials required for manufacturing finished products. We apply adopted criteria to assess and select our suppliers and regularly audit them. In addition to regulatory compliance and the guaranteed quality, we primarily focus on price competitiveness and reliability of supplies when selecting our contractual partners, whose supplies we also audit and control regularly.

We ensure timely supply of finished products by keeping every phase of product supply under control. Raw material inventories are planned according to sales forecasts. Inventory levels are checked regularly, and we have contingency stocks as well as several independent sources of supply for strategically important raw materials.

We carefully plan optimal 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 our own production capacities and expand contractual alliances.

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. In the event of major emergencies, we can ensure the production of key products at several plants.

We comply with good warehousing and manufacturing practices in warehousing incoming materials, bulk products, and finished products. To deal with major emergencies, our raw material and finished product warehousing systems allow us to keep goods in several dislocated warehouses. We organise the transport of raw materials and products in our own vehicles and in the vehicles of our selected partners. All vehicles are equipped so as to ensure appropriate transport conditions and safety.

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 electricity supply, we have put in place a backup electricity system and a diesel-powered generator for critical processes. We continuously monitor the situation on 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.

Drinking water is supplied 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 a single breakdown does not have a major impact on production capacities. All air-conditioning and power supply systems of systemic information technology premises are duplicated, have security systems in place, and are regularly tested for potential failures.

We mitigate risks related to reliability and availability of technical systems by continuously monitoring performance, conducting preventive checks, servicing, improving the equipment, and introducing new maintenance approaches. Failures and breakdowns are rectified according to planned procedures and instructions. In order to remedy breakdowns and disruptions 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.

The management system for monitoring and measuring devices is implemented. We regularly measure, calibrate, and maintain weighing equipment.

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

Information Technology Risk

We manage information security risks with an information security management system certified according to the ISO 27001 standard. The Management Board also appointed an information security officer.

Krka specifies the criticality of information resources (information systems and services) according to criticality assessments of business processes and information resources (services) for the implementation of the business process. The criticality level of business services is summarised by all infrastructural systems on which the information services and applications depend.

We have identified threats and risks to all critical information resources. We take steps 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 emergencies, we introduced duplicated computer capacities for all critical information resources in two separate locations, in back-up system rooms at the headquarters (i.e. the Disaster Recovery Centre – DRC) and at an appropriately distant location, where daily storage of data back-up copies of all critical data is carried out.

We also mitigate information security risks by advanced tools such as advanced threat protection (ATP), security information and event management (SIEM) system, and vulnerability management. Krka has taken out cyber insurance to cover any damages caused by potential cyber attacks.

As an international group, we are obliged to manage personal data in conformity with national legislation of all countries where our subsidiaries and representative offices are located. The Management Board appointed a data protection officer at the Company and Group level, who ensures that personal data are protected in accordance with the EU regulations or local legislation insofar it lays down different or stricter rules.

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 workplaces. 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 allows us to ensure the replacement of employees in key job positions. The training and recruitment methods applied in all organisational units facilitate a quick exchange of employees posted in similar positions should a shortage of employees occur 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 in accordance with the *Security Plan* (18 types of threats). Based on the assessment, we prescribe physical and/or technical security measures, and other security actions/guidelines in order to prevent emergencies or act appropriately if they occur.

Business Risks

Research and Development Risk

Krka's finished products must be of a high quality, safe, and effective. The required properties must be confirmed by relevant 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 as well as technology.

We reduce these product and technological risks at the early stages of development by process updates, the introduction of modern technologies, and adjustments to regulatory requirements. The vertically integrated model of development and production is important, because it allows us to control the entire process, from raw materials through to the finished products.

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 prepare new combinations of active ingredients with patients in mind. We aim to achieve the same therapeutic effect with lower concentrations of ingredients and reduce the number of daily doses at the same time;
- Krka's active ingredients: we introduce innovative preparation procedures and new synthesis routes;
- pharmaceutical forms: we prepare advanced pharmaceutical 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 legislation and their interpretation, starts at the early stages of developing a new product and continues throughout its life cycle. Through official consultative mechanisms, Krka verifies its development solutions for each product and the planned content of marketing authorisation documents with regulatory bodies. This reduces the risk of encountering potential issues or even failure when obtaining or extending marketing authorisations. 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 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 based on statutory partial co-funding of healthcare budgets by medicine suppliers, i.e. the clawback) through Krka's in-house departments and independent data sources. We ensure that medicine advertisement is suitable and give special attention to organising and supervising the work of employees in the marketing network. Our employees regularly undergo training and we frequently test their qualifications, skills, and how familiar they are with instructions for work, legislation, and applicable regulations.

When marketing our products, we consistently comply with legislation, recommendations of Medicines for Europe, and ethical norms related to advertising pharmaceuticals. In this regard, we also carry out comprehensive training and knowledge assessment for our employees. We also comply with the personal data protection legislation in marketing and sales.

We monitor the risks related to entering new markets and new therapeutic areas by lowering prices of medicines in compliance with local regulations, by cross-border reference country impacts, and changing practises regarding the prescribing and/or dispensing and/or reimbursing of medicines. We pay special attention to risks related to individual market environments and economies, and risks associated with each customer, in particular 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 high 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 if possible also at the secondary level (wholesalers' sales to final customers, mainly pharmacies) and at the tertiary level (sales to end users in pharmacies). We ensure that inventories are optimised and in accordance with needs 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 areas 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 as well as product supply in the market. Based on these, we define both the product portfolio and our activities according to the 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 innovative combinations of existing active ingredients and in new therapeutic areas, and are striving to further improve the establishment of our products that contain existing active ingredients in 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, implement, and analyse in cycles, including compliance in marketing and sales.

Intellectual Property Risk

Respect for the intellectual property rights of third parties, especially patent-related rights, is one of the basic principles of Krka Group operations. We therefore start the development of a new product by analysing the extent of third party 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 the applicable 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 and adopt relevant measures.

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 Assurance Risk

The Krka Group monitors quality assurance risks from the aspects of product quality risk, product safety risk, and risk to Group operations. We apply well-known methods to assess 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 various incoming materials, other purchases, and manufacturing processes to the manufacture of finished products, quality control,

warehousing, and distribution, and ensure that the pharmaceutical product manufacturing complies with the 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.

Product quality management 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 the identified risks, we plan audits and other activities as part of the supplier and contractor approval procedure.

We ensure the compliance of our production and control equipment and production rooms by qualifications and validations of equipment, production rooms, production environment, manufacturing processes, computer systems, cleaning procedures, calibrations, qualification of instruments, as well as maintenance procedures in order to prevent undesirable effects on the production process and product quality. Systematic approaches, monitoring, and documentation of all processes, procedures, and controls are crucial for product quality assurance. We therefore regularly examine, overhaul, upgrade, and improve the quality system, and ensure that any necessary changes are made correctly.

We are especially focused on ensuring data integrity in quality management and thus mitigate the risk of improper use of test results when determining the suitability of raw materials, packaging, processes, and finished products.

Continuous monitoring of new developments in legislation and timely implementation of new requirements reduces the risk of quality system inadequacy and consequently the risks related to maintaining manufacturing and marketing authorisations and GMP certificates.

Our employees undergo regular training in order to ensure compliance with standard production and product control procedures. We control production processes, intermediate products, bulk products, finished products, and the production environment to ensure product compliance and conformity with the requirements of local legislation and GMP principles in the EU and other countries where we market our products.

For non-compliant products (deviations, complaints), we apply control mechanisms, perform tests, investigate causes, and implement preventive and corrective actions in order to prevent any other non-compliance.

In connection with quality assurance, we assess the risks related to maintaining manufacturing authorisation and GMP certificates, and other management systems applied in Krka manufacturing and distribution units for every quality assurance element separately.

We regularly and systematically check the efficiency and effectiveness of the quality assurance system in the Krka Group by both external (agency and regulatory inspections, partner and certified body audits) and internal (internal self-control, internal audits, Quality Committee, quality indicators) verification. Where required, we introduce improvements and thus continuously upgrade the quality system and effectively manage risks related to product and service quality.

Vertical integration of quality allows us to effectively manage risks related to product and process quality. Quality is vertically integrated through know-how, experience, understanding of the entire product life cycle – from an active ingredient to the finished product – through planning, development, quality assurance throughout the manufacturing process, and through the organisational structure of the Company, which supports the integration of quality into all processes.

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 impact on the environment. We mitigate environment-related risks and provide for efficient actions in the event of emergency by using the best available techniques in manufacturing, warehousing, wastewater treatment, waste air treatment, waste management, preventive examinations and maintenance of equipment, employee training, and by employing our own fire brigade, which is qualified to intervene in cases of emergency, and emergency event drills.

In 2019, we recorded no extraordinary events with a negative impact on the environment.

Due to waste export limitations, the risk related to waste disposal remains high. We have reduced waste disposal risks by providing additional warehousing facilities for waste solvents and dividing our waste streams and cooperation among several contractual partners dealing with waste collection and removal.

Investment Project Risk

Investment project risks primarily include risks related to planning investments and their value, the purchase of equipment, works, schedules, quality, and changes to the original plan. We reduce these risks through document planning and production, and implementing the established system for selecting contractors and equipment suppliers, and 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 subsequent changes in a project.

Human Resource Risk

We pay special attention to key personnel who are crucial for attaining the objectives of the Krka Group and 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 at 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 allows us to win new employees required to meet our strategic, development, and sales plans. Due to the scarcity of suitably qualified workers in the labour market, we systematically educate and train our employees to acquire national vocational qualification certificates.

Financial Risk

The Krka Group manages financial risk centrally in the Finance division of the controlling company in Slovenia. Financial departments of subsidiaries and representative offices abroad carry out tasks related to financial risk management in accordance with the guidelines set out by the controlling company. Key financial risks include credit, market, liquidity, and insurance-related risks.

The main market risk of the Krka Group is foreign exchange risk. We regularly monitor interest rate risk; however, we are not taking any active measures now due to low interest rate exposure. The risk of changes in market values of raw materials and the risk of changes in market value of shares and bonds do not have a major impact on the net financial result of the Krka Group, which is why we monitor changes in exposure to these risks, but do not implement any risk management measures.

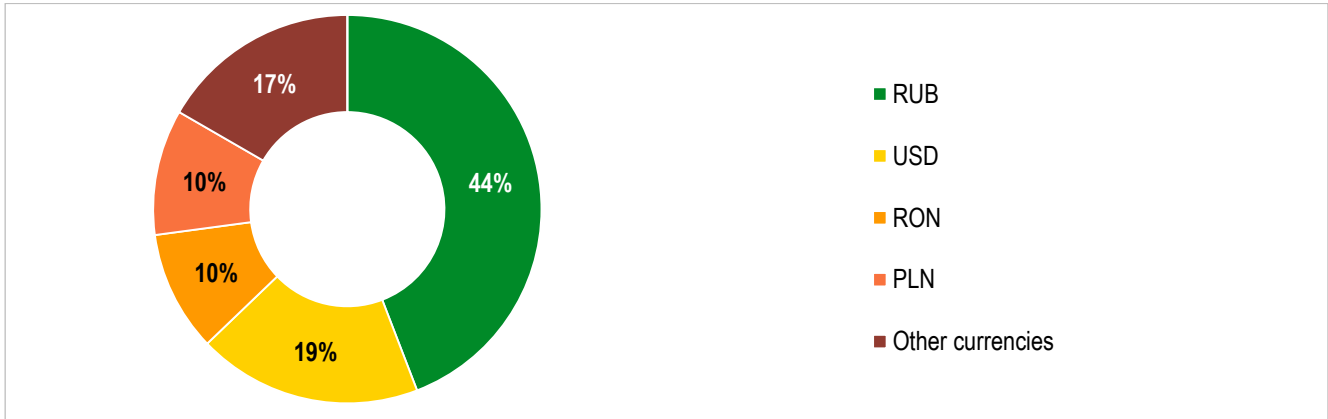
Foreign Exchange Risk

The Krka Group operates in diverse international environments and is exposed to foreign exchange risk in a few sales and purchase markets.

Currency exposure arises from the difference in the value of assets and liabilities in a particular currency in the financial position statement of the Group and from the differences between operating income and expenses generated in individual currencies.

Key accounting categories that compose a currency position are trade receivables, payables to suppliers, and subsidiary funding by the controlling company.

Currency Position Structure of the Krka Group



The Russian rouble accounts for the largest, 44%, share of the currency position of the Krka Group. The position in the rouble arises from trade receivables in the Russian market, and partly also from funding by the controlling company of manufacturing capacities in the Russian Federation.

We pay special attention to managing risk related to the Russian rouble because of the importance of the Russian sales market, level of currency exposure, and its volatility.

Exposure to the U.S. dollar accounts for 19% of total currency position of the Krka Group and is related primarily to acquisition of products and production materials. Purchases in the U.S. dollars have been increasing. Since 2019, we have been actively managing the exposure related to the U.S. dollar also by use of derivative financial instruments. Contrary to other currencies, a surplus of liabilities over assets has been accrued from exposure to the U.S. dollar, or in other words, the currency position is short.

The exposure to the Romanian leu accounts for 10% of the currency position and arises from trade receivables accrued due to lengthy payment terms in Romania. Exposure to the Polish zloty is the result of trade receivables and manufacturing facilities held by the Group in Poland and represents 10% of the currency position. Other currencies, among them the Croatian kuna, British pound, Swedish krona, Hungarian forint, Czech koruna, Ukrainian hryvnia, Serbian dinar, North Macedonian denar, and Kazakh tenge, constitute 17% of the currency position of the Krka Group.

2019 Currency Markets

Fluctuations of individual exchange rates to which the Krka Group is exposed were intense also in 2019.

The 2019 fluctuation of the Russian rouble was favourable for us. In the first quarter of 2019, its value rose and fully neutralised the drop recorded at the end of 2018. Later in the year, the rouble achieved stability and maintained the trend of gradual appreciation. From the beginning of the year to its end, the value of the rouble expressed in the euro climbed by 14%. The average 2019 value of the Russian rouble was 2.2% higher than in 2018.

The diminishing risk of economic sanctions against Russian legal entities and individuals, stimulating monetary policy of the major global central banks that ensured favourable circumstances on global currency and capital markets, and activities of the Russian monetary authorities combined with rapidly decreasing inflation in the Russian Federation had positive effect on the Russian rouble in 2019. In the upcoming periods, the Russian rouble will remain exposed to the geopolitical risk related to changing oil prices.

In 2019, the value of the Polish zloty remained stable ranging from 4.2 to 4.4 of the zloty against the euro. In 2019, the average value of the Polish zloty expressed in the euro was by 0.8% lower than in 2018. Favourable macroeconomic conditions in the country and similar monetary policies of the Polish central bank and the ECB provided stability for the Polish currency.

Stability of the Romanian leu decreased in 2019 due to macroeconomic discrepancies and political instability. From the beginning to the end of 2019, the value expressed in the euro, dropped by 2.5%.

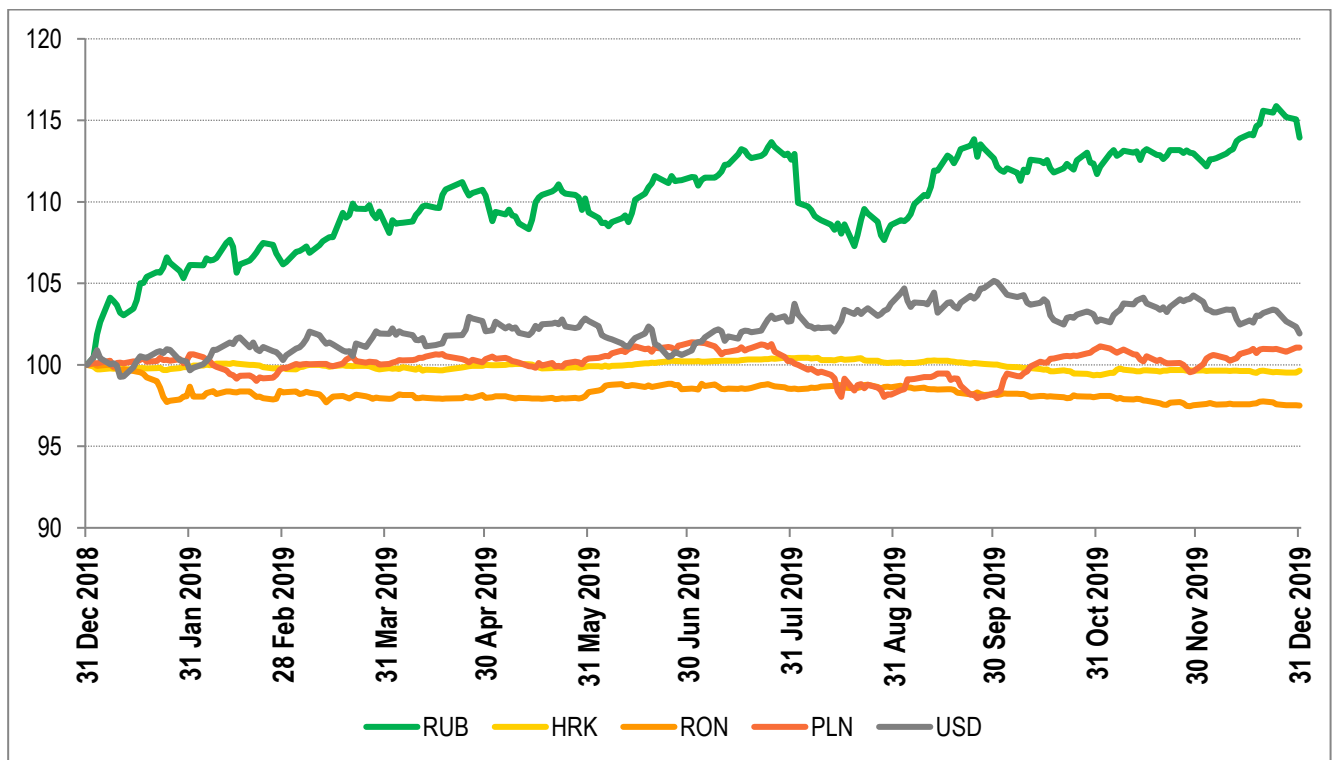
The Croatian kuna remained stable in 2019. High volatility of the British pound prevailed throughout 2019 owing to uncertainties associated with Brexit. In the second half of the year, its value increased and stabilised at the end of the year. The Krka Group holds long positions in the Croatian kuna and the British pound. The volatility of the two exchange rates, however, does not significantly affect the net financial result of the Group.

Volatility of the U.S. dollar in 2019 was the result of changes in monetary policy introduced by the U.S. Federal Reserve, which – contrary to expectations – cut the interest rate three times, and sluggish resolution of the U.S. – China trade dispute.

The value of the U.S. dollar expressed in the euro was up 1.9% from the beginning to the end of the year, and the average value of the dollar expressed in the euro surpassed the 2018 mark by 5.5%.

Last year, improved political stability and favourable macroeconomic trends in Ukraine led to increased value of the hryvnia that rose by 18% since the beginning of 2019. The average value of the hryvnia expressed in the euro was 11% higher in 2019 than the year before.

2019 Movement of Currencies Expressed in Euro (Index 31 Dec 2018 = 100)



Currency Risk Management Results

The Krka Group generally mitigates currency risks through 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.

Krka continued to pursue its policy of partial hedging against the rouble-related risk in 2019. Less than 50% of the exposure to the Russian rouble was hedged through forward contracts. Due to the appreciation of the Russian rouble and hedging costs, forward contracts generated a negative financial result.

Due to the appreciation of the Russian rouble from the beginning until the end of the year, we generated net foreign exchange surplus of €24.2 million from the long position in the Russian rouble.

In the fourth quarter, due to increasing exposure to the U.S. dollar, we insured one part of the exposure through forward contracts.

We generated net foreign exchange losses from other currencies totalling less than €1 million last year. 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 for the Krka Group. These currencies are generally subject to less marked fluctuations against the euro.

The currency exposure of the Krka Group to the Ukrainian hryvnia, Kazakh tenge, Serbian dinar, and some other currencies is less significant and also no financial instruments for mitigation of currency risk are available.

The currency risk management balance in 2019 was positive, totalling €11.4 million. In 2019, year-on-year net financial result of the Krka Group improved by €40.3 million and amounted to €10.2 million.

2020 Objectives

In 2020, we intend to retain partial hedging for the exposure to the Russian rouble and the U.S. dollar by derivative financial instruments, primarily forward contracts. We plan to step up our activities for neutralising the currency exposure through natural hedging.

	31 Dec 2018	31 Dec 2019	Lowest value	Highest value	Average value	Standard deviation	Coefficient of variation*
RUB	79.72	69.96	68.79	79.72	72.46	1.94	2.7%
HRK	7.41	7.44	7.38	7.46	7.42	0.02	0.3%
RON	4.66	4.78	4.66	4.79	4.75	0.02	0.5%
PLN	4.30	4.26	4.24	4.39	4.30	0.03	0.8%
CZK	25.72	25.41	25.41	25.92	25.67	0.13	0.5%
HUF	320.98	330.53	313.22	336.25	325.29	5.90	1.8%
UAH	32.04	26.35	25.77	32.52	29.21	1.72	6.0%
RSD	118.43	117.38	116.24	119.20	117.91	0.32	0.3%
USD	1.15	1.12	1.09	1.15	1.12	0.01	1.2%
GBP	0.89	0.85	0.83	0.93	0.88	0.02	2.4%

* Standard deviation to mean value ratio

Interest Rate Risk

The interest rate risk is a probability that due to changes in reference market interest rates the Krka Group might incur higher financing costs from non-current borrowings or report a decrease in income from non-current investments.

The interest rate risk associated with current borrowings and current investments is managed within the liquidity risk of the Group.

The Krka Group had no non-current borrowings in 2019. Non-current investments are not related to reference market interest rates. The Krka Group was therefore not exposed to the reference interest rate risk.

2020 Objectives

If any non-current borrowings exposing us to the interest rate risk are to be obtained, we will consider all options to mitigate any such risk with relevant financial instruments.

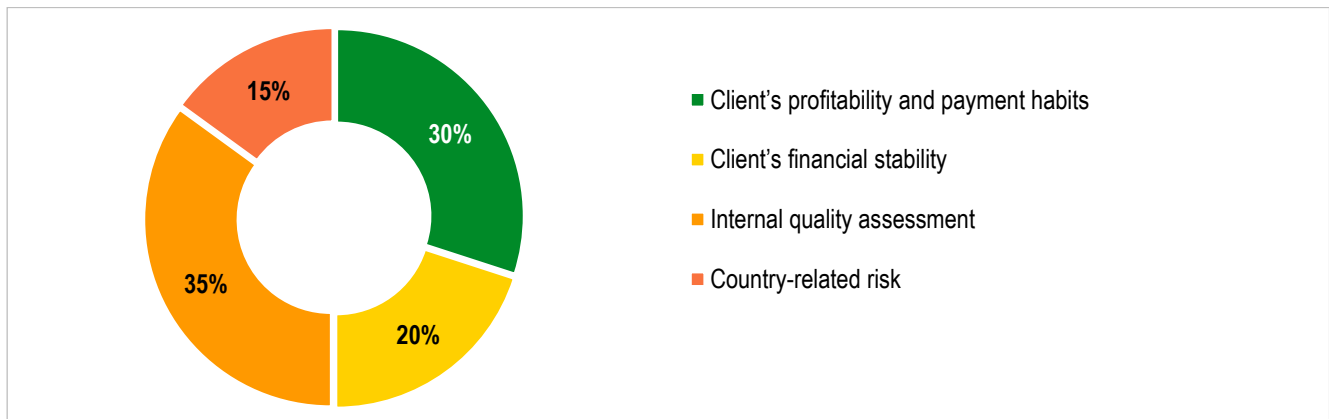
Credit Risk

The key credit risk of the Krka Group arises from trade receivables. This is the risk clients will fail to settle their liabilities by maturity dates.

Credit Risk Management Process

The Krka Group introduced a centralised credit control process in 2004. The process involves all clients with whom Krka's annual product sales exceed €100,000. At the end of 2019, trade receivables included in the credit control process accounted for more than 90% of total receivables, and involved more than 400 clients.

Credit control is a two-step process. The first step involves assessing the credit risk for each client, determining hedging instruments, and assigning relevant credit limits. We assess each new client and review the credit ratings of all clients twice a year. Each credit rating includes many different financial and non-financial indicators, which fall into four categories; each has a different weight in the final assessment.



Each client is assigned a customised credit limit according to their credit rating 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 engaged in sales employ controls of available limits and overdue receivables. Control is exercised for each shipment of Krka products to clients. A shipment is automatically blocked if a client is in arrears or if receivables together with the new shipment exceed the approved credit limit. Employees engaged in sales must start a payment collection procedure or arrange hedging for the outstanding settlements.

The process of credit control and authorisations for granting credit limits to clients are determined by company rules. Credit control also avails of a 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.

The credit control process is based on uniform rules that apply to all clients of the Krka Group. Due to specifics of individual sales markets, additional local controls have been introduced in individual subsidiaries. The credit control processes are regularly adjusted to changes in the sales markets.

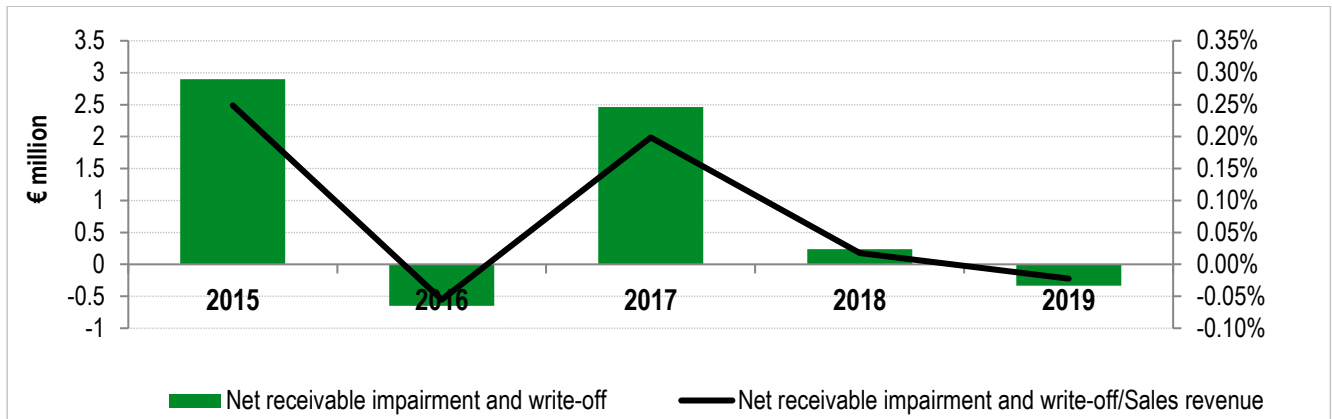
Credit Risk Management Results

Credit control guarantees permanent control over the quality of the trade receivables portfolio. The result of the credit control process is a low share of receivable write-offs and impairments in total Krka 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.

At the end of 2019, total value of trade receivables in the euro decreased by 1% compared to the value at the beginning of the year, despite 12% sales growth in 2019. Turnover of trade receivables improved in 2019.

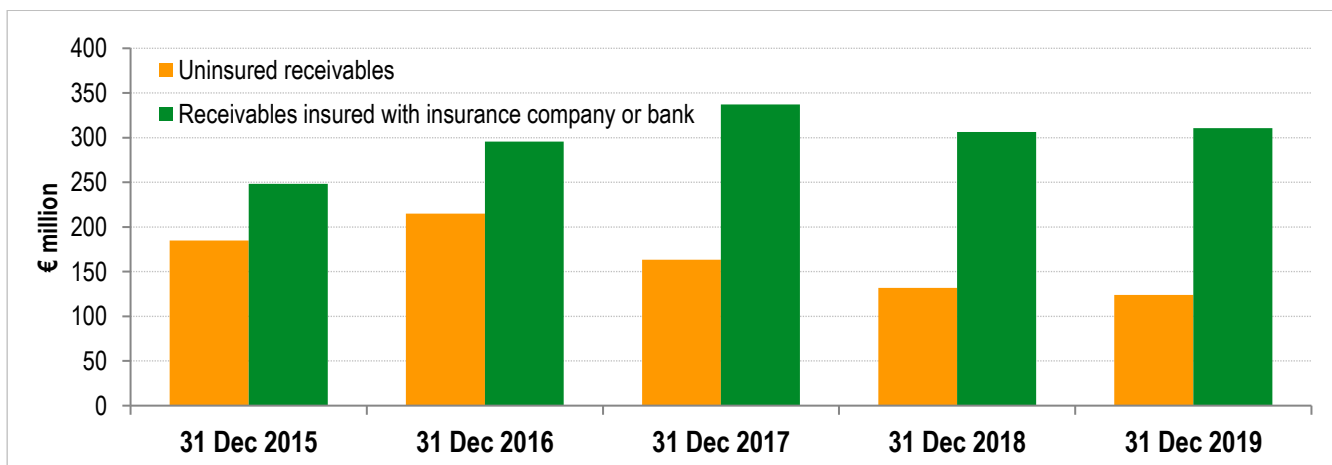
The credit risk management balance was favourable in 2019 as well. Net write-offs and impairments of receivables amounted to 0.02% of the Krka Group annual sales. The amount of the newly formed receivable allowance was lower than the amount of the reversed receivable allowance, therefore the impact of net impairments and write-offs on the final result of the Krka Group in 2019 was positive.



Trade Receivable Insurance

Since 2009, the Krka Group has insured a part of its trade receivables with a credit insurance company. We take out insurance policies for trade receivables due by clients from countries with increased credit risk ratings. Bank guarantees and letters of credit are rarely used to secure payments.

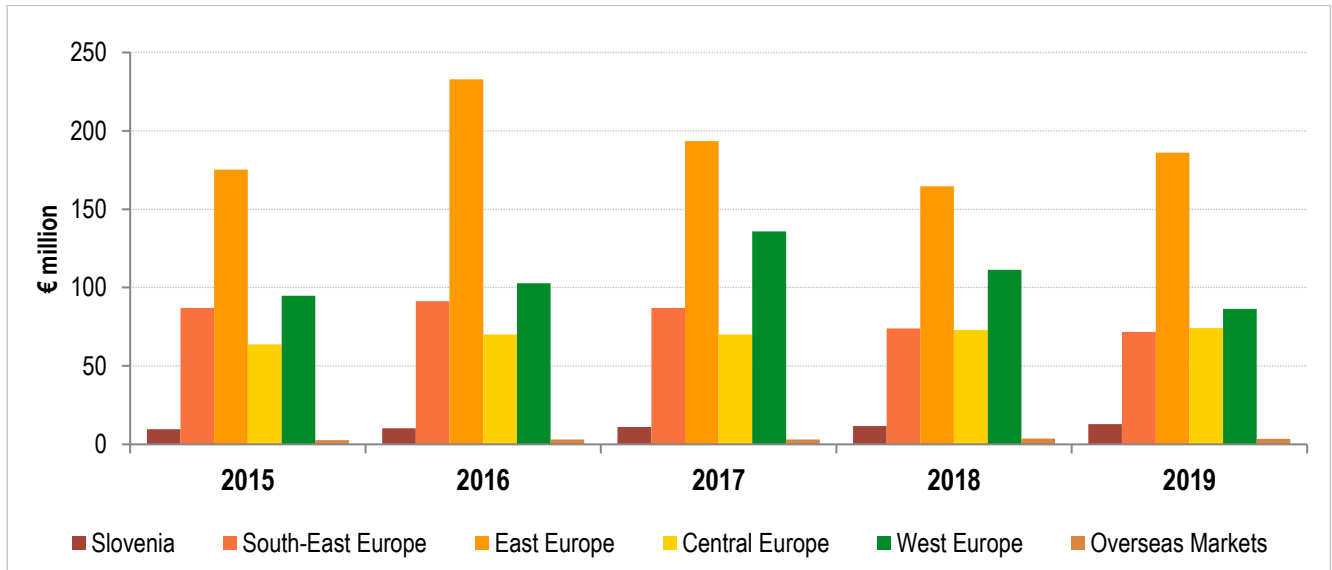
At the end of 2019, more than 70% of trade receivables were insured with a credit insurance company or by financial instruments.



Trade Receivables by Region

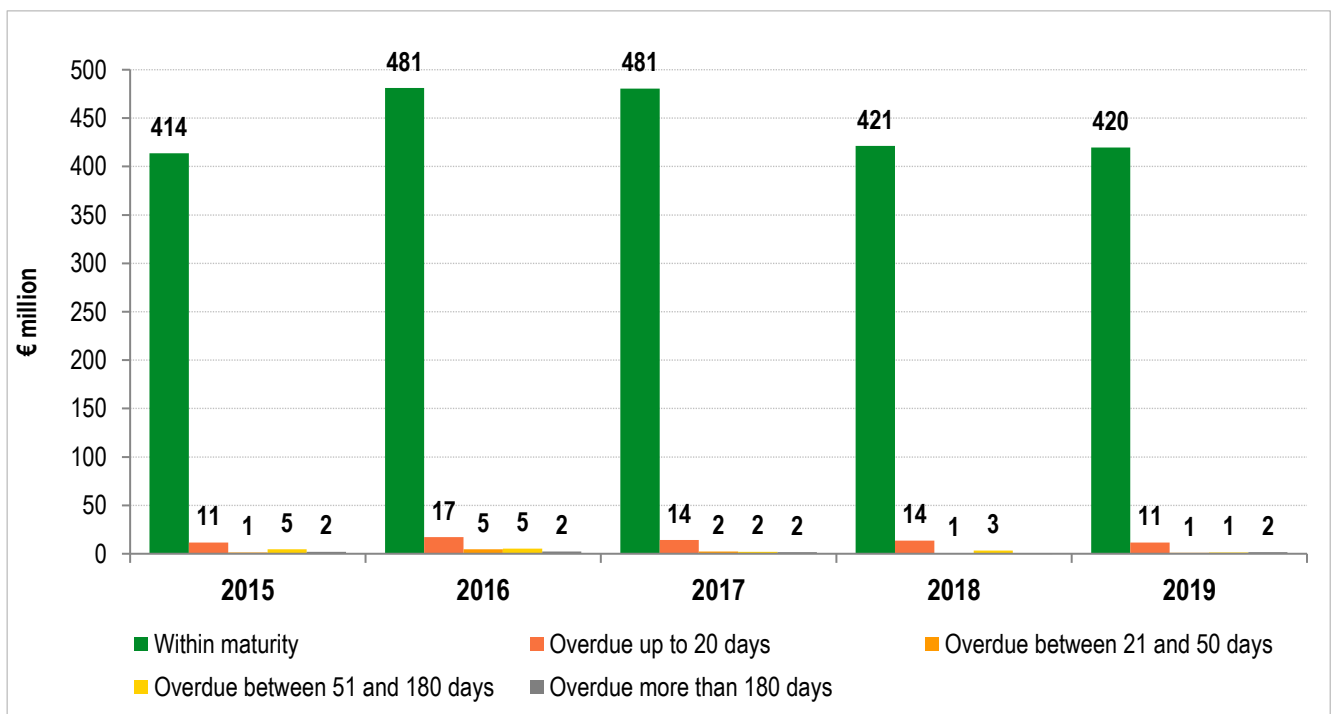
The structure of receivables by sales regions has been solid for some years now, and conforms to the structure of sales and payment terms in individual countries.

Trade Receivables by Region



Maturity Structure of Trade Receivables

The maturity structure of receivables remained stable. The percent of overdue receivables compared to total trade receivables remained low also at the end of 2019.



2020 Objectives

We plan to implement standard credit risk management activities also in 2020. The insurance contract for our trade receivables expires in the middle of 2020. Once renewed, we plan to further optimise the conditions for insurance of trade receivables. As before, we plan to monitor even more closely clients from markets with a less favourable macroeconomic environments and markets where we have identified increased risks in the wholesale distribution of medicines. Where individual client exposure above the acceptable levels is identified, we will introduce individual measures to gradually reduce exposure.

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

Liquidity Risk

Business partners respect Krka for its financial discipline, low indebtedness, and stable cash flows. In 2019, we did not use any current credit lines, and we deposited a part of cash surplus with banks during the year. We settled all financial liabilities regularly. The exposure of the Krka Group to liquidity risk in 2019 was low.

The controlling company manages liquidity risk centrally for the entire Group. Subsidiaries are financed by the controlling company through intra-group loans. Any potential excess cash assets are deposited with the controlling company.

At the beginning of 2019, we moved most bank accounts opened at Citibank (except the USD and GBP accounts) from London to Amsterdam due to Brexit. By the end of 2019, we had combined cash pooling for nine subsidiaries to a new account and in this way improved cash management, retained control over liquidity of the Group subsidiaries, and provided for better cash transaction security.

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

Krka Group Liquidity Ratios

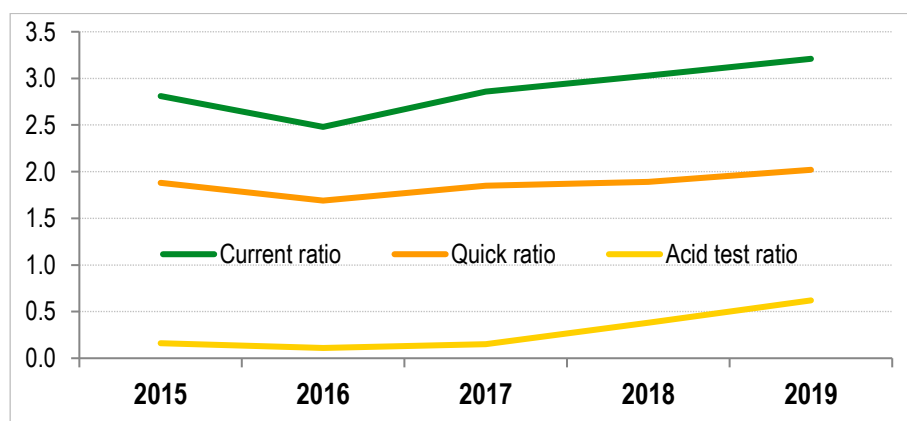
Liquidity ratios	2019	2018	2017	2016	2015	5-year average
Current ratio	3.21	3.03	2.86	2.48	2.81	2.88
Quick ratio	2.02	1.89	1.85	1.69	1.88	1.87
Acid test ratio	0.62	0.38	0.15	0.11	0.16	0.28
Receivables turnover ratio	3.21	2.68	2.36	2.33	2.38	2.59

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 Krka Group Liquidity Ratios



Property, Liability and Business Interruption Insurance

The Krka Group holds insurance policies with domestic and foreign insurance companies to insure property, liabilities, and financial losses in the event of a business interruption and cyber-attacks. 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 local car insurance policies. The entire Krka Group is insured in compliance with uniform principles which did not change in 2019. The competitiveness of individual insurance companies is reviewed every year. When selecting insurance companies, we consider the quality of coverage, premiums, references, and national legal requirements. In 2019, we achieved our primary aim for insurance renewal through calls to tender and negotiations, which is to keep insurance premiums below sales growth rates.

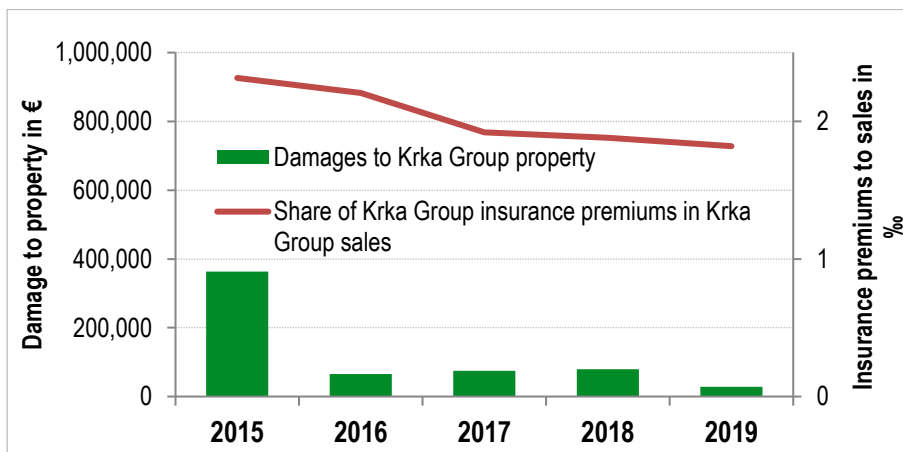
Krka introduces gradual improvements every year, and at the same time assumes part of the risk, either through excess, or by cancelling low-risk insurances.

In 2019, Krka for the first time obtained insurance against cyber risks and is one of the first large companies in Slovenia to have such insurance. This is one of the measures to bolster cyber security, which provides for easier mitigation of that kind of exposure.

Krka has been investing systematically in damage prevention. Our buildings are designed so that their hazard exposure is kept to a minimum. They are equipped with active fire protection systems, for example fire and smoke alarms, sprinkler systems, fire flaps, and safety lighting. Preventive inspections and fire drills 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 2019 damage to property amounted to less than 0.1% of the Group's total property value, and all insurance claims were solved promptly.

Share of Insurance Premiums in Sales



Note: This chart does not include car and personal insurances.

Investor and Share Information

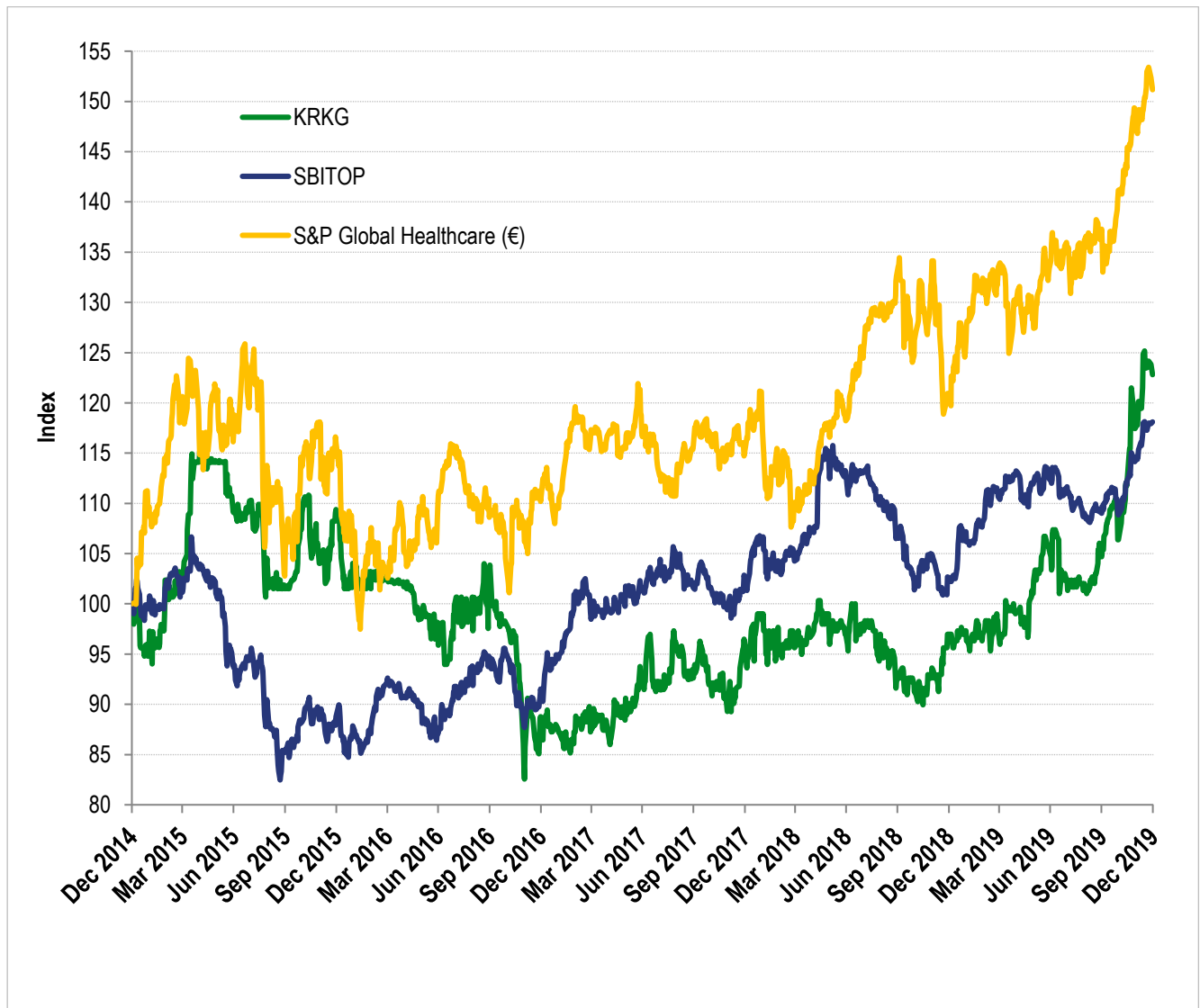
Shareholder return

Krka Share Price

€	2019	2018	2017	2016	2015
Year high	74.60	59.80	58.00	64.50	68.65
Year low	56.80	53.60	50.75	49.21	56.03
31 December	73.20	57.80	57.50	52.90	65.20
Annual change (%)	27	0.5	9	-19	9

In 2019, the Krka share price rose by 26.6%. In the same period, the value of the blue-chip index of the Ljubljana Stock Exchange (SBITOP) advanced by 15.2%.

Krka Share Price Performance Compared to Selected Shares Indices (Beginning of 2015 = 100)



Dividend Policy

The Annual General Meeting decides on the proposed dividend amount. In 2019, we allocated 58.2% of the consolidated net profit attributable to equity holders of the controlling company generated in 2018 for the payout of dividends. Gross dividend per share increased by 10.3%. When determining the net profit share for dividend payout each year, the Group's financial requirements for investments and acquisitions are considered, and at least 50% of the net profit of the controlling company's equity holders is allocated to dividends.

	2019	2018	2017	2016	2015
Earnings per share ¹ (€)	7.73	5.46	4.74	3.35	4.86
Gross dividend per share ² (€)	3.20	2.90	2.75	2.65	2.50
Dividend payout ratio ³ (%)	58.2	60.8	81.7	54.3	49.0
Dividend yield ⁴ (%)	4.4	5.0	4.8	5.0	3.8

¹ Net profit of the year attributable to equity holders of the controlling company/Average number of shares issued in the period, excluding treasury shares

² Dividends paid for the previous period in accordance with the AGM resolution

³ Total dividends paid/Net profit attributable to equity holders of the controlling company

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.

2015–2019 Krka Share Trading



References: The Ljubljana Stock Exchange (LJSE) and the Warsaw Stock Exchange (WSE)

Krka shares are the most traded security on the Ljubljana Stock Exchange. In 2019, the average daily trading volume of Krka shares on the Ljubljana Stock Exchange reached €0.5 million.

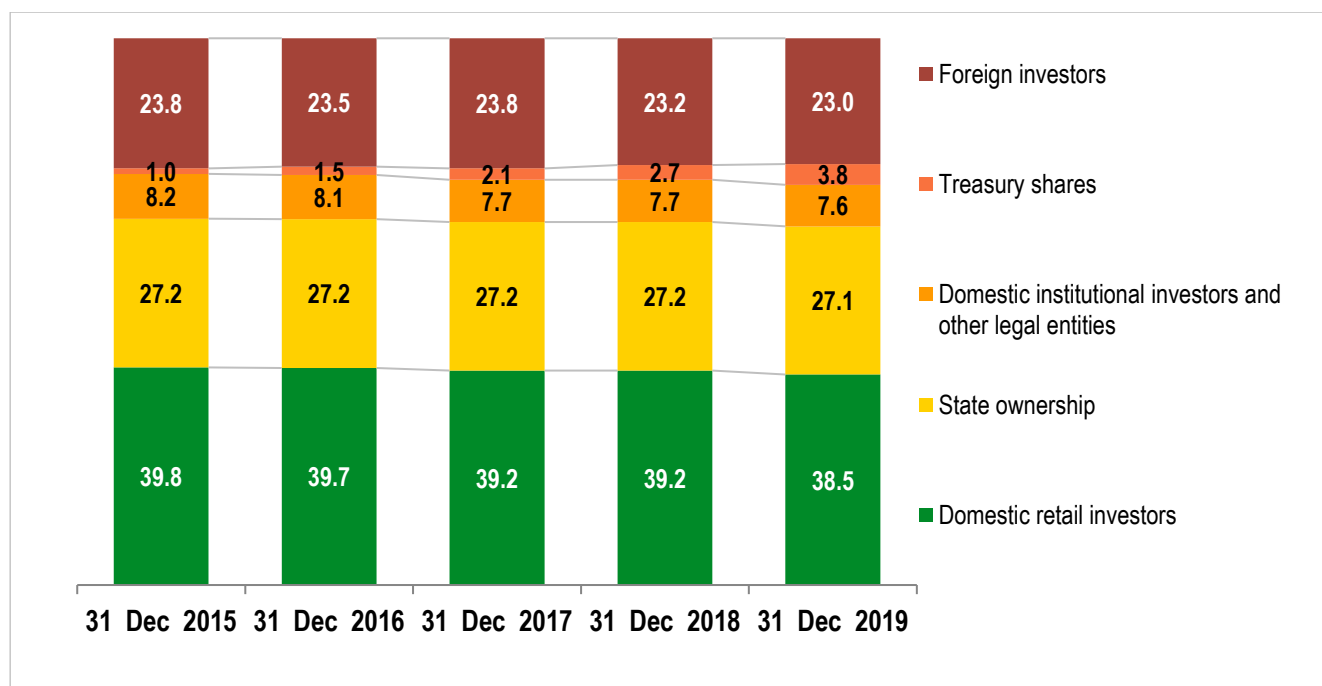
Ten Largest Shareholders as at 31 December 2019

	Shareholder	Number of shares	Proportion to total shares issued (%)
1	Kapitalska družba, d. d.	3,493,030	10.65
2	Slovenski državni holding, d. d. (SDH)	2,949,876	9.00
3	Republic of Slovenia	2,366,016	7.21
4	OTP banka Hrvatska dioničko društvo*	1,539,995	4.70
5	Addiko Bank d. d. Pension Fund 1	1,196,138	3.65
6	Clearstream Banking S.A.	916,159	2.79
7	Luka Koper, d. d.	433,970	1.32
8	Zavarovalnica Triglav, d. d.	388,300	1.18
9	Addiko Bank d. d. Pension Fund 2	351,594	1.07
10	SMALLCAP World Fund Inc.	335,262	1.02
		13,970,340	42.59

* The shares are on custody accounts with the above banks and are owned by their clients.

At the end of 2019, Krka had 48,631 shareholders, or a good 3% less than at the end of 2018.

Shareholder Structure (%)

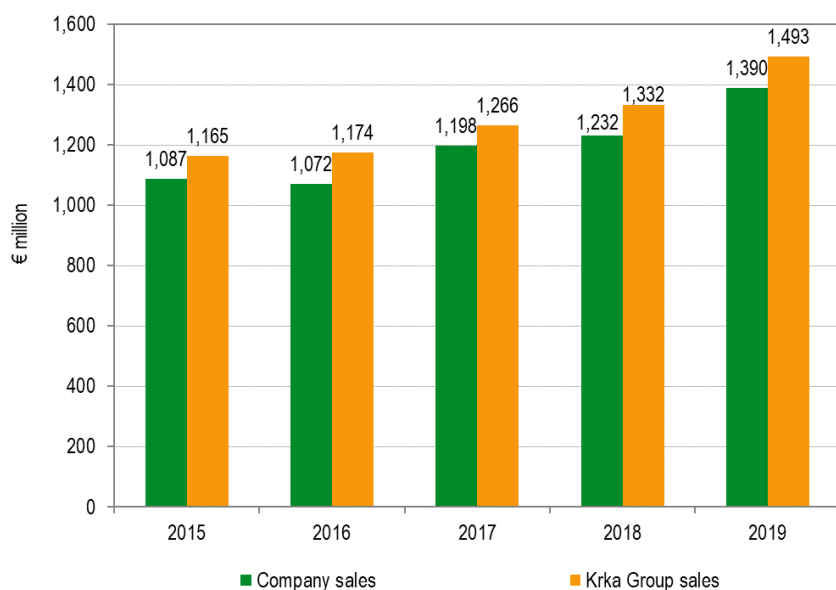


Holdings of domestic institutional investors and other legal entities and foreign investors slightly diminished while the treasury shares advanced by one percentage point.

In 2019, the company acquired 340,805 treasury shares on the regulated market, valued at €21,698,411.77 and as at 31 December 2019 held 1,234,252 treasury shares.

Business Performance

Operating Income



In 2019, the Krka Group generated sales of €1,493.4 million, of which revenue from contracts with customers on sales of products and services amounted to €1,489.1 million. Revenue from contracts with customers on sales of materials and other sales revenue constituted the difference. Sales grew by €161.6 million and were up 12% on 2018. Over the past five years, average annual sales growth reached 4.5% in terms of volume and 4.6% in terms of value.

Other operating income amounted to €13.7 million and also included the reversal of provisions for lawsuits totalling €0.7 million.

In 2019, Company sales amounted to €1,390.2 million, of which revenue from contracts with customers on sales of products and services reached €1,195.7 million. Revenue from contracts with customers on sales of materials accounted for €188.2 million and other revenue from sales totalled €6.4 million. Compared to 2018, sales grew by €158.5 million or 13%.

Other operating income totalled €3.8 million and also included the reversal of provisions for lawsuits totalling €0.6 million.

Operating Expenses

Krka Group operating expenses amounted to €1,232.9 million, up €121.0 million or 11% on 2018. The Company incurred operating expenses totalling €1,130.2 million, up 9% on 2018.

Krka Group operating expenses comprised costs of goods sold totalling €646.0 million, selling and distribution expenses of €350.3 million, R&D expenses of €152.4 million, and general and administrative expenses totalling €84.1 million. Operating expenses accounted for 83% of sales and, over the past five years, ranged from 83% in 2018 and 2019 to 90% in 2016.

Costs of goods sold, which rose by 15% compared to 2018, represented the largest item in the Krka Group operating expense structure. Expressed as a proportion of the value of sales, they accounted for 43.3% in 2019 and 42.1% in 2018. The increase in production and additions to the product portfolio had a major impact on costs of products sold. Compared to 2018, selling and distribution expenses increased by 2% and accounted for 23.5% of total sales, 2.4 percentage points less than in 2018. R&D expenses amounted to 10.2% of total sales, up 0.4 percentage points on 2018 and 17% year-on-year. General and administrative expenses amounted to 5.6% of total sales, up 12% on 2018, while expressed as a proportion of sales they dropped by 0.1 percentage points.

The Company's operating expenses included costs of goods sold totalling €597.4 million, selling and distribution expenses of €308.1 million, R&D costs of €155.5 million, and general and administrative expenses totalling €69.3 million.

Costs of goods sold, which rose by 12% compared to 2018, represented the largest item in the Company operating expense structure. They accounted for 43.0% of total sales, a 0.2 percentage point decrease on 2018. Selling and distribution expenses were up 1% on 2018 and accounted for 22.2% of total sales, a drop of 2.6 percentage points on 2018. R&D expenses accounted for 11.2% of total sales, up 0.2 percentage points on 2018 and up 15% year-on-year. General and administrative expenses accounted for 5.0% of sales, up 9% on 2018, decreasing as a proportion of the value of sales by 0.1 percentage points.

Financial Income and Expenses

€ thousand	Krka Group					Company				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
Financial income	24,987	5,935	24,041	65,679	25,561	34,410	17,382	24,908	78,225	36,735
Financial expenses	-14,814	-36,048	-46,608	-71,816	-44,283	-14,751	-33,891	-46,599	-72,733	-43,524
Net financial result	10,173	-30,113	-22,567	-6,137	-18,722	19,659	-16,509	-21,691	5,492	-6,789

In 2019, the net financial result of the Krka Group amounted to €10.2 million, and net financial result of the Company totalled €19.7 million.

The Krka Group operates in diverse international environments and is exposed to foreign exchange risks in certain sales and purchase markets.

Currency exposure arises from the difference in the value of assets and liabilities in a particular currency in the financial position statement of the Group and from the differences between operating income and expenses generated in individual currencies. Key accounting categories having a currency position are trade receivables, payables to suppliers, and subsidiary funding by the controlling company.

We generally mitigate the Krka Group's 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 hedge the risk. Generally, forward contracts are used for hedging.

In 2019, Krka continued its policy of partial hedging against rouble-related risk. Less than 50% of the risk exposure to Russian roubles were hedged through forward contracts.

As the value of the Russian rouble strengthened over the course of the year, we generated net foreign exchange gains from the long position in the Russian rouble totalling €24.2 million.

In the fourth quarter, due to increasing exposure to the U.S. dollar, we hedged one part of the exposure through forward contracts.

Accrued net foreign exchange losses from other currencies stood at less than €1 million in 2019. Exposure to other currencies was not hedged. A multi-year analysis of exchange rate fluctuations and hedging costs for the Romanian leu, Polish zloty, Czech koruna, Hungarian forint, and Croatian kuna has shown that hedging for these currencies would not be effective in the case of the Krka Group. These currencies are generally subject to less marked fluctuations against the euro.

The Krka Group's currency exposure to the Ukrainian hryvnia, Kazakh tenge, Serbian dinar, and certain other currencies is less significant, and no hedging instruments are available.

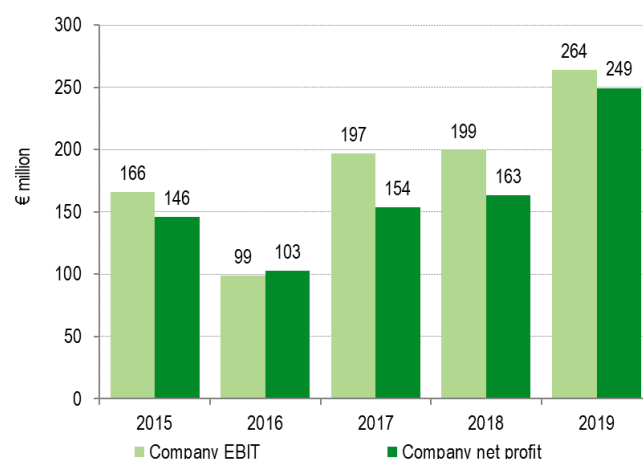
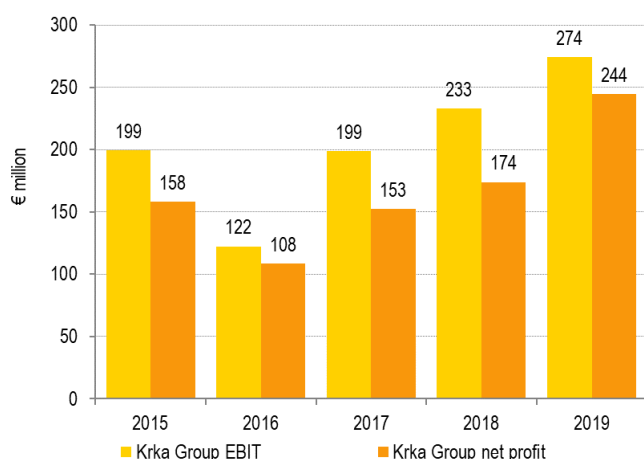
The currency risk management result of the Krka Group was positive and totalled €11.4 million in 2019. Compared to 2018, the Krka Group's net financial result was up €40.3 million in 2019, amounting to €10.2 million.

The Krka Group's financial income comprised interest income of €1.3 million and income from dividends and other profit shares totalling €0.4 million. Financial expenses consisted of interest expenses on borrowings of €0.5 million, derivative financial instrument expenses of €11.9 million, and other financial expenses of €2.4 million.

The Company's financial income comprised net foreign exchange gains totalling €23.6 million, interest income of €1.2 million, and income from dividends and other profit shares worth €9.6 million. Financial expenses comprised interest expenses on borrowings of €0.6 million, derivative financial instrument expenses of €11.9 million, and other financial expenses totalling €2.2 million. The Company's currency risk management yielded a profit of €11.7 million in 2019.

Operating results

Operating Profit and Profit for the Year



The Krka Group's operating profit (EBIT) totalled €274.2 million, up €41.5 million or 18% on 2018. The increase is attributable to relatively higher sales growth in comparison to expenses. The Krka Group's operating profit increased by amortisation and depreciation (EBITDA) totalled €385.4 million, which was a €42.2 million or 12% climb.

The Company's operating profit (EBIT) amounted to €263.9 million, while its operating profit increased by amortisation and depreciation (EBITDA) reached €345.9 million.

In 2019, the Krka Group's pre-tax profit grew by €81.8 million or 40% and totalled €284.4 million. The Krka Group's effective tax rate was 14.1%. The Company's pre-tax profit amounted to €283.5 million.

The Krka Group recorded net profit of €244.3 million, up €70.3 million or 40% on 2018. The Company's net profit reached €249.4 million.

Assets

€ thousand	Krka Group					Company				
	2019	Share (%)	2018	Share (%)	Index 2019/18	2019	Share (%)	2018	Share (%)	Index 2019/18
Non-current assets	1,041,833	47.7	1,010,811	50.9	103	1,069,616	50.2	1,038,616	54.2	103
Property, plant and equipment (PP&E)	862,848	39.5	839,448	42.3	103	613,210	28.8	604,923	31.6	101
Intangible assets	109,082	5.0	110,329	5.6	99	28,410	1.3	28,842	1.5	99
Investments and loans	20,589	0.9	20,199	1.0	102	375,238	17.6	354,128	18.5	106
Other	49,314	2.3	40,835	2.0	121	52,758	2.5	50,723	2.6	104
Current assets	1,142,785	52.3	974,258	49.1	117	1,060,344	49.8	877,449	45.8	121
Inventories	421,578	19.3	365,149	18.4	115	367,007	17.2	317,499	16.6	116
Trade receivables	434,695	19.9	438,291	22.1	99	443,840	20.9	390,948	20.4	114
Other	286,512	13.1	170,818	8.6	168	249,497	11.7	169,002	8.8	148
Total assets	2,184,618	100.0	1,985,069	100.0	110	2,129,960	100.0	1,916,065	100.0	111

At the end of 2019, the Krka Group's assets were valued at €2,184.6 million, up €199.5 million or 10% on year-end 2018. The ratio of non-current to current assets in the overall asset structure was different to that recorded at year-end 2018, as the share of non-current assets dropped by 3.2 percentage points and accounted for 47.7%.

The Company's assets were valued at €2,130.0 million, up €213.9 million or 11% on year-end 2018. The ratio of non-current to current assets in the overall asset structure was different to that recorded at year-end 2018, as non-current assets dropped 4.0 percentage points, accounting for 50.2%.

The Krka Group's non-current assets were valued at €1,041.8 million, up €31.0 million or 3% on year-end 2018. The most important item in the asset structure of the Krka Group was property, plant and equipment (PP&E). It was valued at €862.8 million and accounted for 39% of total Group assets (of which the Company's PP&E accounted for €613.2 million or 71% of the Krka Group's PP&E). Intangible assets were worth €109.1 million and accounted for 5% of total assets (of which the Company's assets accounted for €28.4 million or 26% of total Krka Group intangible assets). The Krka Group's non-current loans totalled €10.9 million or 0.5% of total Krka Group assets.

The Krka Group's current assets were valued at €1,142.8 million, up €168.5 million or 17% on year-end 2018. Trade receivables due from customers outside the Krka Group totalled €434.7 million and inventories €421.6 million. Trade receivables declined by €3.6 million or 1%. In order to ensure sufficient quantities of various products for over 70 markets, inventories saw a rise of €56.4 million or 15%. The Krka Group's current loans totalled €31.8 million or 1% of total Krka Group assets. They comprised bank deposits falling due in 90 days or more, totalling €30.0 million. Cash and cash equivalents were valued at €218.7 million, up €100.9 million or 86% on year-end 2018, accounting for 10% of total Krka Group assets.

The Company's non-current assets were valued at €1,069.6 million, up €31.0 million or 3% on year-end 2018. The most important item worth €613.2 million or 29% of total Company assets was PP&E. Investments in subsidiaries amounted to €329.3 million or 15% of Company assets, while trade receivables due from subsidiaries totalled €39.5 million or 2% of Company assets. Intangible assets amounted to €28.4 million and accounted for 1% of total assets. The Company's non-current loans totalled €36.2 million or 2% of total Company assets.

The Company's current assets were valued at €1,060.4 million, up €182.9 million or 21% on year-end 2018. Trade receivables totalled € 443.8 million or 21% of Company assets (of which trade receivables due from customers outside the Krka Group totalled €186.4 million), and inventories amounted to €367.0 million or 17% of total Company assets. Trade receivables were up 14% and inventories up 16%. The Company's current loans totalled €35.6 million or 2% of total Company assets. Cash and cash equivalents were valued at €195.2 million, up €96.8 million or 98% on year-end 2018, accounting for 9% of total Krka Company assets.

Equity and Liabilities

€ thousand	Krka Group					Company				
	2019	Share (%)	2018	Share (%)	Index 2019/18	2019	Share (%)	2018	Share (%)	Index 2019/18
Equity	1,667,516	76.3	1,540,270	77.6	108	1,664,178	78.1	1,552,300	81.0	107
Non-current liabilities	160,905	7.4	123,058	6.2	131	119,789	5.6	89,912	4.7	133
Current liabilities	356,197	16.3	321,741	16.2	111	345,993	16.3	273,853	14.3	126
Total equity and liabilities	2,184,618	100.0	1,985,069	100.0	110	2,129,960	100.0	1,916,065	100.0	111

As at 31 December 2019, Krka Group equity was up €127.2 million or 8% on year-end 2018. The increase was attributable to the Krka Group's net profit totalling €244.3 million, other comprehensive income net of tax totalling €4.1 million, and acquisition of non-controlling interests valued at €2.5 million. Equity was decreased owing to the dividend payout totalling €101.7 million and another repurchase of treasury shares totalling €21.7 million.

The Krka Group's provisions totalled €120.4 million (of which post-employment and other non-current employee benefits accounted for €115.9 million, provisions for lawsuits €2.1 million, and other provisions €2.4 million). In comparison to the end of 2018, they rose €19.4 million or 19%, primarily due to an increase in provisions for post-employment and other non-current

employee benefits totalling €21.1 million. Other provisions saw a €0.4 million rise, while provisions for lawsuits dropped by €2.1 million.

Among the Krka Group's current liabilities, trade payables decreased by €8.2 million (of which payables to suppliers abroad by €8.1 million and payables to domestic suppliers by €0.2 million). Other current liabilities grew by €11.8 million (of which payables to employees by €11.4 million). Current liabilities under contracts with customers rose by €13.1 million, of which bonuses and volume discounts by €8.3 million, right of return by 2.9 million, and payables from advances by €1.8 million.

As at 31 December 2019, Company equity was up €111.9 million or 7% on year-end 2018. The increase was attributable to the Company's net profit totalling €249.4 million, while the decrease was a result of dividend payouts totalling €101.7 million, a repurchase of treasury shares totalling €21.7 million, and other comprehensive income net of tax totalling 14.2 million.

The Company's provisions totalled €105.7 million (of which post-employment and other non-current employee benefits accounted for €103.6 million and provisions for lawsuits €2.1 million). Provisions rose by 17.8 million or 20% compared to year-end 2018 due to an increase in provisions for post-employment and other non-current employee benefits totalling €19.8 million and a decrease of €2.0 million net in provisions for potential lawsuits over intellectual property rights.

Of the Company's current liability items, trade payables rose by €12.1 million, while other current liabilities saw an increase of €14.5 million. Current liabilities from contracts with customers dropped by €2.7 million. At the end of 2019, the Company's current borrowings from subsidiaries totalled €73.0 million.

Cash Flow Statement

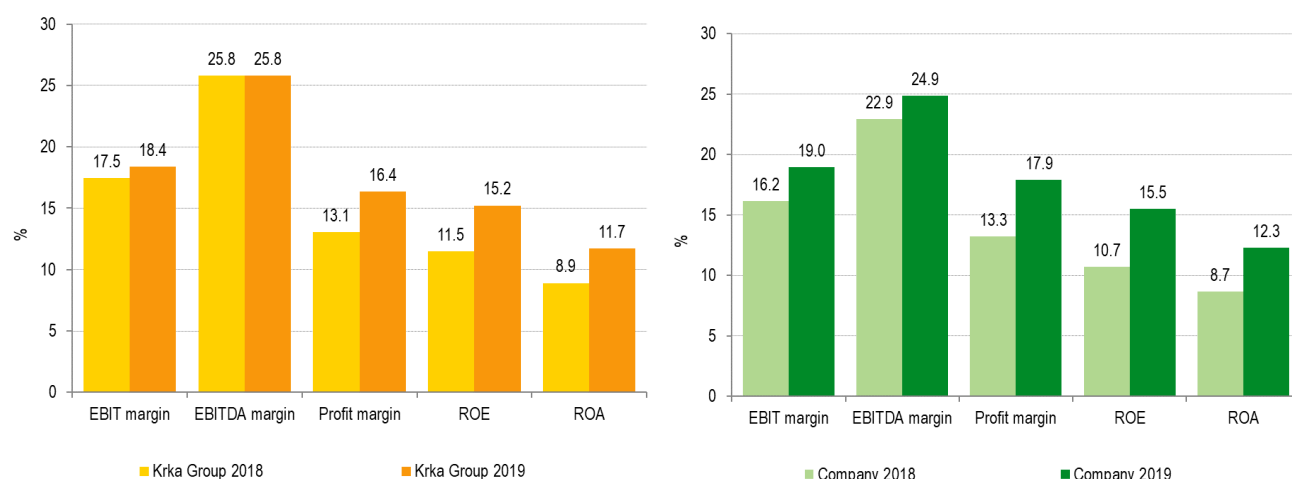
€ thousand	Krka Group		Company	
	2019	2018	2019	2018
Net cash flows from operating activities	349,523	289,952	276,996	245,326
Net cash flows used in investing activities	-124,807	-114,356	-88,540	-88,237
Net cash flows used in financing activities	-124,274	-102,613	-92,262	-91,801
Net change in cash and cash equivalents	100,442	72,983	96,194	65,288

Net change in cash and cash equivalents (exclusive of exchange rate fluctuations) of the Krka Group totalled €100.4 million in 2019, since the positive cash flow from operating activities exceeded the negative cash flows from investing and financing activities.

The Krka Group generated profit from operations before changes in net current assets of €422.0 million. Changes in current assets that increased cash flows included changes in trade payables, provisions, and other current liabilities, while changes in trade receivables, inventories, and deferred revenue had a negative impact on profit.

Negative cash flows from investing activities totalling €124.8 million were primarily accrued due to the acquisition of PP&E, payments in connection with current investments and loans, payments in connection with derivative financial instruments, acquisition of intangible assets, and non-current loans. Negative cash flows from financing activities of €124.3 million primarily resulted from payouts of dividends and other profit shares totalling €101.7 million, and repurchased treasury shares in the amount of €21.7 million.

Performance Ratios



All 2019 performance ratios of the Company and the Krka Group improved on those recorded for 2018 and are among the best in the past five years.

Operating Figures of the Krka Group and the Company for the Past Five Years

€ thousand	Krka Group					Company				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
Revenue	1,493,409	1,331,858	1,266,392	1,174,424	1,164,607	1,390,248	1,231,784	1,197,756	1,071,709	1,086,526
EBIT ¹	274,195	232,686	198,741	122,435	199,434	263,852	199,305	196,953	98,920	166,162
– Profit margin	18.4%	17.5%	15.7%	10.4%	17.1%	19.0%	16.2%	16.4%	9.2%	15.3%
EBITDA ²	385,437	343,280	306,638	228,238	306,742	345,929	282,493	278,627	180,685	248,998
– Profit margin	25.8%	25.8%	24.2%	19.4%	26.3%	24.9%	22.9%	23.3%	16.9%	22.9%
Net profit	244,272	174,008	152,576	108,456	158,185	249,411	163,329	153,730	102,872	146,262
– Profit margin	16.4%	13.1%	12.0%	9.2%	13.6%	17.9%	13.3%	12.8%	9.6%	13.5%
Assets	2,184,618	1,985,069	1,919,131	1,911,518	1,809,204	2,129,960	1,916,065	1,837,482	1,837,703	1,761,712
ROA ³	11.7%	8.9%	8.0%	5.8%	8.8%	12.3%	8.7%	8.4%	5.7%	8.3%
Equity	1,667,516	1,540,270	1,487,699	1,444,444	1,405,984	1,664,178	1,552,300	1,493,325	1,440,448	1,433,211
ROE ⁴	15.2%	11.5%	10.4%	7.6%	11.5%	15.5%	10.7%	10.5%	7.2%	10.4%

¹ The difference between operating income and expenses

² The difference between operating income and expense plus accumulated depreciation and amortization

³ Net profit / Average total asset balance in the year

⁴ Net profit / Average shareholders' equity in the year

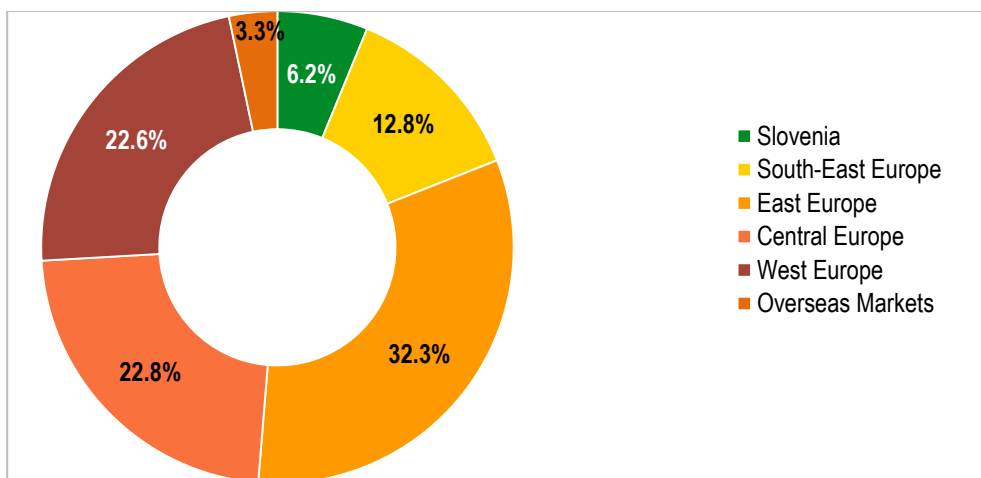
Marketing and Sales

In 2019 year-on-year, the Krka Group generated €1,493.4 million from sales of products and services, a 12% rise. Of that revenue from contracts with customers on sales of products and services amounted to €1,489.1 million, while other revenue from contracts with customers on sales of material and other sales revenue constituted the difference.

Sales by Region

Region East Europe recorded the highest sales, €481.2 million, or 32.3% of total Krka Group sales. Region Central Europe recorded the second highest sales, €339.6 million, or 22.8% of total Krka Group sales. Region West Europe recorded the third highest sales, €336.1 million, or 22.6% of total Krka Group sales. Sales in Region South-East Europe totalled €191.3 million accounting for 12.8% of total sales, and in Overseas Markets €48.6 million or 3.3% of total sales. Sales in Slovenia amounted to €92.4 million, or 6.2% of total Krka Group sales.

2019 Krka Group Sales by Regions



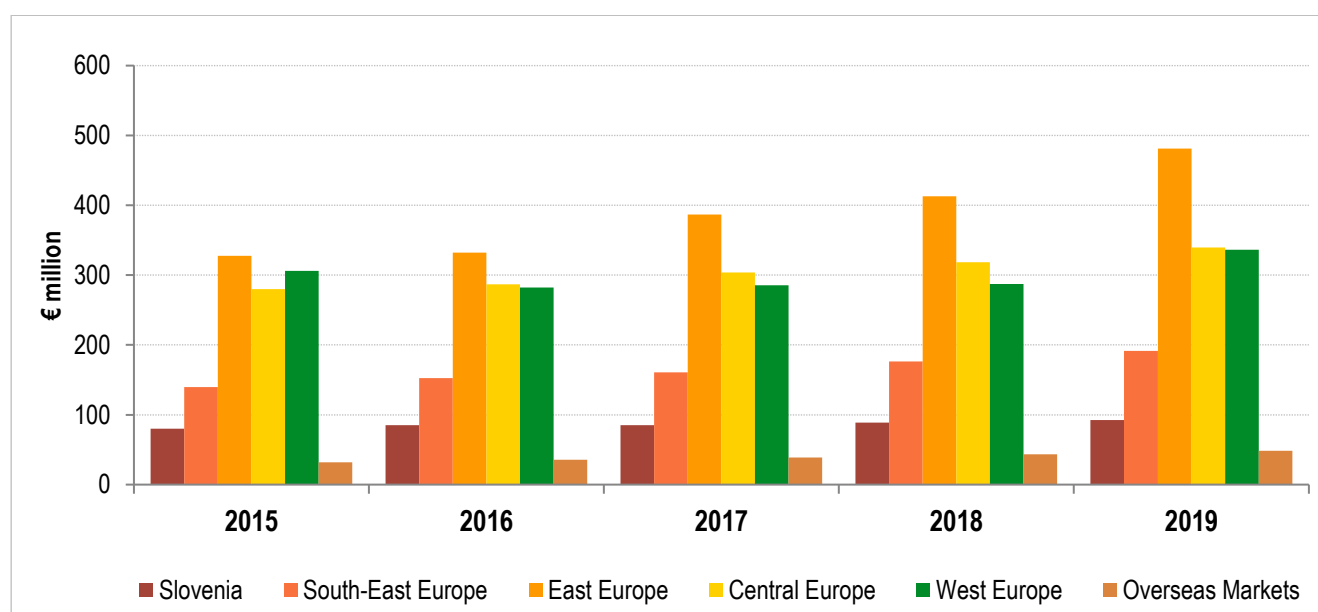
Krka Group and Krka Sales by Regions

€ thousand	Krka Group			Krka		
	2019	2018	2019/18 Index	2019	2018	2019/18 Index
Slovenia	92,375	88,872	104	52,902	51,280	103
South-East Europe	191,320	176,206	109	187,068	171,120	109
East Europe	481,155	412,945	117	298,053	263,611	113
Central Europe	339,574	318,259	107	323,501	304,209	106
West Europe	336,098	287,076	117	290,401	247,580	117
Overseas Markets	48,558	43,389	112	43,752	39,844	110
Total	1,489,080	1,326,747	112	1,195,677	1,077,644	111

Krka Group Quarterly Sales by Regions

€ thousand	2019				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Slovenia	22,006	22,994	24,914	22,461	21,108	21,999	23,646	22,119
South-East Europe	50,409	48,300	46,849	45,762	44,174	44,182	43,931	43,919
East Europe	122,091	129,434	88,151	141,479	106,209	112,164	69,229	125,343
Central Europe	85,862	83,246	82,880	87,586	81,160	80,354	78,057	78,688
West Europe	84,285	86,158	72,648	93,007	73,848	71,487	64,628	77,113
Overseas Markets	12,635	11,916	12,792	11,215	10,868	10,807	10,990	10,724
Total	377,288	382,048	328,234	401,510	337,367	340,993	290,481	357,906

Krka Group Sales by Regions in Past Five Years



Revenue from sales since 2017 is presented in compliance with the IFRS 15.

Slovenia

Sales of products and services in Slovenia, which is one of Krka's key markets, amounted to €92.4 million in 2019. The value of product sales totalled €52.9 million accounting for 3% growth in value. Prescription pharmaceuticals accounted for 76% or major share of sales. Non-prescription products reached 19%, and the remaining 5% were generated by sales of animal health products. We achieved an 8.4% market share and maintained the leading position in terms of sales volume among medicine providers in Slovenia. Health resort and tourist services generated €39.5 million.

Sales of medicines for the treatment of cardiovascular diseases, central nervous system, pain, and the gastrointestinal tract contributed most substantially to sales of prescription pharmaceuticals. We increased our market shares of all key therapeutic classes of prescription medicines.

Krka Group Market Position in Slovenia

We held an 8.4% market share and maintained the leading position in terms of sales volume among providers of medicines.

Of all prescription medicines sold in Slovenia, almost one out of four was made by Krka.

We were the leading provider of:

- non-steroidal anti-inflammatory and antirheumatic medicines, accounting for more than a 65% market share;
- proton pump inhibitors, accounting for approximately a 60% market share;
- statins, accounting for more than a 50% market share;
- agents acting on the renin-angiotensin system, accounting for approximately a 50% market share;
- products with effect on pharynx, accounting for approximately a 40% market share;
- antipsychotics, anti-dementia medicines, and antidepressants, accounting for approximately a 30% market share.

We were the leading provider of medicines containing alprazolam, atorvastatin, ciprofloxacin, doxazosin, enalapril, carvedilol, quetiapine, losartan including the combination with hydrochlorothiazide; memantine, naproxen, omeprazole, pantoprazole, perindopril including its combinations with amlodipine and indapamide; ramipril, rosuvastatin, sertraline, simvastatin, tramadol in combination with paracetamol, and valsartan including the combination with hydrochlorothiazide.

We were the leading provider of generic medicines containing dexamethasone, duloxetine, esomeprazole, etoricoxib, gliclazide, imatinib, indapamide, perindopril including the combination with amlodipine and indapamide; pregabalin, and sildenafil.

We were the leading provider of non-prescription products as follows: products with effect on pharynx, non-steroidal anti-inflammatory drugs (NSAIDs), group B vitamins, proton pump inhibitors, and magnesium-containing products.

Nalgesin (naproxen), Nolpaza (pantoprazole), Sorvasta (rosuvastatin), Prenewel (perindopril/indapamide), Prenessa (perindopril), and Doreta (tramadol/paracetamol) were among medicines that achieved highest sales.

Medicines for the treatment of cardiovascular diseases, most notably Prenewel (perindopril/indapamide), Prenessa (perindopril), Amlessa (perindopril/amlodipine), and Amlewel (perindopril/amlodipine/indapamide), generated strongest sales. Of our cholesterol-lowering agents, sales of Sorvasta (rosuvastatin) were most substantial. We started marketing Roxiper, first single-pill combination of three active ingredients (perindopril/indapamide/rosuvastatin) in the market, and two single-pill combinations: Wamlox (valsartan/amlodipine) and Valtricom (valsartan/amlodipine/hydrochlorothiazide).

From our range for the central nervous system, our most prominent brands included Kventiax (quetiapine), Dulsevia (duloxetine), and Memaxa (memantine). We improved awareness of our atypical antipsychotic Parnido (paliperidone). Pregabalin Krka (pregabalin), Nalgesin Forte (naproxen), Doreta (tramadol/paracetamol), and Roticox (etoricoxib) were our foremost pain relievers. In the segment of medicines for the treatment of the gastrointestinal diseases, Nolpaza (pantoprazole) and Emozul (esomeprazole) were our most notable agents.

Nalgesin S (naproxen) followed by magnesium-containing Magnezij Krka and products marketed under the Septolete brand remained our leading non-prescription products. We started marketing Noctiben Mea (doxylamine) indicated for the treatment of insomnia, and supplemented our range of cough products with Herbion Ivy Syrup and lozenges.

Sales of our animal health products were driven by Amatib (amoxicillin), Fypryst Combo (fipronil/S-methoprene), and Grovit. We extended our animal health portfolio by Selehold (selamectin), an antiparasitic product.

South-East Europe

Product sales in Region South-East Europe amounted to €191.3 million, a 9% year-on-year increase. Most of the regional markets contributed to sales growth, but Bulgaria stood out in absolute and relative terms as it added €4.1 million to its 2018 sales figure. Sales in Romania were up €3.4 million on the 2018 figure and the country was second in terms of absolute sales growth. It was followed by Serbia, where sales were up €3 million year-on-year. Our sales saw a slight drop only in Albania, primarily due to the unstable economic environment and a decrease in prices.

Prescription pharmaceuticals accounted for 86% of the regional sales, and were followed by non-prescription products constituting a good 10%. Animal health products accounted for slightly less than 4% of total regional sales. Year-on-year, prescription pharmaceuticals grew by 9% and animal health products by 12% respectively. Sales of non-prescription products levelled off with the 2018 figure.

In **Romania**, our key and largest regional market, sales amounted to €56.4 million, a 6% year-on-year rise. Holding a 2% market share, we ranked second among foreign providers of pharmaceuticals on the Romanian market. Prescription pharmaceuticals reached 7.3% constituting the major sales proportion in terms of volume. The most important medicines in terms of sales were Atoris (atorvastatin), Co-Prenessa (perindopril/indapamide), Doreta (tramadol/paracetamol), Roswera (rosuvastatin), Karbis (candesartan), and Nolpaza (pantoprazole). Among non-prescription products, Bilobil (ginkgo leaf extract) recorded strongest sales, while products sold under the Herbion brand and Nalgesin (naproxen) presented the fastest growth. Animal health product sales presented 5% growth. Two top animal health products were Floron (florfenicol) and Fypryst (fipronil).

Krka Group Market Position in Romania

We ranked second among foreign providers of generic medicines holding a 2% market share.

We were among the leading providers of:

- SNRI antidepressants, accounting for more than a 50% market share;
- antimicrobials (fluoroquinolones), accounting for approximately a 25% market share;
- statins, accounting for approximately a 25% market share;
- angiotensin II receptor antagonists, also in combination with diuretics, accounting for more than a 15% market share;
- prescription analgesics and antipyretics, accounting for approximately a 20% market share;
- ACE inhibitors, also in combinations, accounting for approximately a 15% market share;
- proton pump inhibitors, accounting for more than a 10% market share;
- cerebral and peripheral vasotherapeutics, accounting for more than a 10% market share.

We were the leading provider of medicines containing ciprofloxacin, duloxetine, enalapril, lansoprazole, losartan, mirtazapine, naproxen, norfloxacin, perindopril in combination with amlodipine; pramipexole, ropinirole, sulfasalazine, telmisartan, and tramadol including the combination with paracetamol.

We were the leading provider of generic medicines containing aripiprazole, atorvastatin, esomeprazole, ivabradine, ginkgo leaf extract, candesartan and pantoprazole, perindopril in combination with indapamide; and the combination of perindopril, indapamide, and amlodipine.

In terms of recorded sales, **Croatia** was second most important market of the region, and also one of our key markets. We generated sales totalling €35.5 million on the back of 6% growth and consolidated our fourth place among all manufacturers of generic medicines, and second place among manufacturers of medicines for veterinary use in the country. We recorded sales growth in all three product groups.

As expected, sales of prescription pharmaceuticals were at the forefront again with respect to sales value, primarily due to strong sales of Atoris (atorvastatin), Emanera (esomeprazole), Co-Perineva (perindopril/indapamide), Roswera (rosuvastatin), Helax (alprazolam), and Valsacombi (valsartan/hydrochlorothiazide). Of non-prescription products, Nalgesin (naproxen) and the Septolete brand products recorded strongest sales. Of animal health products, our sales of Fypryst (fipronil) and Enroxil (enrofloxacin) were most substantial.

Krka Group Market Position in Croatia

We placed second among foreign providers of generic medicines holding a 3.8% market share.

We were the leading provider of:

- antimicrobials (fluoroquinolones), accounting for approximately a 60% market share;
- angiotensin II receptor antagonists, also in combination with diuretics, accounting for more than a 55% market share;
- antitussives, accounting for approximately a 40% market share;
- proton pump inhibitors, accounting for approximately a 30% market share;
- statins, accounting for approximately a 30% market share;
- ACE inhibitors, also in combination with diuretics, accounting for approximately a 25% market share;
- antidepressants, accounting for more than a 15% market share.

We were among the leading providers of:

- typical antipsychotics, accounting for approximately a 30% market share;
- sulphonamide antidiabetics, accounting for more than a 20% market share;
- anxiolytics, accounting for approximately a 20% market share;
- ACE inhibitors, also in combination with calcium channel blockers, accounting for approximately a 15% market share.

We were the leading provider of medicines containing alprazolam, atorvastatin, butamirate, ciprofloxacin, dexamethasone, escitalopram, esomeprazole, clarithromycin, loperamide, norfloxacin, perindopril including the combination with indapamide; rosuvastatin, telmisartan including the combination with hydrochlorothiazide.

We were the leading provider of generic medicines containing desloratadine, duloxetine, gliclazide, perindopril in combination with amlodipine; perindopril in combination with indapamide; and simvastatin.

Serbia generated €26.1 million in sales and growth of 13%, which placed the country third among regional markets. Prescription pharmaceuticals played the largest hand in the continued fast market share growth. They accounted for almost 14% growth in value and 85% of total sales. Nolpaza (pantoprazole), Roxera (rosuvastatin), Co-Amlessa (perindopril/amlodipine/indapamide), Atoris (atorvastatin), and Ampril (ramipril) were key medicines from this group. Nolpaza with 4.5 million packs sold and 20% year-on-year growth remained one of five medicines presenting strongest sales in Serbia. Non-prescription product sales were driven by Nalgesin (naproxen), Bilobil (ginkgo leaf extract), and products sold under the

Septolete brand, and recorded slightly more than 8% growth in terms of sales value. Year-on-year, sales of our animal health products went up by 16%. Fypryst (fipronil), Dehinel, Enroxil (enrofloxacin), and Calfoset were at the forefront.

In **Bulgaria** the pharmaceutical market stagnated, but even so we recorded sales growth for the sixth consecutive year, primarily due to our dedicated work, successful expansion of our range of products in several therapeutic areas, and rapid adaptations to the situation in the country. Sales of prescription medicines, above all Co-Valsacor (valsartan/hydrochlorothiazide), Valsacor (valsartan), Roswera (rosuvastatin), and Nolpaza (pantoprazole), contributed most to sales growth that reached 23% and total sales value of €22.1 million. Year-on-year, non-prescription product sales stayed at the same level, while animal health products surpassed the 2018 sales figure by 19%.

For fifteen consecutive years, we have recorded sales growth in the **Republic of North Macedonia**. In 2019, sales totalled €20.6 million, up 5% from 2018. Krka remained the leading foreign provider of generic medicines in the country. The most important products in terms of sales were prescription pharmaceuticals, most notably Roswera (rosuvastatin), Enap (enalapril), Atoris (atorvastatin), Tanyz (tamsulosin), Lorista (losartan), and Nolpaza (pantoprazole). In terms of sales, the leading non-prescription products were Bilobil (ginkgo leaf extract), Daleron (paracetamol), Septanazal (xylometazoline/dexpanthenol), B-Complex, and products sold under the Herbion brand. In 2019, we launched several medicines in the country. Our prescription pharmaceutical Adolax (oxycodone/naloxone) and a non-prescription product Septolete Total (benzylamine/cetylpyridinium chloride) with honey-and-lemon flavour stood out.

In **Bosnia and Herzegovina**, we recorded double-digit sales growth that reached 12%. All product groups presented double-digit growth, but prescription pharmaceuticals contributed the most to total sales value of €19.5 million. Enap H/HL (enalapril/hydrochlorothiazide), Roswera (rosuvastatin), Lexaurin (bromazepam), Enap (enalapril), Atoris (atorvastatin), Naklofen (diclofenac), and Valsacombi (valsartan/hydrochlorothiazide) recorded the strongest sales. Nalgesin (naproxen), B-Complex, products sold under the Septolete brand, Bilobil (ginkgo leaf extract), and Panatus (butamirate) topped the non-prescription sales. Fypryst (fipronil) and Rycarfa (carprofen) were key animal health products.

We recorded 1% sales growth in **Kosovo** and remained among the leading providers of medicines in the country. Sales reached €6.5 million. In **Albania**, we generated €2.9 million, which was less than in 2018. According to the expectations, the major part of the figure was made by sales of prescription pharmaceuticals. In **Montenegro**, sales levelled off year-on-year and totalled just short of €1.8 million.

East Europe

In 2019, Region East Europe remained our leading region. Sales reached €481.2 million primarily due to good performance on two key regional markets. Significant sales growth rates were also recorded on most other regional markets, except in Kazakhstan, where our sales lagged behind 2018 figures.

The **Russian Federation** is one of our key markets, and has retained the role of our leading regional and largest individual market. Sales were valued at €310.5 million, which was €35.9 million more than in 2018, and accounted for 13% growth. Growth expressed in the Russian rouble totalled 12%. Sales growth dynamics has been above average for years, and advanced in 2019 as well further increasing our market share in the country.

The leading product group were prescription pharmaceuticals that constituted 82% of total sales, a 14% year-on-year sales growth. Lorista (losartan), Valsacor (valsartan), Atoris (atorvastatin), Lorista H/HD (losartan/hydrochlorothiazide), Nolpaza (pantoprazole), Roxera (rosuvastatin), Valsacor H/HD (valsartan/hydrochlorothiazide), Co-Perineva (perindopril/indapamide), Perineva (perindopril), and Enap (enalapril) generated strongest sales. Our presence in the market was further strengthened by good sales of our new medicines, above all Telmista (telmisartan), Telmista H (telmisartan/hydrochlorothiazide), and our important analgesic Etoriax (etoricoxib) that we placed on the market in the last quarter of 2019. We are the leading provider of medicines for the treatment of cardiovascular diseases in the Russian Federation.

Krka Group Market Position in the Russian Federation

We ranked third among foreign providers of generic medicines holding a 2.03% market share.

We were the leading provider of prescription pharmaceuticals for the treatment of cardiovascular diseases.

Our sales dynamics surpassed the average market dynamics in the Russian Federation.

We were the leading provider of:

- angiotensin II receptor antagonists, also in combinations, accounting for approximately a 40% market share;
- statins, accounting for more than a 20% market share.

We were among the leading providers of:

- ACE inhibitors, also in combinations, accounting for approximately a 20% market share;
- proton pump inhibitors, accounting for approximately a 20% market share;
- platelet aggregation inhibitors (ADP receptor antagonists), accounting for approximately a 15% market share;
- atypical antipsychotics, accounting for approximately a 15% market share;
- appetite suppressants, diet products excluded, accounting for more than a 10% market share.

We were the leading supplier of medicines containing atorvastatin, enalapril including the combination with hydrochlorothiazide; losartan, naproxen, norfloxacin, olanzapine, orlistat, pantoprazole, and valsartan including its combinations with amlodipine and hydrochlorothiazide.

We were the leading provider of generic medicines containing esomeprazole, ivabradine, clarithromycin, clopidogrel, perindopril including all combinations with amlodipine and indapamide; ramipril, rosuvastatin, risperidone, and telmisartan.

In 2019, our non-prescription products saw 4% sales growth. Products sold under the Herbion brand and Septotele Total (benzylamine/cetylpyridinium chloride) topped the sales and achieved the highest absolute growth in the segment of non-prescription products. Our new products Flebaven (diosmin/hesperidin), Panatus (butamirate), and Ulcavis (bismuth) also presented good sales. We successfully started marketing KontrDiar (nifuroxazide) and Sleepzone (doxylamine). Sales of our animal health products saw 19% growth. Floron (florfenicol) was the topmost product, and products for companion animals presented the highest growth.

We have been successfully increasing the proportion of products manufactured in the Russian Federation. Our Russian plant Krka-Rus manufactures more than 70% of Krka products on demand in the Russian Federation.

In **Ukraine**, another key market of Krka, sales of pharmaceuticals had been decreasing for several years before levelling off. In 2019, the local currency appreciated and we recorded sales growth. We achieved sales value of €79.8 million and 42% growth, which was significantly higher than overall market growth and growth recorded by competitors. We secured a 2.6% market share. Prescription pharmaceuticals were again the leading product group and recorded the fastest, 47%, growth, above all Valsacor (valsartan) and Valsacor H/HD (valsartan/hydrochlorothiazide), Co-Amlessa (perindopril/amlodipine/indapamide), Co-Prenessa (perindopril/indapamide), and Nolpaza (pantoprazole). Non-prescription products presented a 25% increase, and products marketed under the Herbion and Septotele brands and Nalgesin (naproxen) sold best. Sales of animal health products increased by 23% compared to 2018.

Krka Group Market Position in Ukraine

We ranked second among foreign providers of generic medicines holding a 2.6% market share.

In 2019, we outperformed the entire market with respect to sales growth.

We were the leading provider of:

- parenteral corticosteroids, accounting for more than a 40% market share;
- statins, accounting for more than a 40% market share;
- angiotensin II receptor antagonists, also in combinations, accounting for more than a 35% market share;
- ACE inhibitors, also in combination with diuretics, accounting for approximately a 20% market share.

We were among the leading providers of:

- proton pump inhibitors, accounting for approximately a 15% market share;
- macrolide and pyranoside antibiotics, accounting for approximately a 10% market share.

We were the leading provider of medicines containing atorvastatin, dexamethasone, enalapril in combination with hydrochlorothiazide; ginkgo leaf extract, carvedilol, clarithromycin, naproxen, pantoprazole, rosuvastatin, simvastatin, and valsartan including the combination with hydrochlorothiazide.

We were the leading provider of generic medicines containing betamethasone, enalapril, and perindopril including all combinations with amlodipine and indapamide.

Subregion East Europe B

In Subregion East Europe B, which includes Belarus, Mongolia, Armenia, and Azerbaijan, sales of our products reached €32.3 million and 11% growth. Year-on-year, we increased our sales in all four countries.

Sales in **Belarus** totalled €14.2 million, a 21% increase compared to 2018. We increased our market share by above-average-growth dynamics in terms of value and volume, and took the third place among foreign providers of generic medicines. Our

key product group, prescription pharmaceuticals, saw 34% growth. Co-Amlessa (perindopril/amlodipine/indapamide), Nolpaza (pantoprazole), and Valsacor (valsartan) accounted for the major sales proportion. Sales of non-prescription products were driven by products of the Septotele and Herbion brands. Sales of our animal health products generated €0.6 million. We launched Ulcavis (bismuth subcitrate) and Lortenza (losartan/amlodipine), two prescription pharmaceuticals. New developments in the non-prescription product range comprised an additional strength of Nalgesin (naproxen) and an extended portfolio of products containing the combination of benzydamine and cetylpyridinium chloride sold under the Septotele brand.

In **Mongolia**, we recorded €9.2 million sales total and 1% year-on-year growth, and maintained the position of the leading foreign provider of medicines in the country. Year-on-year, prescription pharmaceuticals saw 4% growth, while non-prescription products recorded a 9% slide due to lower sales of vitamins and minerals that were no longer included in the reimbursement list. Our new products represented a major proportion in sales, most notably Lorista (losartan), Nolpaza (pantoprazole), and Amlessa (perindopril/amlodipine). We also recorded healthy sales of our new medicines. We started marketing additional strengths of tablets and suspensions of Betaklav (amoxicillin/clavulanic acid), Azibiot (azithromycin) suspension, Levaxela (levofloxacin), and Tanyz (tamsulosin). Septanazal (xylometazoline/dexpanthenol) and Nalgesin (naproxen) presented highest growth of our non-prescription products.

In **Azerbaijan**, our product sales reached €5.2 million or 2% growth over 2018, and placed us among the leading generic manufacturers in the country holding a 2.9% market share. Prescription pharmaceuticals, the leading product group, saw 8% growth in terms of value. We successfully started marketing Lortenza (losartan/amlodipine). Sales of non-prescription products lagged behind 2018 sales. Sales of our animal health products generated €0.07 million.

In **Armenia**, sales reached €3.8 million, a 13% year-on-year advance. We recorded above-average-growth dynamics and increased our market share to 3.7% taking the first place among the providers of generic medicines. Prescription pharmaceuticals generated the major, 87%, proportion of sales, with Co-Amlessa (perindopril, amlodipine/indapamide), Atoris (atorvastatin), and Nolpaza (pantoprazole) at the top. We recorded a 13% drop in sales of non-prescription products. Sales of non-prescription products were driven by products of the Septotele and Herbion brands. We started marketing animal health products.

Subregion East Europe K

In Kazakhstan, Moldova, and Kyrgyzstan, we made €28 million by product sales, up 4% from 2018. Growth was due to stronger sales in Kyrgyzstan and Moldova.

Sales of our products generated €14.3 million in **Kazakhstan** a 5% drop compared to 2018 despite the fact that we recorded a 1% rise in national currency in sales through our subsidiary. Prescription pharmaceuticals constituted the major, 71%, part of total sales in the country, and the leading medicines were Nolpaza (pantoprazole), Atoris (atorvastatin), Enap (enalapril), Valsacor (valsartan), and Valodip (valsartan/amlodipine). Non-prescription product sales amounted to €3.8 million. Products marketed under the Herbion, Septotele, and Duovit brands generated strongest sales, while Septanazal (xylometazoline/dexpanthenol) presented fastest growth. Sales of animal health products increased by 16% compared to 2018.

In **Moldova**, we made €9.8 million by product sales, a 13% rise compared to 2018. Holding more than a 5.5-percent market share, we came first among providers of generic pharmaceuticals in the country. Prescription pharmaceuticals accounted for more than 70% of sales, and the leading medicines were Lorista (losartan), Rawel (indapamide), and Ampril (ramipril). Sales of non-prescription products were driven by Septanazal (xylometazoline/dexpanthenol), and products sold under the Septotele and Herbion brands. We placed Septotele Total (benzydamine/cetylpyridinium chloride) honey-and-lemon flavoured lozenges on the market. Sales of animal health products exceeded the 2018 figure by 23%.

In **Kyrgyzstan**, we recorded 24% sales growth in terms of value. We achieved sales value of €4 million and a 3.5% market share, so we retained the third place among all providers of medicines in the country. Prescription pharmaceuticals contributed the major, 75%, part to total sales, and Atoris (atorvastatin), Lorista (losartan), and Nolpaza (pantoprazole) recorded the strongest sales. We started marketing Lortenza (losartan/amlodipine). Of non-prescription products, sales were driven by the Septotele, Pikovit, and Herbion brand products. Septotele Total (benzydamine/cetylpyridinium chloride) elder-and-lemon flavoured lozenges were our new product in the market.

Subregion East Europe U

Subregion East Europe U consists of Uzbekistan, Georgia, Tajikistan, and Turkmenistan. We generated €30.4 million by sales of our products there and recorded 17% growth compared to 2018. We recorded growth in all markets.

In **Uzbekistan**, our sales of products totalled €22.5 million, an 18% year-on-year increase. We earned a place among the most important providers of medicines in the country, especially of medicines for the treatment of cardiovascular diseases. Prescription pharmaceuticals constituted our leading product group, of which Lorista (losartan), Amlessa (perindopril/amlodipine), Nolpaza (pantoprazole), and Co-Amlessa (perindopril/amlodipine/indapamide) achieved the strongest sales. Key non-prescription products were Septolete and Pikovit brand products. We successfully launched Naklofen Duo (diclofenac), Etoxib (etoricoxib), and Septolete Total (benzylamine/cetylpyridinium chloride) elder-and-lemon flavoured lozenges.

In **Georgia**, our sales of products totalled €4.3 million, an 8% year-on-year increase in terms of value. Recording a 2.9% market share, we placed ninth among all providers of pharmaceuticals in the country. The most important product group in terms of sales were prescription pharmaceuticals, especially Enap H/HL (enalapril/hydrochlorothiazide), Lorista H/HD (losartan/hydrochlorothiazide), and Co-Amlessa (perindopril/amlodipine/indapamide). Non-prescription products saw 33% sales growth. Products of the Herbion and Septolete brands and Nalgesin (naproxen) were sales leaders of the product group.

In **Tajikistan**, sales reached €1.9 million, a 21% year-on-year advance. Pikovit, a non-prescription product, further remained our best-selling product in the country. Nolpaza (pantoprazole), Lortenza (losartan/amlodipine), Co-Amlessa (perindopril/amlodipine/indapamide), and Roxera (rosuvastatin) were our new products that contributed to sales growth the most.

In **Turkmenistan**, our customers had difficulties providing funds in foreign currency to settle their liabilities, but even so we made sales of €1.7 million and attained a 30% year-on-year upsurge. Nolpaza (pantoprazole) and Amlessa (perindopril/amlodipine) from our leading product group of prescription pharmaceuticals, and products sold under the Pikovit and Herbion brands from the non-prescription product group generated strongest sales.

Central Europe

Region Central Europe generated product sales of €339.6 million, a 7% advance compared to the year before. Sales growth was attained on all regional markets except in the Czech Republic. In terms of value, growth was most significant in Poland and in relative terms in Lithuania.

In **Poland**, the largest regional market and our key market, product sales reached €159.5 million, 7% more than in 2018. We recorded the highest growth rates of all foreign providers of generic medicines in the country and took the fourth place. The main sales drivers were prescription pharmaceuticals, most notably pharmaceuticals from the reimbursement list. Also our new medicines placed on the market in the past years contributed significantly.

Also in 2019, we focused on medicines for the treatment of cardiovascular diseases. We increased sartan sales by 28%, strengthened our market share, and retained the position of the leading provider of that product group. Of our newly launched medicines in the past few years, Teldipin (telmisartan/amlodipine) was most notable as it doubled sales winning a 44% market share. Through sales of our lipid lowering agents, notably Atoris (atorvastatin) and Roswera (rosuvastatin), we attained 8% growth in terms of volume and increased our market share to 32% despite sharp competition and price pressure. In the analgesic group, we retained the leading 50% market share with Doreta (tramadol/paracetamol). We retained the leading position among all providers as regards prescription pharmaceuticals from the reimbursement list free for patients aged 75 years and older, as we had more medicines on the reimbursement list than any other producer.

Sales of non-prescription products lagged slightly behind 2018 sales. Septolete brand products recorded strongest sales and were followed by Bilobil (ginkgo leaf extract). Sales of animal health products made €6 million, and were 4% higher than in 2018. Milprazon (milbemycin/praziquantel) and Floron (florfenicol) generated strongest sales.

Krka Group Market Position in Poland

We held a 2.3% market share and ranked fourth among foreign providers of generic medicines in the country.

We were the leading provider of:

- angiotensin II receptor antagonists, also in combination with diuretics, accounting for approximately a 45% market share;
- statins, accounting for more than a 30% market share;
- SSRI and SNRI antidepressants, accounting for more than a 10% market share.

We were among the leading providers of:

- oral corticosteroids, accounting for approximately a 20% market share;
- antimicrobials (oral fluoroquinolones), accounting for approximately a 20% market share;
- aminosaliculates for bowel disease, accounting for more than a 15% market share;
- ACE inhibitors, also in combination with diuretics, accounting for approximately a 15% market share;
- proton pump inhibitors, accounting for approximately a 15% market share;
- sulphonamide antidiabetics, accounting for approximately a 15% market share;
- antiparkinsonians, accounting for approximately a 10% market share.

We were the leading provider of medicines containing atorvastatin, celecoxib, duloxetine, esomeprazole, etoricoxib, candesartan including the combination with hydrochlorothiazide; lansoprazole, losartan including the combination with hydrochlorothiazide; norfloxacin, rabeprazole, ropinirole, rosuvastatin, sulfasalazine, tramadol in combination with paracetamol; and valsartan including the combination with hydrochlorothiazide.

We were the leading provider of generic medicines containing gliclazide, ivabradine, perindopril including all combinations with amlodipine and indapamide; and telmisartan in combination with amlodipine.

Hungary, another key market, with sales valued at €51.6 million, ranking the country second among our regional markets. Growth was 9% in terms of value and placed us second among primarily foreign providers of generic medicines. Prescription pharmaceuticals again accounted for the major part of total sales, in particular Co-Prenessa (perindopril/indapamide), Roxera (rosuvastatin), Atoris (atorvastatin), Co-Valsacor (valsartan/hydrochlorothiazide), and Valsacor (valsartan). Sales of non-prescription products generated €3.6 million, 21% growth compared to 2018. Our most important products included Flebaven (diosmin), Venter (sucralfate), and products sold under the Septolete brand. Our animal health products presented 3% growth. Milprazon (milbemycin/praziquantel) and Fypryst (fipronil) generated strongest sales.

Krka Group Market Position in Hungary

We ranked second among primarily foreign providers of generic medicines holding a 2% market share.

We were the leading provider of:

- angiotensin II receptor antagonists in combination with diuretics, accounting for approximately a 40% market share;
- SNRI antidepressants, accounting for more than a 35% market share;
- platelet aggregation inhibitors, accounting for more than a 30% market share;
- mono-component thiazide diuretics and analogues, accounting for approximately a 25% market share;
- antimicrobials (oral fluoroquinolones), accounting for approximately a 25% market share.

We were among the leading providers of:

- antiparkinsonians, accounting for approximately a 20% market share;
- ACE inhibitors in combination with diuretics, accounting for approximately a 20% market share;
- statins, accounting for approximately a 20% market share;
- proton pump inhibitors, accounting for approximately a 15% market share;
- macrolide and pyranoside antibiotics, accounting for approximately a 15% market share;
- sulphonamide antidiabetics, accounting for approximately a 15% market share;
- cerebral and peripheral vasotherapeutics, accounting for approximately a 10% market share.

We were the leading provider of medicines containing duloxetine, indapamide, ginkgo leaf extract, clarithromycin, clopidogrel, mirtazapine, pramipexole, rasagiline, and valsartan including the combination with hydrochlorothiazide.

We were the leading generic provider of medicines containing aripiprazole and gliclazide.

In the **Czech Republic**, also one of our key markets, sales lagged slightly behind the 2018 figure. We recorded €46.4 million sales value, or a 5% drop. We ranked third among foreign providers of generic medicines holding a 1.7% market share. Prescription pharmaceuticals maintained the leading position in sales, especially Lexaurin (bromazepam), Atoris (atorvastatin), Valsacombi (valsartan/hydrochlorothiazide), Asentra (sertraline), Tonanda (perindopril/amlodipine/indapamide), and Doreta (tramadol/paracetamol).

Sales of our non-prescription products advanced by 6% primarily because we continued successful cooperation with several pharmacy chains. Nalgesin S (naproxen) and Septolete brand products generated strongest sales. Sales of animal health products went up by 21%. Our key products from that group were Fypryst (fipronil) and Dehinel.

Krka Group Market Position in the Czech Republic

We ranked third among foreign providers of generic medicines holding a 1.7% market share.

We were the leading provider of:

- sulphonamide antidiabetics, accounting for approximately a 25% market share;
- SSRI and SNRI antidepressants, accounting for more than a 15% market share.

We were among the leading providers of:

- angiotensin II receptor antagonists, also in combination with diuretics, accounting for approximately a 35% market share;
- anxiolytics, accounting for more than a 30% market share;
- proton pump inhibitors, accounting for approximately a 20% market share;
- mono-component products used in the treatment of benign hypertrophy of the prostate, accounting for approximately a 25% market share;
- statins, accounting for approximately a 15% market share;
- ACE inhibitors, also in combination with diuretics, accounting for approximately a 15% market share.

We were the leading provider of medicines containing esomeprazole, finasteride, gliclazide, lansoprazole, and valsartan including the combination with hydrochlorothiazide.

We were the leading provider of generic medicines containing aripiprazole, atorvastatin, escitalopram, levocetirizine, olanzapine, pantoprazole, perindopril including all combinations with amlodipine and indapamide; sertraline, and tamsulosin.

Slovakia, another key market, ranked fourth among the regional markets with product sales of €39.6 million. We recorded an 8% increase in terms of value, outperformed the entire pharmaceutical market with respect to market growth, and increased our market share. Prescription pharmaceuticals constituted the leading product group in terms of sales, most notably Co-Prenessa (perindopril/indapamide), Atoris (atorvastatin), Nolpaza (pantoprazole), Prenessa (perindopril), and Co-Amlessa (perindopril/amlodipine/indapamide). Sales of non-prescription products saw a 21% rise. Nalgesin S (naproxen) and Flebaven (diosmin) generated strongest sales. Sales of animal health products increased by 11% in 2019. Enroxil (enrofloxacin) was the leading medicine in terms of sales.

Krka Group Market Position in Slovakia

Holding a 2.8% market share, we ranked third among all providers of generic pharmaceuticals.

In 2019, we outperformed the entire market with respect to sales growth.

We were the leading provider of:

- angiotensin II receptor antagonists, also in combination with diuretics, accounting for more than a 40% market share;
- proton pump inhibitors, accounting for approximately a 40% market share;
- antimicrobials (fluoroquinolones), accounting for more than a 30% market share;
- statins, accounting for approximately a 30% market share;
- anti-dementia medicines, accounting for approximately a 25% market share;
- antidepressants and mood stabilizers, accounting for approximately a 20% market share.

We were among the leading providers of:

- anxiolytics, accounting for approximately a 25% market share;
- ACE inhibitors, also in combination with diuretics, accounting for approximately a 25% market share;
- sulphonamide antidiabetics, accounting for more than a 20% market share.

We were the leading provider of medicines containing atorvastatin, duloxetine, emtricitabine in combination with tenofovir, escitalopram, carvedilol, quetiapine, paliperidone, pantoprazole, tramadol in combination with paracetamol, venlafaxine, and valsartan including the combination with hydrochlorothiazide.

We were the leading provider of generic medicines containing gliclazide and perindopril including all combinations with amlodipine and indapamide.

In **Lithuania**, we recorded product sales of €20.9 million or 23% growth. Prescription pharmaceuticals accounted for the major part of total sales, in particular Valsacor (valsartan), Valsacombi (valsartan/hydrochlorothiazide), Roswera (rosuvastatin), Nolpaza (pantoprazole), and Atoris (atorvastatin). Sales of non-prescription medicines increased by 8% in 2019. Key products were Septabene (benzylamine/cetylpyridinium chloride) and Nalgesin S (naproxen). Animal health product sales stayed at similar level than the year before and amounted to €1.1 million.

In **Latvia**, sales reached €12.7 million in 2019, a 5% year-on-year advance. By this attainment, Krka retained the leading position among providers of generic medicines in the Latvian market. As expected, prescription pharmaceuticals constituted the major part of sales, above all Atoris (atorvastatin), Sorvasta (rosuvastatin) and Prenewel (perindopril/indapamide), and Co-Amlessa (perindopril/amlodipine/indapamide). Sales of non-prescription medicines rose by 31% compared to 2018. Our leading products were Daleron COLD3 (paracetamol/pseudoephedrine/dextromethorphan) and Septanazol (xylometazoline/dexpanthenol). Sales growth of animal health products reached 14%.

In **Estonia**, sales totalled €8.8 million, or 18% more than in 2018. Prescription pharmaceuticals accounted for the major part of total sales in the country, in particular our new medicine Darunavir Krka (darunavir). Co-Prenessa (perindopril/indapamide), Roswera (rosuvastatin), Co-Dalnessa (perindopril/amlodipine/indapamide), and Atoris (atorvastatin) followed. Sales of non-prescription products saw a 16% rise. In terms of sales, products sold under the Septotele brand remained the leaders and recorded third highest sales figure of all our products. Sales growth of animal health products reached 32%.

West Europe

The markets of Region West Europe as a whole classify as our key markets. Sales in the region grew by 17% to €336.1 million. Germany, the Scandinavian countries, Spain and Italy led in terms of sales. Sales through subsidiaries were essential for continued sales growth and accounted for 76% of the regional sales. Sales through unrelated parties totalled €80.9 million, and levelled off with the 2018 figure.

Sales generated by prescription pharmaceuticals, our leading product group, exceeded the 2018 sales total by 18% and accounted for 91% of total sales. Medicines containing esomeprazole, valsartan, clopidogrel, losartan, pantoprazole, and a single-pill combination of valsartan and amlodipine were at the forefront. Among medicines launched in 2019 were those containing agomelatine, atazanavir, darunavir, febuxostat, gefitinib, prasugrel, solifenacin, a single-pill combination of ezetimibe and simvastatin; and a single-pill combination of valsartan, amlodipine, and hydrochlorothiazide. In the markets of Region West Europe, we remained the only provider of a generic variety of paliperidone. Animal health products recorded a 4% increase, and accounted for 8% of total sales. Non-prescription products accounted for slightly less than 2%.

In **Germany**, our most important regional market, we generated sales in total of €85.4 million, an 18% climb over 2018. Sales through our subsidiary TAD Pharma amounted to €81.5 million, a 17% year-on-year rise. In terms of sales, our most important products were medicines for the treatment of cardiovascular diseases and for the gastrointestinal tract and metabolism, followed by medicines for the treatment of the central nervous system. In terms of volume, we remained the leading provider of sartans and we further strengthened our position in 2019. In 2019, we successfully placed on the market medicines containing darunavir and single-pill combinations of ezetimibe and simvastatin; valsartan and amlodipine; and valsartan, amlodipine, and hydrochlorothiazide.

In **Scandinavia**, sales saw 68% growth and totalled €67.7 million. Our leading market remained **Sweden**, followed by **Denmark, Finland, Norway**, and **Iceland**. We recorded most substantial growth in **Denmark** where our sales more than tripled. We increased sales through our subsidiary Krka Sverige by 69% and through our subsidiary Krka Finland by 78%. Overall sales through subsidiaries reached 98%. Sales were driven by medicines containing losartan, valsartan, pantoprazole, and esomeprazole. In Norway, we retained the leading position by many medicines, above all those containing esomeprazole, pantoprazole, losartan, valsartan, candesartan, enalapril, and venlafaxine.

In **Spain**, year-on-year sales in terms of value went up by 3% reaching €41.3 million. We made good tender sales in Andalusia increasing sales of products under our own brand names. The combination of tramadol and paracetamol, and medicines containing active substances bisoprolol, donepezil, quetiapine, and pramipexole generated strongest sales.

In **Italy**, we recorded a 10% rise in terms of value, which amounted to €31.5 million. Sales of products marketed under our own brand names stepped up by 16% and accounted for almost 68% of overall sales. Almost all product groups contributed to the rise, but prescription pharmaceuticals presented the highest absolute growth. The leading prescription pharmaceuticals were products containing clopidogrel, esomeprazole, pantoprazole, and gliclazide.

In **France**, sales amounted to €30.7 million, a 6% decline over 2018. Most of them were generated by sales through unrelated parties, primarily by medicines containing esomeprazole, clopidogrel, and gliclazide, and a combination of milbemycin and praziquantel – an animal health product. In 2019, our esomeprazole and clopidogrel sales presented 6% growth in terms of value. In 2019, sales through our subsidiary Krka France diminished by 1% year-on-year. We more than doubled sales of our animal health products through the subsidiary.

In **Portugal**, sales totalled €22.8 million, or 11% more than in 2018. Sales of products under our own brand names went up by 10% and accounted for 70% of our total sales in the country. In this way, we retained more than a 6% generic market share. The leading prescription pharmaceuticals were products containing darunavir, esomeprazole, olanzapine, paliperidone, and a single-pill combination of perindopril and indapamide.

Sales in the **United Kingdom** were up 10% year-on-year and topped €18.6 million. Prescription pharmaceuticals contributed most to the climb. Antihypertensives containing losartan and candesartan generated strongest sales. Our subsidiary Krka UK increased sales by 29% compared to the same period a year ago, and constituted 17% of Krka overall sales in the country.

In **Benelux**, we recorded a 27% increase in sales that amounted to €13 million. Strongest sales were generated by products sold under our own brands, as their sales doubled compared to the 2018 figures. In 2019, we started marketing our prescription pharmaceuticals under our own brand also in the **Netherlands**. Sales through unrelated parties went down by 5%.

In **Ireland**, we made €10.1 million by product sales, a 1% drop compared to 2018. Sales through our subsidiary, Krka Pharma Dublin went down by 2% and accounted for 86% of total sales in Ireland. We remained the leading provider of generic medicines containing valsartan, galantamine, tadalafil, venlafaxine, and duloxetine. In **Austria**, our sales saw a 2% drop and totalled €8.4 million. Sales were driven by medicines containing pregabalin, duloxetine, and valsartan. Sales through our subsidiary Krka Pharma Wien accounted for 95%. In **other European countries**, we still make most of our sales through unrelated parties. Overall, we generated €6.4 million in product sales, up 4% from 2018.

Overseas Markets

Overseas Markets generated €48.6 million and further remained our smallest region, but retained fast growth dynamics of 12%. We advanced sales through all three sales offices that comprise many regional markets. Prescription pharmaceuticals contributed 91% to sales and were primarily marketed under our own brand names.

In the markets of the **Middle East**, product sales amounted to €24.3 million, up 10% from 2018. **Iran** remained our most important regional market despite the complex situation in the country. We recorded the highest absolute sales growth in **Iraq**, where we almost doubled our 2018 sales figure. We recorded the highest relative sales growth in **Saudi Arabia**, and we expect similar dynamics also in the future. In **Lebanon**, sales plunged by 30% primarily due to poor economic situation in the country and price pressure. Despite the war, we remained present in **Yemen**. Asentra (sertraline), Vizarsin (sildenafil), Nolpaza (pantoprazole), Emanera (esomeprazole), and Valsacor (valsartan) recorded highest sales of the sales office.

Product sales in the markets of the **Far East and Africa**, reached €23 million, 14% growth compared to 2018. Sales of medicines containing lansoprazole, esomeprazole, telmisartan, doxazosin, and extract of dwarf fan palm were the strongest. **Vietnam** remained the largest market of the sales office and achieved 11% growth. We recorded the highest absolute sales growth in the **Republic of South Africa**, and the highest relative sales growth, 85%, in **Malaysia**. **Singapore** and **Sudan** also saw more than 60% sales growth. Our subsidiary TAD Pharma marketed one of our products in **China**.

Our sales office the **Americas** further remained focused on the countries of the Central America, where overall product sales reached €1.2 million, 10% more than in 2018. Valsaden (valsartan/hydrochlorothiazide), Valsacor (valsartan), and Yasnal (donepezil) were our top-selling medicines in highest demand.

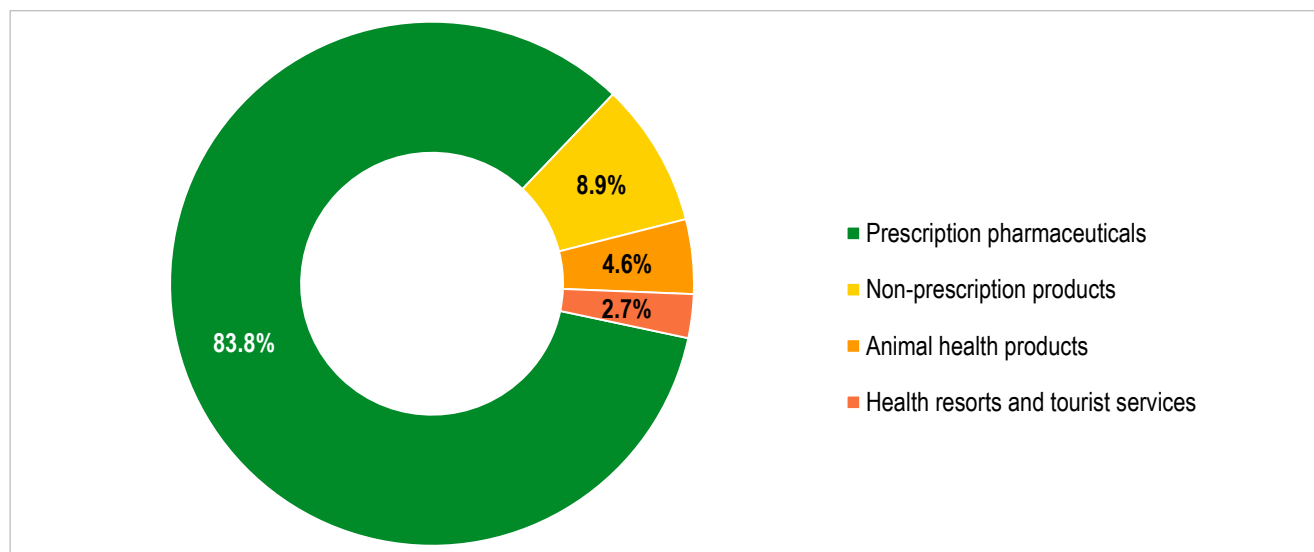
Product* and Service Groups

* Products marketed under different product brand names or the Krka trademark in individual markets are marked with an asterisk. Brand names are listed at the end of this section.

In 2019, sales of prescription pharmaceuticals accounted for 83.8% of total sales, and were followed by non-prescription products with 8.9%, animal health products with 4.6%, and health resort and tourist services with 2.7%.

Sales revenues of the Krka Group increased by 12% in 2019. Sales of prescription pharmaceuticals increased by 13%, non-prescription products by 8%, animal health products by 9%, and health resort and tourist services by 5%.

2019 Krka Group Sales by Product Group



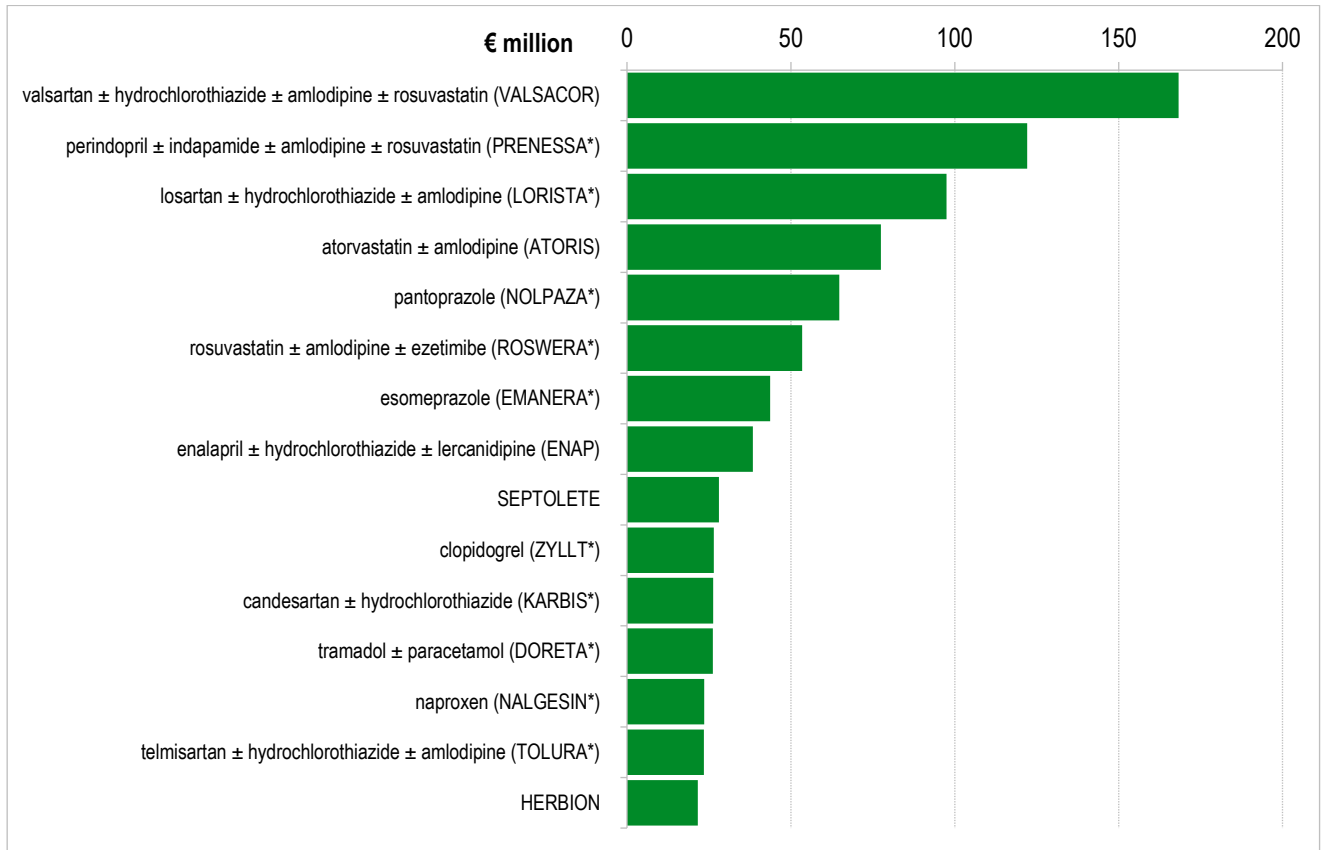
Krka Group and Krka Sales by Product and Service Groups

€ thousand	Krka Group			Krka		
	2019	2018	2019/18 Index	2019	2018	2019/18 Index
Human health	1,380,512	1,225,986	113	1,130,434	1,014,654	111
– Prescription pharmaceuticals	1,247,250	1,102,802	113	1,008,125	904,025	112
– Non-prescription products	133,262	123,184	108	122,309	110,629	111
Animal health products	69,094	63,169	109	65,243	62,990	104
Health resorts and tourist services	39,474	37,592	105			
Total	1,489,080	1,326,747	112	1,195,677	1,077,644	111

Krka Group Quarterly Sales by Product and Service Groups

€ thousand	2019				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Human health	351,142	353,957	301,485	373,928	312,934	312,975	264,239	335,838
– Prescription pharmaceuticals	314,367	328,195	272,303	332,385	278,734	288,680	235,430	299,958
– Non-prescription products	36,775	25,762	29,182	41,543	34,200	24,295	28,809	35,880
Animal health	17,646	18,176	15,234	18,038	16,427	18,724	15,249	12,769
Health resorts and tourist services	8,500	9,915	11,515	9,544	8,006	9,294	10,993	9,299
Total	377,288	382,048	328,234	401,510	337,367	340,993	290,481	357,906

2019 Sales of Main Products**



**Sales of leading products are presented by the main active ingredient. Combination medicines that incorporate this active ingredient are also included.

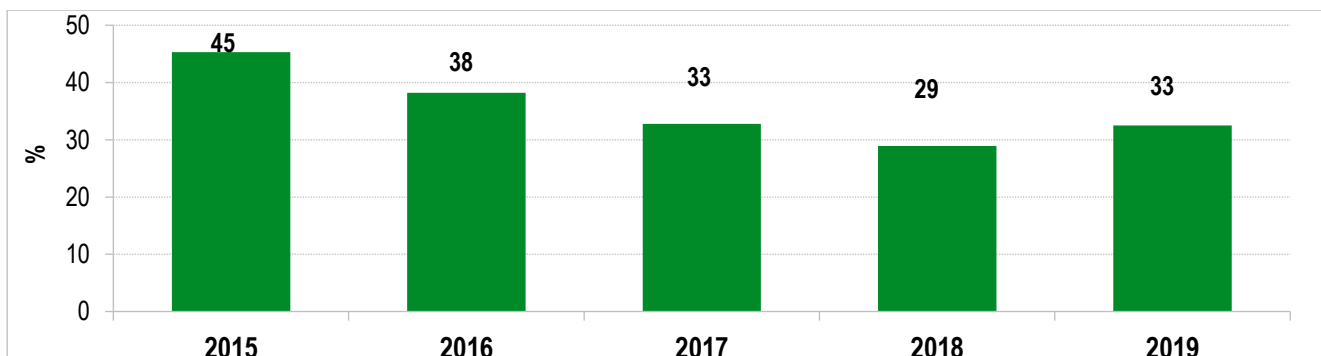
New Products

In 2019, sales of new products, i.e. products launched in individual markets in the past five years, accounted for 33% of the Krka Group overall sales, or 4 percentage points more than the year before.

In 2019, the following new products were most important as regards sales growth in absolute terms: Darunasta* (darunavir), Valtricom* (valsartan/amlodipine/hydrochlorothiazide), and Parnido* (paliperidone) that were put on the market in 2018, and Ezesimin* (simvastatin/ezetimibe) presented in 2019. Products containing the combination of benzydamine and cetylpyridinium chloride sold under the Septolete Total* brand that we started marketing in 2015, accounted for the highest sales growth. In the same year, we started promoting Dulsevia* (duloxetine) and Bravadin* (ivabradine). Together with Septolete Total* they topped the list of best-selling new products of Krka in 2019.

In 2019, 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 on individual markets in the past five years.

New Products in 2019

Prescription Pharmaceuticals	
Cardiovascular	Roxiper, Triemma (perindopril/indapamide/rosuvastatin) Co-Roswera, Coroswera, Sorvasta Plus (rosuvastatin/ezetimibe) Ezesimin, Vasitimb (simvastatin/ezetimibe)
Central nervous system	Lamegom, Agomaval (agomelatine)
Antiinfectives for systemic use	Atazam (atazanavir)
Blood and blood-forming organs	Eliskardia, Prasillt, Sigrada (prasugrel)
Oncology	Gefitinib Krka (gefitinib) Everofin, Everolimus Krka, Everolimus TAD (everolimus)**
Musculoskeletal system	Febuxodor, Febuxostat Krka (febuxostat)
Non-Prescription Products	
Expectorants	Herbion Ivy lozenges
Insomnia	Noctiben Mea, Sleepzone, Calmesan (doxylamine)
Gastrointestinal tract and metabolism	KontrDiar (nifuroxazide)
Animal Health	
Antiparasitics for companion animals	Selehold, Selafort, Selames (selamectin)
Vitamins and minerals	Catobevit (butafosfan/cyanocobalamin)
Antiinfectives for systemic use for farm animals	Tuloxxin (tulathromycin)

** We stopped selling the medicine because an additional patent entry for therapeutic indications had been granted.

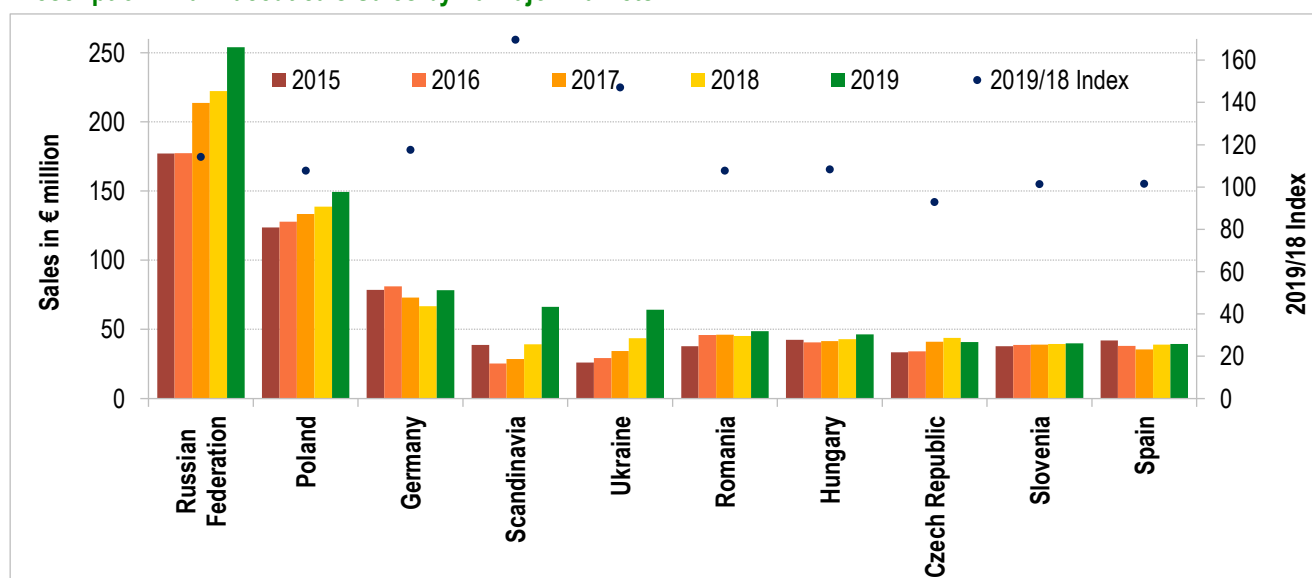
Prescription Pharmaceuticals

In 2019, the Krka Group sales of prescription pharmaceuticals amounted to €1,247.3 million, up 13% year-on-year. The Russian Federation, Scandinavian countries and Ukraine contributed the most to sales growth.

Top-ranking therapeutic categories of prescription pharmaceuticals included medicines for the treatment of cardiovascular diseases, the central nervous system, and gastrointestinal tract.

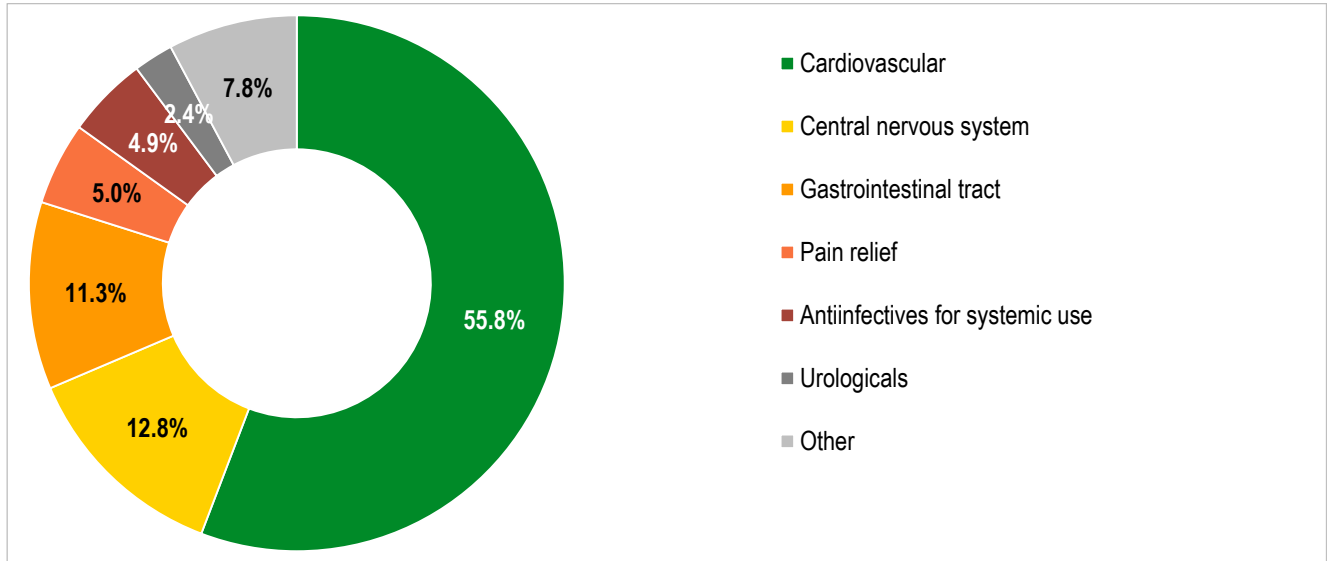
In most European markets, we market our prescription pharmaceuticals under our own brands through our own marketing-and-sales network. In countries where we have a long-standing presence, our marketing-and-sales network is one of the strongest of all pharmaceutical companies. We have been strengthening it in particular in the markets of Region West Europe, which we have been mostly managing by our own network. We use it to communicate with the expert community, especially physicians and pharmacists.

Prescription Pharmaceuticals Sales by 10 Major Markets



Revenue from sales since 2017 is presented in compliance with the IFRS 15.

Prescription Pharmaceuticals Sales by Therapeutic Classes



Cardiovascular

Statins and Other Hypolipemics

2019 highlights

- As in previous years, we remained the leading generic producer of hypolipemics in the area of Regions Slovenia, Central, East, and South-East Europe.
- The market share of statins in the area accounted for 25% and we further increased it in 2019.
- The leading statins in the area were Atoris (15% market share) and Roswera* (10% market share).
- One in four patients in the area on statin therapy took Krka statins.

Hypolipemics and single-pill combinations

- We market statins and other hypolipemics, also in single-pill combinations, as well as single-pill combinations of statins and antihypertensives.
- Krka supplies the greatest variety of strengths of statins in the area of Regions Slovenia, Central, East and South-East Europe.
- In the area, we also market the greatest variety of strengths of atorvastatin.

Statins and other hypolipemics	Combinations of hypolipemics	Combinations containing a calcium channel blocker	Combinations containing other antihypertensives
rosuvastatin (Roswera*)	rosuvastatin/ezetimibe (Coboswera*) New in 2019	rosuvastatin/amlodipine (Rosudapin*)	rosuvastatin/valsartan (Valarox*) New in 2019
atorvastatin (Atoris)		atorvastatin/amlodipine (Atordapin*)	
simvastatin (Vasilip)	simvastatin/ezetimibe (Ezesimin*) New in 2019		
lovastatin (Holetar)			
ezetimibe (Ezoleta*)			

Atoris (atorvastatin) is the most important statin and ranks among our top five medicines. Of all producers in Regions Slovenia, Central, East and South-East Europe, we make available atorvastatin in the greatest variety of strengths, as we are the only supplier of 30 mg and 60 mg tablets. Physicians in the Russian Federation, Romania, Poland and many other countries, when prescribing statin therapy, most often prescribe Atoris.

Last year, our market shares of **Roswera*** (rosuvastatin) presented further growth and became the leading of all rosuvastatin products in the area of Regions Slovenia, Central, East, and South-East Europe. It is the topmost statin in Slovenia, Bulgaria, Serbia and certain other countries. Roswera* accounted for more than a 30% rosuvastatin market share in Poland, Croatia, Lithuania, and many other countries.

We also market a hypolipemic not classified as a statin. **Ezoleta*** (ezetimibe) supplements the statin range and may be used to treat patients with elevated cholesterol levels. Sales were good in the markets of Region West Europe. We are among the leading generic manufacturer of ezetimibe in Germany.

In 2019, we added to our statin range two new single-pill combinations of statins and ezetimibe: **Co-Roswera*** (rosuvastatin/ezetimibe) and **Ezesimin*** (simvastatin/ezetimibe). We started marketing Co-Roswera* in eight countries, also in Poland and Croatia, and as the first generic producer in Slovakia and Latvia. We made Ezesimin* available in the markets of Region West Europe: in Germany, Italy, France, Spain, and several other countries. In Germany, we were one of the main generic manufacturers of this combination.

Medicines combining two ingredients for the treatment of hyperlipidemia and high blood pressure supplement our portfolio of statins. **Valarox*** (rosuvastatin/valsartan) that we put on the market in 2018 is one of them, while our latest single-pill combination is **Roxiper*** (perindopril/indapamide/rosuvastatin) launched in 2019.

Angiotensin-converting enzyme (ACE) inhibitors

2019 highlights

- We were the leading generic producer of ACE inhibitors in the area of Regions Slovenia, Central, East, and South-East Europe.
- In this area, we were the leading manufacturer of medicines containing enalapril and held more than a 30% market share.
- We were the first producer in Europe that put on the market a triple combination of ACE inhibitor, diuretic and statin.
- We were one of the leading generic producers of perindopril-based products in Europe.

Angiotensin-converting enzyme inhibitors and ACE combinations

- We marketed 16 medicines from the ACE-inhibitor class that contain five different angiotensin-converting enzyme inhibitors.
- We marketed five ACE-inhibitor combinations with a diuretic, four with a calcium channel blocker, and one with active ingredients of all three classes.
- Krka is a generic pharmaceutical company with the most comprehensive perindopril-based range of medicines in Europe.

Angiotensin-converting enzyme (ACE) inhibitors	Combinations containing a diuretic	Combinations containing a calcium channel blocker	Combinations containing a diuretic and a calcium channel blocker	Combinations containing a statin
perindopril (Prenessa*)	perindopril/indapamide (Co-Prenessa*)	perindopril/amlodipine (Amlessa*)	perindopril/amlodipine/indapamide (Co-Amlessa*)	perindopril/indapamide/rosuvastatin (Roxiper*)
enalapril (Enap)	enalapril/hydrochlorothiazide (Enap-H*)	enalapril/tercanidipine (Elernap*)		
ramipril (Ampril*)	ramipril/hydrochlorothiazide (Ampril HL*)	ramipril/amlodipine (Rameam*)		
lisinopril (Laaven*)	lisinopril/hydrochlorothiazide (Laaven-HL*)	lisinopril/amlodipine (Tenlisa)		
cilazapril (Cazaprol)	cilazapril/hydrochlorothiazide (Cazacombi)			

New in 2019

Our most important medicines in this class are perindopril-based products and in terms of sales come second of all Krka products. We market five perindopril-based products. One of them is a single-pill combination for the treatment of lipitension – coexisting hypertension and hyperlipidemia. Our range comprises **Prenessa*** (perindopril), **Co-Prenessa*** (perindopril/indapamide), **Amlessa*** (perindopril/amlodipine), and triple single-pill combinations **Co-Amlessa*** (perindopril/amlodipine/indapamide) and the newest **Roxiper*** (perindopril/indapamide/rosuvastatin). Roxiper* combines three active ingredients in a single pill, two antihypertensives and a statin. In 2019, we were the first producer that started marketing this medicine in seven European markets, among other in Poland, Portugal, and Hungary. We also expanded

marketing of Co-Amlessa* and presented it as the first generic producer on several new markets. In 2019, we extended our range with a new strength (the lowest so far) of Amlessa for the initial treatment of hypertension and started marketing it in Slovenia, Bulgaria, the Czech Republic, and Hungary.

Even though Krka has lately focused on promotion of newer ACE inhibitors, **Enap** (enalapril) and enalapril in combination with hydrochlorothiazide remain among the leading Krka medicines in terms of sales. We also market **Elernap*** (enalapril/lercanidipine), the combination of enalapril and a calcium channel blocker, which places us among the leading generic producers in Region West Europe.

Our angiotensin-converting enzyme inhibitor range also comprises **Ampril*** (ramipril), and ramipril combinations with hydrochlorothiazide, which took the top place among all competitive ramipril products in several countries. In 2019, we expanded marketing of the combination containing a calcium channel blocker, **Rameam*** (ramipril/amlodipine). In Germany and Portugal, Krka was the leading generic manufacturer of this single-pill combination.

Sartans (Angiotensin II Receptor Antagonists)

2019 highlights

- We were the leading producer of sartans in the area of Regions Slovenia, Central, East, and South-East Europe.
- We held more than a 35% market share.
- Close to nine million patients took our sartans every day.
- We were the leading generic manufacturer of valsartan-based products in Europe.
- We were one of the leading generic producers of candesartan.

Sartans and sartan-based combinations

- We marketed 18 sartan-based products. The range comprised six different sartans, and combinations of sartans with a diuretic, a calcium channel blocker, and (since 2018) a statin.
- Our range also comprised a single-pill combination of valsartan, hydrochlorothiazide (a diuretic), and amlodipine (a calcium channel blocker).
- Our sartans were available in 60 markets across the world.
- We were the only producer of a combination of valsartan and rosuvastatin in Europe.

Sartans	Combinations containing a diuretic	Combinations containing a calcium channel blocker	Combinations containing a diuretic and a calcium channel blocker	Combinations containing a statin
valsartan	valsartan/hydrochlorothiazide (Valsacombi*)	valsartan/amlodipine (Wamlox*)	valsartan/amlodipine/hydrochlorothiazide (Valtricom*)	valsartan/rosuvastatin (Valarox*)
losartan (Lorista*)	losartan/hydrochlorothiazide (Lorista H*)	losartan/amlodipine (Tenloris*)		
telmisartan (Tolura*)	telmisartan/hydrochlorothiazide (Tolucombi*)	telmisartan/amlodipine (Teldipin*)		
candesartan (Karbis*)	candesartan/hydrochlorothiazide (Karbicombi*)			
olmesartan (Olimestra*)	olmesartan/hydrochlorothiazide (Co-Olimestra)	olmesartan/amlodipine (Olssa*)		
irbesartan (Ifirmasta*)	irbesartan/hydrochlorothiazide (Ifirmacombi*)			

Valsacor (valsartan) and valsartan in combinations with hydrochlorothiazide, amlodipine, and rosuvastatin became our best-selling medicines. In 2019, this group of products recorded the highest absolute sales growth thanks to successful promotion campaigns and favourable market circumstances. In Germany, the Russian Federation, Poland and more than ten other countries, Valsacor was the topmost of all valsartan products. In 2019, we presented to new markets **Wamlox*** (valsartan/amlodipine) and **Valtricom*** (valsartan/amlodipine/hydrochlorothiazide). We put them on markets in 14 countries,

including Germany, Spain, Poland and Finland, in many of them as the first generic producer. We also market **Valarox*** (rosuvastatin/valsartan), a single-pill combination for the treatment of lipitension – coexisting hypertension and hyperlipidemia.

Lorista* (losartan) and losartan combinations with hydrochlorothiazide and amlodipine took second place among our most important sartans in terms of sale and third place among our most important products. In 2019, we were the first and only manufacturer to have launched a single-pill combination of losartan and amlodipine **Tenloris*** in Belarus and Azerbaijan. In the Russian Federation, Tenloris* was the leading combination of its kind, and we were the only manufacturer to market this single-pill combination in Germany. We held more than a 40% market share in the area of Regions Slovenia, Central, East and South-East Europe and were the leading producer of all losartan products. Lorista* and losartan-based combinations took the third place in the region.

Tolura* (telmisartan) and telmisartan in combination with amlodipine and hydrochlorothiazide is the most important generic variety of telmisartan in the area of Regions Slovenia, Central, East, and South-East Europe. We were the leading producer of telmisartan-based products in Latvia and Croatia. In 2019, we put Tolura* on the market in Ukraine, and the single-pill combination of telmisartan and hydrochlorothiazide in Ukraine and the Russian Federation.

We also successfully marketed **Karbis*** (candesartan) and candesartan in combination with hydrochlorothiazide especially in the markets of Region West Europe, and in Poland and Romania. In Germany and Romania, we were the leading generic provider of candesartan and candesartan-based combinations. In Poland, Ireland, and several other countries, we were the foremost of all competitors.

In markets of Region West Europe, sales of **Olimestra*** (olmesartan) and olmesartan-based combinations were strong as well. We were the leading generic manufacturer of olmesartan in Germany.

Other Antihypertensives

We have been marketing medicines acting on the renin–angiotensin–aldosterone system (RAAS), including sartans and angiotensin-converting enzyme inhibitors, for more than thirty years. Our range of products also includes medicines for the treatment of hypertension from other classes. All together, we supply 44 medicines for this indication in more than 130 strengths. We market a calcium channel blocker **Tenox*** (amlodipine), a diuretic **Rawel SR** (indapamide), and several adrenergic receptor blockers, among them **Coryol** (carvedilol), **Niperten*** (bisoprolol), a single-pill combination **Sobycombi*** (bisoprolol/amlodipine), and the latest **Bloxazoc*** (metoprolol). We were the only generic pharmaceutical company to supply a combination of bisoprolol and amlodipine to Poland, Hungary, and Bulgaria. In Germany, we were among the leading producers of this combination and also of carvedilol.

Other Cardiovascular Agents

Bravadin* (ivabradine) reduces the increased heart rate and is indicated for the treatment of stable angina pectoris and chronic heart failure. In the area of Regions Slovenia, Central, East, and South-East Europe, Bravadin* was the leading generic variety of ivabradine accounting for a 20% market share. In 2019, Bravadin* was the most often prescribed of all ivabradine products in the Russian Federation.

Apleria* (eplerenone) classifies as a diuretic and one of the new aldosterone receptor antagonists. It is used in combination with other medicines for the treatment of heart failure. We started marketing it in 2018, and in 2019 we were the first generic pharmaceutical company to place it on the market in Lithuania and seven other countries, Spain, France and Italy among them.

Central Nervous System

Antidepressants

2019 highlights

- We were the leading generic producer of antidepressants in the area of Regions Slovenia, Central, East, and South-East Europe.
- We increased our market share among the manufacturers of antidepressants.
- We recorded the highest sales volume increase of all manufacturers.
- We ranked among the leading manufacturers of duloxetine in Europe.

Antidepressants

- In 2019, we added the sixth product to our range of five advanced antidepressants.
- We were the only supplier of 90 mg duloxetine in Europe.

duloxetine (Dulsevia*)	agomelatine (Lamegom*)
escitalopram (Elicea*)	venlafaxine (Alventa*)
sertraline (Asentra)	mirtazapine (Mirzaten)



In 2019, we started marketing a new antidepressant **Lamegom*** (agomelatine), which has a unique mechanism of action. We launched it among first generic producers on ten markets, Germany, Spain and Poland among them. Lamegom* has become the leading generic variety of agomelatine in Germany and Poland, and in the area of Regions Slovenia, Central, East, and South-East Europe.

Last year, we started marketing **Dulsevia*** (duloxetine), one of our newest antidepressants, in Serbia. We rank among the leading manufacturers of duloxetine in Europe, and are the leading generic manufacturer in Germany. In Romania, Poland, Hungary, and several other markets, Dulsevia* accounted for more than a 30% market share topping all competitors' products.

Our range of antidepressants includes **Elicea*** (escitalopram) available in tablets and orodispersible tablets. In 2019, we launched it in new markets. In Serbia, Croatia, and Slovakia, Elicea* was the top antidepressant containing escitalopram. We were the leading generic producer of escitalopram in the area of Regions Slovenia, Central, East, and South-East Europe. There, **Asentra** (sertraline) was the leading generic variety of sertraline, and **Mirzaten** (mirtazapine) ranked first among all mirtazapine-containing antidepressants. Krka ranked among the leading generic manufacturers of mirtazapine in Germany. Our range is supplemented by **Alventa*** (venlafaxine). In Hungary, Slovakia, and certain other countries, it is the leading venlafaxine-containing antidepressant.

Antipsychotics

2019 highlights

- We were the leading generic producer of antipsychotics in the area of Regions Slovenia, Central, East, and South-East Europe.
- We further increased our market share of antipsychotics.
- We were the only generic producer of paliperidone in Europe.
- We were one of the leading generic producers of risperidone in Europe.

Atypical antipsychotics

- We marketed six atypical antipsychotics, including five leading oral medicines in this class in Europe.

aripiprazole (Aryzalera*)	paliperidone (Parnido*)
olanzapine (Zalasta*)	risperidone (Torendo*)
quetiapine (Kventiax*)	ziprasidone (Zypsilan*)

Kventiax* (quetiapine) is our most important antipsychotic in terms of sale. It is available in tablets and prolonged-release tablets. In 2019, we launched a new 400 mg strength of prolonged-release tablets. We started marketing them in France, Belgium, Poland, and elsewhere. Holding more than a 30% market share, Kventiax* was the leading quetiapine in Slovakia, Latvia, and Slovenia. Quetiapine sales were also strong in markets of Region West Europe accounting for nearly one half of total quetiapine sales.

Parnido* (paliperidone) is our newest antipsychotic, which we started marketing in 2018 as the first and only generic producer. In 2019, we placed it on new markets in Italy, Romania, and Ireland as the first generic producer. Like in 2018, we remained the only generic producer of paliperidone in Europe.

Zalasta* (olanzapine) is an antipsychotic available in tablets and orodispersible tablets. In 2019, we started marketing olanzapine also in Belgium. Zalasta* topped all olanzapine products in the Russian Federation, Portugal, and certain other markets.

We market another three antipsychotics: **Aryzalera*** (aripiprazole), **Zypsilan*** (ziprasidone), and **Torendo*** (risperidone). In the area of Regions Slovenia, Central, East and South-East Europe, we were the leading producer of generic varieties of aripiprazole and ziprasidone, and were among the leading producers of a generic variety of ziprasidone in Germany. In Europe, we are among the topmost generic manufacturers of risperidone.

Anti-Parkinson Agents

Krka's portfolio comprises three medicines for the treatment of Parkinson's disease: pramipexole, ropinirole, and rasagiline. Also in 2019, we ranked among the leading generic producers of rasagiline in Europe, and the leading generic producers of ropinirole and pramipexole prolonged-release tablets. In Poland, we were the leading generic manufacturer in this class of pharmaceuticals, and took the first place among all competitors in Hungary.

Our most important medicine in this class is **Oprymea** (pramipexole). In Portugal, Poland, Romania, and several other markets, Oprymea holding more than a 40% market share was the topmost of all pramipexole products. It was the leading generic variety of pramipexole in the area of Regions Slovenia, Central, East, and South-East Europe. In this area, also **Rolpryna SR*** (ropinirole) and **Rasagea*** (rasagiline) took first places among all generic varieties.

Anti-Alzheimer Agents

We supply medicines containing all four active ingredients for the treatment of Alzheimer's disease: **Yasnal*** (donepezil), **Marixino*** (memantine), **Galsyo*** (galantamine), and **Nimvastid** (rivastigmine). Our product range also includes Yasnal* orodispersible tablets and we are the only producer that also supplies rivastigmine in that form to the area of Regions Slovenia, Central, East, and South-East Europe. We sell more than 50% of the medicines to the countries of Region West Europe. Krka ranks among the leading generic producers of medicines for the treatment of Alzheimer's disease in Portugal and Ireland. Also in 2019, we remained one of the leading generic manufacturers of prolonged-release galantamine in Europe.

Gastrointestinal

Proton Pump Inhibitors

2019 highlights

- We have been the leading manufacturer of proton pump inhibitors for more than a decade in the area of Regions Slovenia, Central, East, and South-East Europe.
- We further increased our market share and strengthened our leading position.
- We were among the leading generic manufacturers of esomeprazole, pantoprazole, and rabeprazole in Europe.
- In many countries, we were the leading manufacturer of proton pump inhibitors.

Proton pump inhibitors

- We have been marketing proton pump inhibitors for thirty years.
- Krka was the first company in Europe to present a range of five medicines in this class.
- Krka proton pump inhibitors are available in more than 60 countries across the world.

pantoprazole (Nolpaza*)	rabeprazole (Gelbra*)
esomeprazole (Emanera*)	omeprazole (Ultop)
lansoprazole (Lanzul*)	

Nolpaza* (pantoprazole) is our most important proton pump inhibitor, and ranks among top five products in terms of sales. In the area of Regions Slovenia, Central, East, and South-East Europe, it presented the highest sales growth in absolute terms, increased its market share, and became the leading proton pump inhibitor in 2019. In many markets, also the largest ones like the Russian Federation, Nolpaza* held more than a 50% market share among pantoprazoles. Also in 2019, we were one of the leading generic producers of pantoprazole in Europe.

Our second most important medicinal product in this class was **Emanera*** (esomeprazole). In 2019, we placed it on our fortieth market, Azerbaijan. In the area of Regions Slovenia, Central, East and South-East Europe, it was the leading generic variety of esomeprazole, and accounted for more than a 30% market share. In Poland, Croatia, the Czech Republic, and several other markets, Emanera* was the topmost of all competing products. We successfully marketed it in countries of Region West

Europe, where we generated almost 50% of total esomeprazole sales. In Germany, Emanera* was the leading generic variety of esomeprazole. Like in 2018, Krka was again among the leading generic producers of esomeprazole in Europe in 2019.

Other Medicines for Acid-Related Disorders

Ulcavis* (bismuth subcitrate) is indicated for the treatment of gastritis. In combination with antibiotics and proton pump inhibitors, it is also indicated for removal of *Helicobacter pylori* bacteria. In particular in the markets of Region East Europe, it is also available as a non-prescription product. In 2019, we started marketing it in Belarus and Albania, where Ulcavis* is the only bismuth-based medication for the treatment of acid-related disorders. We were the only supplier of this kind of medicine also in Poland, Hungary, and several other countries.

Pain relief

2019 highlights

- Krka was among the leading manufacturers of the tramadol/paracetamol single-pill combination in Europe.
- In the area of Regions Slovenia, Central, East and South-East Europe, this single-pill combination headed all competing products.
- Doreta* accounted for more than a 45% market share.
- We were among the leading generic manufacturers of etoricoxib in Europe.

Pain relief

- We have a broad range of medications for relieving various types and strengths of pain.
- We market non-steroidal anti-inflammatory and antirheumatic medicines (NSAIDs), opioids and opioid-based combinations, and medicines indicated for alleviating neuropathic pain.
- Our non-prescription products complement the range of prescription analgesics.

Non-steroidal anti-inflammatory and antirheumatic drugs (NSAIDs)	Opioids and opioid-based combinations	Other agents for treating neuropathic pain
naproxen (Nalgesin*)	tramadol (Tadol) tramadol/paracetamol (Doreta*)	pregabalin (Pragiola*)
diclofenac (Naklofen Duo*)	oxycodone/naloxone (Adolax*)	duloxetine (Dulsevia*)
dexketoprofen (Dekenor)		
etoricoxib (Roticox*)		
celecoxib (Aclexa*)		

Doreta* (tramadol/paracetamol) is our most important analgesic and was among top 15 Krka medicines in terms of sales. In 2019, we remained one of the leading manufacturers of this single-pill combination in Europe. In Germany, Poland, Romania and other markets, Doreta* was the leading medicine of its kind and topped all competitors. In 2019, we launched it as the first generic pharmaceutical company also in Serbia and Finland. In these two markets, and also in Hungary and the Czech Republic, we were the only producer that supplied the single-pill combination of 75 mg tramadol and 650 mg paracetamol. In 2019 we launched an opioid analgesic **Adolax*** (oxycodone/naloxone) on new markets. As the only producer of this single-pill combination, we started marketing it in the Republic of North Macedonia and Latvia.

Roticox* (etoricoxib) of the coxib medicine class is a non-steroidal anti-inflammatory and antirheumatic medicine (NSAID). In 2019, we started marketing it in the Russian Federation, and as the first generic pharmaceutical company in Bosnia and Herzegovina and Uzbekistan. Krka ranks among the leading generic manufacturers of etoricoxib in Europe. In Poland, Roticox* was the most successful of all competing products.

This class of analgesics also comprises **Aclexa*** (celecoxib). Aclexa* accounted for a 30% market share and was the leading celecoxib-based generic analgesic in the area of Regions Slovenia, Central, East, and South-East Europe. In the Russian Federation and Ireland, we were the leading generic manufacturer of celecoxib. In Poland, Slovakia, and certain other markets, Aclexa* took the topmost place among all competitors.

The range of non-steroidal anti-inflammatory and antirheumatic medicines also comprises **Naklofen Duo** (diclofenac) and **Nalgesin*** (naproxen), which is also marketed as a non-prescription medicine. In the area of Regions Slovenia, Central, East,

and South-East Europe, Nalgesin* was the principal naproxen-based analgesic accounting for close to a 60% market share. In Slovenia, it was the most frequently prescribed non-steroidal anti-inflammatory and antirheumatic medicine. In 2019, we placed it on the markets of Italy and Montenegro. Our latest analgesic in this class is **Dekenor** (dexketoprofen). We started marketing it in 2018, and put it on the market in Ukraine in 2019. It is available as solution for injection, and in the future we intend to launch it in oral forms as well.

Pragiola* (pregabalin) is another analgesic. This agent of the antiepileptic class is primarily used to treat peripheral and central neuropathic pain. Pragiola* was the leading generic variety of pregabalin in Slovenia and Austria presenting almost a 30% market share. In Estonia, it held the first place among all competitors. We ranked among the leading generic producers of pregabalin also in Germany and throughout the markets of Region West Europe. In 2019, we started marketing Pragiola* in Romania and Hungary as well. We also market **Dulsevia*** (duloxetine), an antidepressant indicated to treat neuropathic pain.

Antiinfectives for Systemic Use

Antibacterials for Systemic Use

Our portfolio of antibiotics comprises medicines from different classes. We supply macrolides, β -lactam antibiotics, fluoroquinolones, and other antibiotics. In the area of Regions Slovenia, Central, East and South-East Europe, Krka was the leading generic producer of macrolides and the leading producer of fluoroquinolone products.

Fromilid (clarithromycin) is our most important macrolide antibiotic. It is the leading generic variety of clarithromycin in the area, and the fourth best-selling macrolide brand. Fromilid is the leading clarithromycin in Ukraine, Hungary, Croatia and several other markets, and also ranks among the leading macrolide brands. In 2019, we started marketing clarithromycin also in France. **Azibiot** (azithromycin) is another macrolide antibiotic and is the leading generic variety of azithromycin in Slovenia and Latvia.

Our range of β -lactam antibiotics comprises **Furocef*** (cefuroxime) and **Betaklav*** (amoxicillin/clavulanic acid). In 2019, we placed Betaklav* on the market in Ukraine, and started marketing new pack sizes in certain other countries.

Our fluoroquinolone range comprises four medicinal products. In 2019, we started marketing **Levalox*** (levofloxacin) also in Albania, and launched solution for infusion in Mongolia. Holding more than a 40% market share, Levalox* was the leading levofloxacin in Croatia, Slovakia, and Lithuania. **Moloxin*** (moxifloxacin) was the principal generic variety of moxifloxacin in the area of Regions Slovenia, Central, East and South-East Europe, and the topmost moxifloxacin product in Poland and Slovakia. **Ciprinol** (ciprofloxacin) and **Nolicin** (norfloxacin) supplement our portfolio of fluoroquinolones.

HIV Infection and Other Antivirals

In 2017, we entered the therapeutic area of HIV infection treatment. In 2018, we presented the medicine indicated to treat chronic hepatitis B virus infection. In 2019, we presented these medications on new markets and added another new, our fourth, medicine for the treatment of HIV infection.

Our most important medicine in this class is **Darunasta*** (darunavir). We started marketing it in 2018. In 2019, we placed it on the market in Germany among the first generic pharmaceutical companies. We started marketing Darunavir also in France, Italy, and several other countries of Region West Europe. We are one of the leading generic producers of darunavir in Germany and market it successfully also in other countries. Our darunavir is the leading generic variety in Slovenia, and the topmost of all darunavir products in Slovakia and Latvia.

Our range for the treatment of HIV infection comprises also two single-pill combinations, **Entenovo*** (emtricitabine/tenofovir) and **Efavemten*** (efavirenz/emtricitabine/tenofovir). In 2019, we placed Entenovo* on the markets in Finland, Austria, and Belgium, and Efavemten* in Italy and Portugal. The two single-pill combinations are among the leading generic varieties in the countries of Region West Europe.

We added a new medicine **Atazam*** (atazanavir) to our range of antivirals in 2019. It is indicated for the treatment of HIV infection and is used in combination with other medicinal products. We put it on the market in Germany, France, Italy and several other countries of Region West Europe. Krka was the leading generic manufacturer of atazanavir in Germany last year.

In 2019, we placed **Entecavir Krka** indicated for the chronic hepatitis B treatment on the markets of Slovenia, Romania and France.

Urologicals

Medications used in erectile dysfunction are our most important therapeutic class of urologicals. Our portfolio comprises **Vizarsin*** (sildenafil), **Tadilecto*** (tadalafil), and **Viavardis*** (vardenafil). These medicines come in tablets, and in several markets, we are the only producer that supplies sildenafil orodispersible tablets. Krka ranked among the main producers of tadalafil-based products in the area of Regions Slovenia, Central, East and South-East Europe, and was the leading producer of a generic variety of vardenafil. We rank as one of the leading generic producers of vardenafil in Germany. In 2019, we started marketing Vivardis* as the first generic variety of vardenafil in Slovenia and Poland.

Tanyz/Tanyz* ERAS (tamsulosin), **Dutrys*** (dutasteride), and **Finpros*** (finasteride) are used for the treatment of benign prostatic hyperplasia. In 2019, we expanded marketing of those medicines to new markets of Region South-East Europe. Krka is the leading generic producer of tamsulosin in the Czech Republic, in Germany takes the first place among generic producers of dutasteride, and in Slovenia it is principal among all generic producers of the two medicines.

We also market medicines for the treatment of urinary incontinence, including **Asolfena*** (solifenacin) and **Dulovesic*** (duloxetine). In 2019, we put Asolfena* on eight new markets, including Germany, Italy, and France. In Germany and Slovenia, Asolfena* ranked among the leading generic varieties, while Dulovesic was the top-ranking medicine for this indication in the markets of Regions Slovenia, Central, East and South-East Europe.

Blood and Blood –Forming Organs

Our most important medicinal product from this class is **Zyllt*** (clopidogrel). It was the leading generic variety of clopidogrel in the Russian Federation where we make almost one third of total clopidogrel sales. It was the leading of all clopidogrel products in Hungary, Kyrgyzstan, and Uzbekistan. We remained among the leading generic manufacturers of clopidogrel in Europe.

In 2019, we added to our product range another medicine of this therapeutic class, **Eliskardia*** (prasugrel). We as the first generic pharmaceutical company made it available also in Germany and Hungary, and placed it on another seven markets including Spain, France, etc. Krka was among the leading generic manufacturers of prasugrel in Germany last year.

Antidiabetics

We retained the position of the main generic producer of sulfonylureas in the area of Regions Slovenia, Central, East, and South-East Europe.

Our most important medicine in this class was **Gliclada*** (gliclazide). We were the only producer in the area that supplied three different strengths of gliclazide modified release tablets: 30 mg, 60 mg, and 90 mg. In Slovenia and Estonia, Gliclada* accounted for more than a 20% market share and was the leading generic variety of gliclazide, while in the Czech Republic and Moldova, it came first of all gliclazide products. Sales were good also in the markets of Region West Europe. We were among the leading generic manufacturers of gliclazide modified-release tablets in Europe.

Our antidiabetic range also comprises **Glypvilo** (vildagliptin), a dipeptidyl peptidase-4 (DPP-4) inhibitor. It is our newest medicine for the treatment of diabetes and we started marketing it in 2018. Another antidiabetic agent, **Enyglid*** (repaglinide), placed us among the leading generic producers of repaglinide in Germany.

Oncology

Krka has a portfolio of agents used in oncology consisting of **Meaxin*** (imatinib), **Ecansya*** (capecitabine), **Lortanda*** (letrozole), **Escepran*** (exemestane), **Tezalom** (temozolomide), and **Tolnexa** (docetaxel). In 2019, we added to our portfolio **Everofin*** (everolimus) and put it on the markets of Germany, France, Finland and several other countries, but we stopped selling it later on because an additional patent entry for therapeutic indications had been granted. In 2019, we started marketing gefitinib as one of the first generic producers in Europe. We presented **Gefitad*** in the Czech Republic, Germany, and France, and as the only generic producer in Slovenia. We were the leading generic producer of gefitinib in Germany last

year. We extended marketing of our existing products to new markets. In 2019, we presented Ecansya in Ukraine and Finland, and as the only manufacturer started marketing imatinib dispersible tablets in France. Our imatinib was the leading generic variety in Slovenia, while in Bosnia and Herzegovina, and Latvia our imatinib held the leading position of all imatinib varieties. In Germany, we were among the leading generic manufacturers of capecitabine.

Dexamethasone Krka tablets of high strengths are used primarily in oncology and haematology, but also in other therapeutic areas. We were the only supplier of dexamethasone 20 mg and 40 mg tablets in the area of Regions Slovenia, Central, East, and South-East Europe, Germany and Spain. Krka was the leading producer of dexamethasone in these regions. In 2019, we started marketing dexamethasone in new markets of Region South-East Europe.

Other Medicines

In 2019, we launched **Febuxodor*** (febuxostat) film-coated tablets. The medicine is indicated for the treatment of gout and also for the treatment of high levels of uric acid in the blood in initial chemotherapy for leukaemia. We placed it on the markets of Spain, Finland, the Baltic States, and as the first generic producer in Germany, Ireland, Poland, and Hungary. We were among the leading generic manufacturers of febuxostat in Germany, and were the leaders among generic producers in Poland.

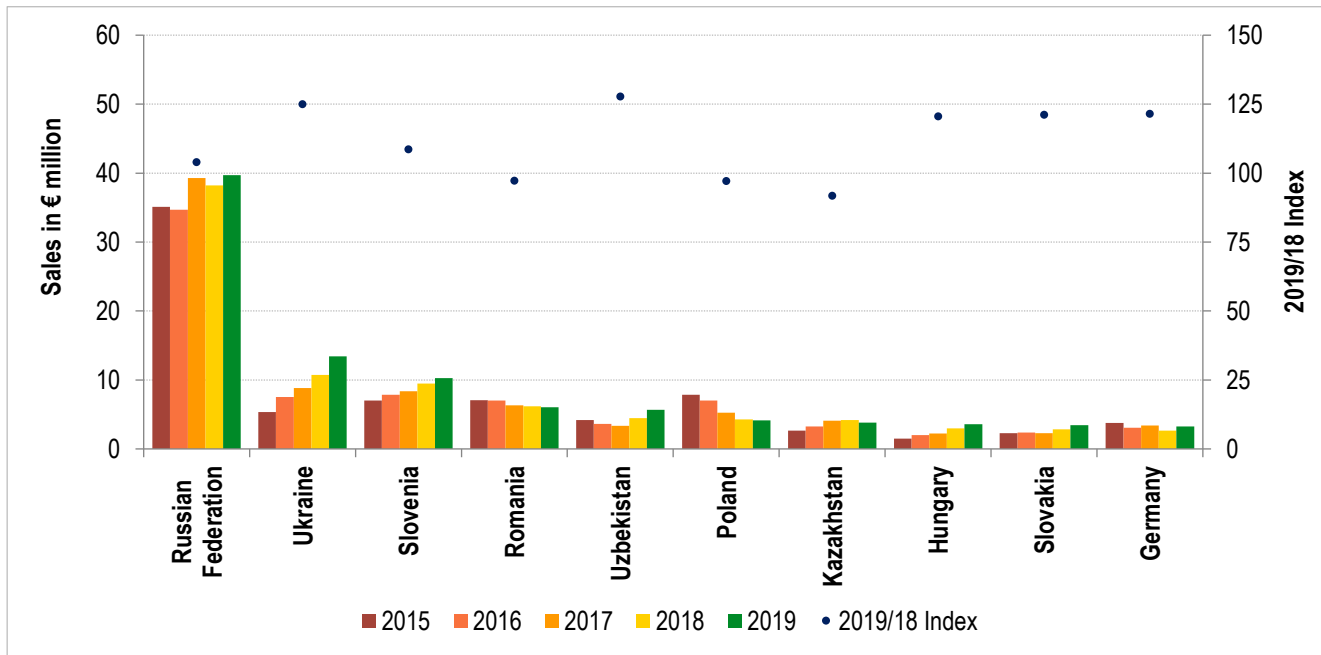
Non-Prescription Products

In 2019, the Krka Group sales of non-prescription products totalled €133.3 million, an 8% year-on-year increase. Ukraine, the Russian Federation and Uzbekistan contributed to sales growth the most.

We market non-prescription products through our own marketing-and-sales network in most countries of Regions Central, East, and South-East Europe.

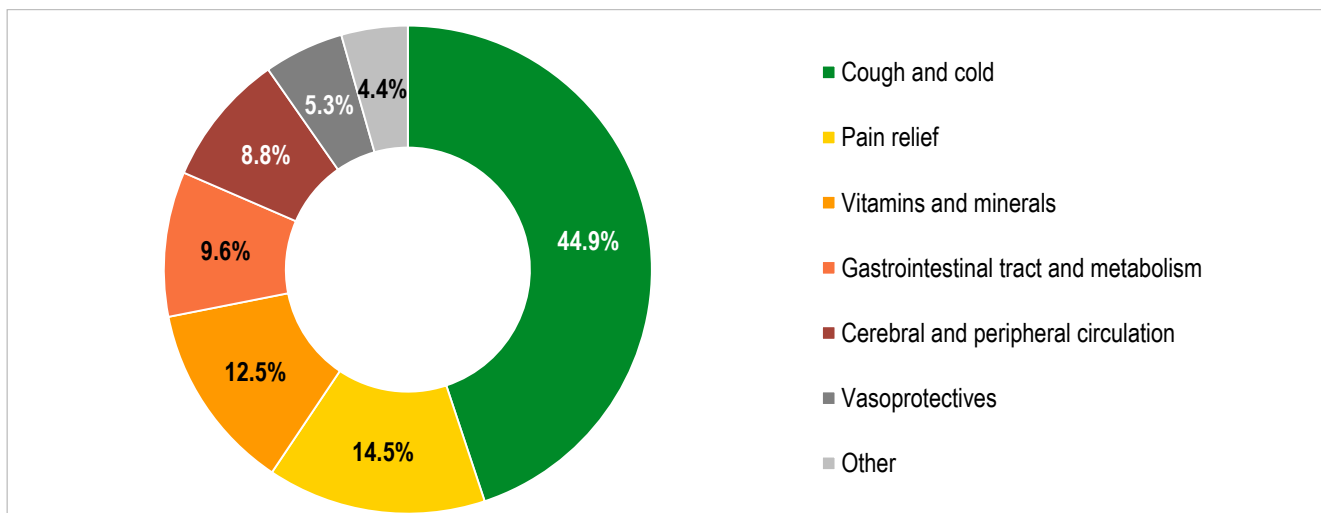
Septotele, Herbion*, Nalgesin*, and Bilobil* were our most important non-prescription product brands in terms of sales.

Non-Prescription Product Sales by 10 Major Markets



Revenue from sales since 2017 is presented in compliance with the IFRS 15.

2019 Non-Prescription Product Sales by Therapeutic Classes



In 2019, Septotele was our leading non-prescription product brand in terms of sales. **Septotele Total*** (benzydamine/cetylpyridinium chloride), which was in focus of our promotion, accounted for more than 90% of sales. The product is available as spray and lozenges of three flavours. We marketed eucalyptus-flavoured Septotele Total* in 35 countries. In 2019, we added elder-and-lemon flavoured lozenges to the brand and put the product on ten new markets. We started marketing the new product in 2018, and in 2019 launched it also in Poland, Croatia, Kazakhstan and seven other

countries. In Slovenia, Lithuania, Belarus, and several other markets, Septotele Total* was best-selling non-prescription throat product.

Herbion*, our second most important non-prescription product brand, was available in more than 30 markets. It includes herbal cough syrups for various types of cough. **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. Herbion was the main of all natural syrup brands in the Russian Federation, Ukraine, Romania, and in Regions Slovenia, Central, East, and South-East Europe. In 2019, we added another product to the brand, **Herbion Ivy Lozenges**. Lozenges act much like the syrup and help expectoration. Tablets are especially suitable for adults. We placed the product on the market in Slovenia, Romania, the Baltic States, and in Hungary, and made it available in Spain as our first non-prescription product. In several countries, it is the first product containing ivy leaf extract in lozenges.

Our third most important non-prescription product brand is an analgesic, **Nalgesin*** (naproxen). The medicine is available on prescription as well. For years it has been principal naproxen in the area of Regions Slovenia, Central, East, and South-East Europe. In 2019, we started marketing it also in Mongolia. Nalgesin* is the leading non-steroidal anti-inflammatory drug in Slovenia.

Bilobil* contains ginkgo extract and is indicated for improvement of concentration and memory. In the area of Regions Slovenia, Central, East, and South-East Europe, Bilobil* was the second best-selling ginkgo-based product, while in Hungary, Ukraine, Romania and several other markets it took the first place of all ginkgo products. In Romania, it is the only ginkgo-containing medicine available as a non-prescription product. In 2019, it received Polish national award 'Dobra Marka 2018 – Jakość, Zaufanie, Renoma' that reflects high quality of the product and trust of customers.

Flebaven* is one of the new non-prescription product brands of Krka. It is used for the treatment of chronic venous insufficiency, and acute haemorrhoidal syndrome. The product is available on prescription as well. Flebaven contains a combination of diosmin and hesperidine. In 2018, we added another product to our Flebaven* brand, diosmin 500 mg or 1 000 mg tablets. In 2019, we started marketing it in Hungary, Croatia, the Baltic States, and elsewhere.

Pikovit* and **Duovit** are our brands of vitamins and minerals. Duovit products are intended for adults, while Pikovit* products are for children. Pikovit is one of the leading brands of vitamins and minerals for children in Region East Europe, and holds the leading position among the competitors in Uzbekistan, Kyrgyzstan, and Azerbaijan.

The nasal decongestant **Septanazal*** (xylometazoline/dexpanthenol) is also among Krka's leading non-prescription products. It is available as spray for adults and spray for children. Septanazal has been placed on more than 30 markets so far.

In 2019, we started marketing a new product, **Noctiben Mea*** (doxylamine). Noctiben Mea is indicated for adults with occasional (acute) insomnia. We presented it in the Russian Federation, Slovenia, and France and plan to extend it to new markets in the future.

Another non-prescription products added to our range in 2019 was **KontrDiar** (nifuroxazide). It is used for treating acute uncomplicated bacterial diarrhoea. It is available in two dosage forms, as capsules or oral suspension that is also suitable for children aged one month and older. We market it in the Russian Federation.

In 2017, we launched our food supplement **Magnezij Krka 300*** water soluble granules. In 2019, it took the first place in Slovenia among magnesium-containing products for the second consecutive year holding more than a 35% market share.

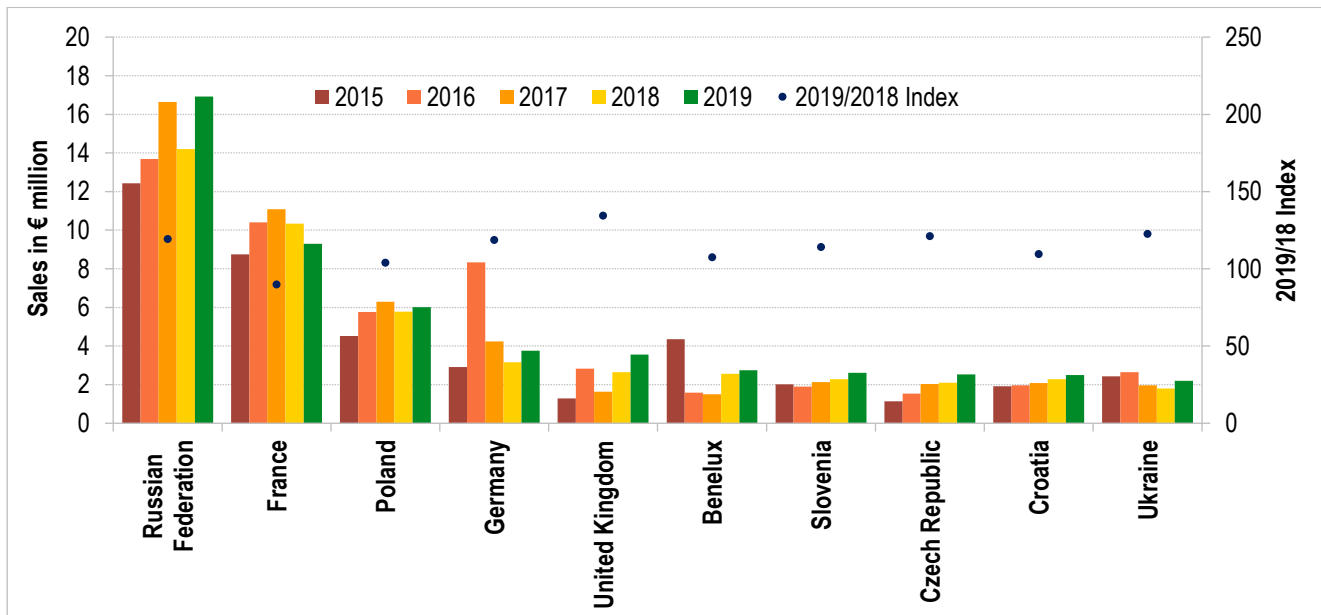
Animal Health

In 2019, the Krka Group sales of animal health products amounted to €69.1 million, a 9% year-on-year climb. Sales generated in the Russian Federation, United Kingdom, and Germany contributed most to sales growth.

We market animal health products through our own marketing-and-sales network in Regions Slovenia, Central, East, and South-East Europe. We have also been extending it to the markets of Region West Europe. It successfully performs in Germany, the United Kingdom, Belgium, France, Italy, Portugal, Finland, and the Netherlands. In other countries of Regions West Europe and Overseas Markets, we market our animal health products through our business partners.

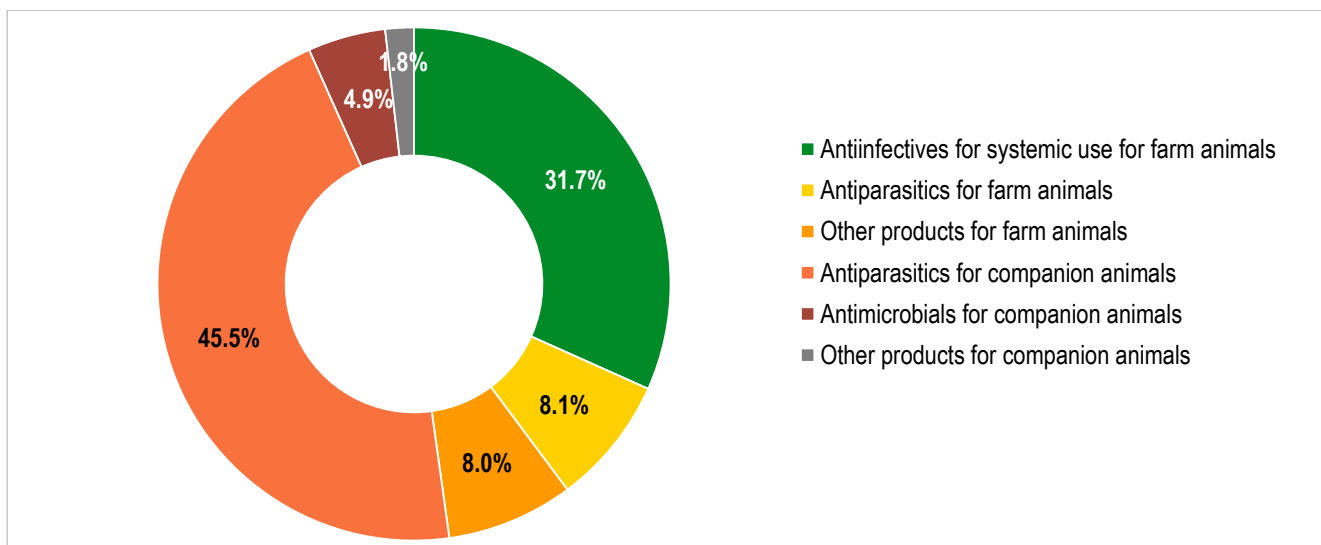
The combination of milbemycin and praziquantel (Milprazon*) was our most important animal health product in terms of sales in 2019. It was followed by products containing fipronil (Fypryst*, Fypryst* Combo), florfenicol (Floron), and enrofloxacin (Enroxil*), and products combining pyrantel and praziquantel (Dehinel*, Dehinel* Plus).

Animal Health Product Sales by 10 Major Markets



Revenue from sales since 2017 is presented in compliance with the IFRS 15.

2019 Animal Health Product Sales by Therapeutic Classes



Krka produces animal health products for farm animals and companion animals. The market share of products for companion animals has been rising and exceeded 50% in 2019.

Our most important companion animal product is the antiparasitic **Milprazon*** (milbemycin/praziquantel), which is also our main animal health product. Sales were strongest in France, the United Kingdom and Germany. Sales generated in the countries of Region West Europe accounted for almost two thirds of total Milprazon* sales. It is the leading product in Slovenia that combines the two active ingredients, and in 2019 was the only product of the kind available in Serbia and Croatia.

Spot-on solutions represent a significant proportion of the companion animal product range. **Fypyrst*** (fipronil) is the most important brand, and includes the combined medicine **Fypyrst* Combo** (fipronil/S-methoprene). It is one of our leading veterinary brands. Fypyrst* is also available as cutaneous spray.

Our newest spot-on solution is **Selehold*** (selamectin), an antiparasitic agent for the treatment of companion animals. This is our first endectocide, that is an antiparasitic agent active against endoparasites and ectoparasites. In 2019, we started marketing Selehold* and launched it as the first generic producer in the United Kingdom, Germany, Poland, and elsewhere, all together on 20 markets of Regions West, Central and South-East Europe.

We also supply another antiparasitic agent, **Ataxxa** (imidacloprid/permethrin) spot-on solution. This combination of two active ingredients is used to treat infestations with ectoparasites in dogs and is available in four strengths. In 2019, we launched Ataxxa in Spain, the United Kingdom, and the Russian Federation, where it is the only product that competes with the existing product.

Another leading animal health product for companion animals is **Dehinel Plus*** (febantel/pyrantel/praziquantel), a dewormer for dogs. **Dehinel Plus* XL** tablets are indicated for large dogs, and we also market **Dehinel* Plus Flavour** flavoured tablets for dogs, and **Dehinel*** (pyrantel/praziquantel) tablets for cats.

Our range of new animal health products for companion animals also includes **Otoxolan** (marbofloxacin/clotrimazole/dexamethasone) ear drops for dogs. We first launched it in 2017, and in 2019 also started marketing it in Spain and as the first generic pharmaceutical company in Serbia.

An important part of our animal health product range for farm animals are antimicrobials and parasiticides. Antimicrobials **Floron*** (florfenicol) and **Enroxil*** (enrofloxacin) in terms of sale rank among the five top animal health products. In 2019, we launched a new antimicrobial for farm animals, **Tuloxxin** (tulathromycin) solution for injection. It is indicated for various bacterial infections in cattle, pigs, and sheep. We launched it as the first generic producer in nine markets, Poland, the Czech Republic, and Romania among others. **Amatib** (amoxicillin), **Doxatib** (doxycycline), and **Trisulfon** (sulfamonomethoxine/trimethoprim) supplement our range of antimicrobials for farm animals. **Flimabend*** (flubendazole) and **Toltarox*** (toltrazuril) are among most important Krka animal health products for farm animals.

Catobevit (butafosfan/cyanocobalamin) solution for injection is our new animal health product. We started marketing it in 2019. It is indicated as supportive therapy for various metabolic or reproductive disorders in farm and companion animals. We launched it in 14 countries, also in Poland, Romania and Germany, and as the first generic manufacturer in Croatia and Estonia.

Our portfolio of animal health products includes **Ecocid* S**, a disinfectant that ranks among top ten Krka animal health products.

Health Resorts and Tourist Services

Sales revenues generated by our health resorts and tourist services amounted to €39.5 million in 2019, accounting for a 5% year-on-year increase. Terme Krka, a provider of spa and health resort services, recorded 360,663 overnight stays in Šmarješke Toplice, Dolenjske Toplice, Strunjan, Otočec and Novo Mesto.

Foreign guests accounted for almost one third of all overnight stays in Terme Krka hotels. We recorded an increase in the number of guests from Austria and Germany, and from selected potential markets, for example Croatia, Belgium, Sweden, the Czech Republic, and the U.S.

We recorded annual occupancy rates as follows: Talaso Strunjan recorded the highest occupancy rate of almost 81%, Terme Dolenjske Toplice 79%, Terme Šmarješke Toplice 67%, and Hoteli Otočec 43%.

Products Marketed Under Different Brands in Individual Markets

Active ingredient	Brands
Prescription Pharmaceuticals	
agomelatine	Lamegom, Agomaval
amlodipine	Tenox, Hipres, Alneta
amoxicillin/clavulanic acid	Betaklav, Hiconcil Combi
aripiprazole	Aryzalera, Aripipan, Arisppa, Zylaxera
atorvastatin/amlodipine	Atordapin, Atorcombo
bismuth subcitrate	Ulcavis, Ulcamed
bisoprolol	Niperten, Sobycor, Sobyc, Zonsiloc
bisoprolol/amlodipine	Sobycombi, Niperten Combi, Bisodipin
candesartan	Karbis, Candecor, Canocord
candesartan/hydrochlorothiazide	Karbicombi, Cancombino, Canocombi
capecitabine	Ecansya, Cansata
cefuroxime	Furocef, Ricefan
celecoxib	Aclexa, Dilaxa
clopidogrel	Zyllt, Kardogrel
diclofenac	Naklofen Duo, Naklofen
donepezil	Yasnal, Yasnoro
duloxetine	Dulsevia, Duloxalta, Dulovesic, Loxentia
dutasteride	Dutrys, Dutascar, Dortilla
enalapril/hydrochlorothiazide	Enap-H, Enap-HL, Enap-HL 20
enalapril/lercanidipine	Elernap, Elyrno, EnaCanpin
epirolone	Aplera, Enplerasa
escitalopram	Elicea, Ecytara, Escitalex, Anxila
esomeprazole	Emanera, Emozul, Escadra
etoricoxib	Roticox, Bericox, Etoxib, Etoriax
exemestane	Escepran, Etadron
ezetimibe	Ezoleta, Ezetad
finasteride	Finpros, Finascar TAD
galantamine	Galsya SR, Galnora
gliclazide	Gliclada, Glyclada
imatinib	Meaxin, Neopax, Meapax, Itivas, Yntam
irbesartan	Ifirmasta, Irabel, Firmasta, Iracor, Irbecor
irbesartan/hydrochlorothiazide	Ifirmacombi, Co-Irabel, Firmasta H; Firmasta HD, Irbecor Comp
ivabradine	Bravadin, Bixebra, Brivecor, Ivabalan
lansoprazole	Lanzul, Lansoptol
letrozole	Lortanda, Likarda
levofloxacin	Levalox, Levnibiot, Leviaben, Levaxela
lisinopril	Laaven, Zonixem
lisinopril/hydrochlorothiazide	Laaven-HL, Zonixem-HL, Laaven-HL 20, Zonixem-HL 20, Laaven-HD, Zonixem-HD
losartan	Lorista, Lavestra
losartan/amlodipine	Tenloris, Alortia, Lortenza, Losamlo
losartan/hydrochlorothiazide	Lorista H, Lavestra H, Lorista HL, Lavestra HL, Lorista HD, Lavestra HD
memantine	Marixino, Memando, Maruxa, Memaxa, Mentixa, Maryzola
metoprolol	Bloxazoc, Metazero
moxifloxacin	Moloxin, Moflaxa, Moxibiot, Moflaxya
naproxen	Nalgessin, Analgesin, Naldorex
olanzapine	Zalasta, Zolrix
olmesartan	Olimestra, Olmecor
olmesartan/amlodipine	Olssa, Olmeamlo, Olmira

oxycodone/naloxone	Adolax, Oxycaloxon, Oxynador
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
perindopril/indapamide/rosuvastatin	Roxiper, Triemma
prasugrel	Eliskardia, Prasillt, Sigrada
pregabalin	Pragiola, Pregabador, Pregabio
quetiapine	Kventiax, Quentiax
rabeprazole	Gelbra, Zulfex
ramipril	Ampril, Amprilan
ramipril/amlodipine	Rameam, Ramidipin
ramipril/hydrochlorothiazide	Ampril HL, Amprilan HL, Ampril HD, Amprilan HD
rasagiline	Rasagea, Ralago, Raglysa
repaglinide	Enyglid, Repodiab
risperidone	Torendo, Rorendo
ropinirole	Rolpryna SR, Ralnea SR
rosuvastatin	Roswera, Rosuvador, Roxera, Sorvasta
rosuvastatin/amlodipine	Rosudapin, Rosmela
rosuvastatin/ezetimibe	Co-Roswera, Coroswera, Sorvasta Plus
rosuvastatin/valsartan	Valarox, Ravalsyo
sildenafil	Vizarsin, Sildegra
simvastatin/ezetimibe	Ezesimin, Vasitimb
solifenacin	Asolfena, Solifemin
tadalafil	Tadilecto, Tadagis
tamsulosin	Tanyz, Tadin
telmisartan	Tolura, Telmista
telmisartan/amlodipine	Telassmo, Tamloset, Teldipin
telmisartan/hydrochlorothiazide	Tolucombi, Telmista H
tramadol/paracetamol	Doreta, Tramabian
valsartan/amlodipine	Wamlox, Vamloset, Valodip, Amlo-Valsacor
valsartan/amlodipine/hydrochlorothiazide	Valtricom, Valsamtrio, Co-Vamloset
valsartan/hydrochlorothiazide	Valsacombi, Co-Valsacor, Valsacor H, Valsacor HD, Valsaden, Janartan
ildenafil	Viavardis, Vardegin
venlafaxine	Alventa, Olwexya
ziprasidone	Zypsilan, Zypsila, Ypsila

Non-Prescription Products

benzylamine/cetylpyridinium chloride	Septolete Total, Septabene, Septolete Extra, Septolete Omni, Septolete Ultra, Septolete Duo, Septafar
diosmin; diosmin/hesperidin	Flebaven, Fladios, Flebazol, Flabien
doxylamine	Noctiben Mea, Sleepzone, Calmesan
ginkgo leaf extract	Bilobil, Gingonin
Iceland moss extract	Herbion Iceland Moss, Herbisland
ivy leaf extract	Herbion Ivy Syrup, Herbihelix
magnesium citrate	Magnezij Krka 300, Magnesol B ₂
naproxen	Nalgesin S, Analgesin, Nalgedol, Ilgesin, Nalgesin Dolo, Nalgesin Mini, Nalgesin Relief
vitamins for children	Pikovit, Divakid
xylometazoline/dexpanthenol	Septanazal, Septanasal

Animal Health	
biocide	Ecocid, Oxicid
enrofloxacin	Enroxil, Enrox, Enroxal
febantel/pyrantel/praziquantel	Dehinel Plus, Anthelmin Plus
fipronil	Fypzyst, Amflee, Fyperix
fipronil/S-methoprene	Fypzyst Combo, Amflee Combo, Fyperix Combo
florfenicol	Floron, Fenflor
flubendazole	Flimabend, Flimabo
milbemycin/praziquantel	Milprazon, Milquantel
pyrantel/praziquantel	Dehinel, Anthelmin
selamectin	Selehold, Selafort, Selames
toltrazuril	Toltarox, Tolzesya, Bovicox

Research and Development

Research and development are part of our vertically integrated business model and key elements in designing and upholding a competitive portfolio of Krka products. Our development strategy with its key advantages related to vertical integration and connectivity of development and production processes enables us to achieve goals and deliver added-value products on markets as the first generic manufacturer. We guarantee uninterrupted supplies of new and competitive medicines to various markets by comprehensive and professional monitoring of products throughout their life cycles.

We are able to respond quickly and appropriately to development challenges, marketing requirements, potentials, and opportunities by tracking trends and scientific achievements in various expert fields (technological and analytical, therapeutic areas, etc.). In order to develop and introduce advanced medicines on time, we adopt an optimal approach when researching and developing new medicines and set optimal patent strategies. We use the vertically integrated model to manage patent, development, legislative, production, and marketing requirements and risks. By managing the entire process, we are able to research, develop, evaluate, authorise, and manufacture raw materials, active ingredients for our own use, and finished products. In-house development and effective integration of the development and production phases guarantee timely delivery of high-quality, effective, safe and competitive products to markets and their continuous availability on the market.

We have adopted a development strategy and project approach to manage products in all phases of their life cycles. Research-and-development results and practical understanding of legislative requirements enable us to draft and manage complex registration documentation and obtain marketing authorisations for products on time. Regulatory requirements are growing more complex forcing us to introduce new, additional and improved approaches and methods in development and conduct new studies, which we constantly update and use in our research. We regularly introduce new products and maintain their competitiveness in over 70 countries.

When entering new and technologically challenging areas, for example similar biological medicines and complex peptides, we reach out to and connect with other companies and institutions, while conducting our own development studies in key areas of finished product development. We have established a special expert group on recombinant technologies and products, which actively monitors products and technologies in different development phases at potential partners. We assess potentials of various therapeutic segments, in particular medicines for the treatment of diabetes and autoimmune diseases, and establish business cooperation. We conduct diligent expert and business reviews of particular products that serve as the basis for business cooperation and complement them with our own development-related activities.

To enter a new strategic market, China, we have used our own know-how, adjusted development activities properly, linked our development and manufacturing operations, and obtained information about regulatory and marketing requirements. Establishment of suitable development and production processes and connections allows us to comprehensively manage products at all stages of their development, production, evaluation, registration, and introduction to new markets.

Investments and Achievements

Investments in research and development are essential for innovative approaches, the introduction of new products, and maintenance of their competitiveness on all markets. As scientific and technological discoveries are rapidly advancing and markets are increasingly complex landscapes, we must constantly invest in equipment and know-how to deliver advanced new products on time, while maintaining the highest quality.

Research-and-development processes involve comprehensive and complex technological, analytical, preclinical, clinical, and bioequivalence studies and procedures for the production of innovative pharmaceutical forms in new therapeutic areas. We use state-of-the-art equipment to deliver the most demanding projects in terms of techniques and technologies.

We expanded capacities for developing and assuring the quality of our innovative generic products by commissioning our Razvojno-kontrolni center 4 (RKC 4, product research, development and control facility) in 2019. The centre will significantly increase the operating capacity and the capacity to conduct development studies. The new facility is equipped with state-of-the-art technological equipment enabling thorough research work in the initial development phases. Additional equipment at the pilot scale allows for in-depth work in the research of new products, proper set-up of technology for new products and its transfer to the industrial scale. We brought this new facility online in order to guarantee our independence, reduce costs of

reference materials for analyses, ensure capacity for analytical procedures in development and provide support for analytical research of new products.

Our Croatian plant in Jastrebarsko focuses on manufacturing and research and development of oncology medicines. In 2019, we developed an industrial-scale technological process for two new products, enabling further diversification of our product portfolio in this therapeutic class.

We look for our own research-and-development solutions to develop new products and use them to successfully overcome patent obstacles, while filing our own patent applications to provide for patent protection. We develop complex pharmaceutical forms with added value for patients (e.g. modified-release forms, dispersible tablets, and bi-layer tablets). We have introduced complex technological procedures for bi-layer tablet compression used in the production of new medicines that combine two or three active ingredients in one pharmaceutical form. With regard to existing medicines, we conducted comprehensive development studies required to apply for marketing authorisations in China and other new markets.

We introduced many new technologies and analytical techniques to deliver on our goals, especially to develop innovative products with added value and enter new markets as the first generic pharmaceutical company. We investigated new approaches in devising patent-independent solutions and used amorphous solid dispersions in the development of new products. We continued to apply automated sample preparation in analytical evaluation and introduced other innovative techniques (e.g. 3D optical profilometry).

We invested in laboratory equipment for cytological analysis and physico-chemical analytics to allow for in-house research in the fields of biotechnology and complex peptides. The equipment was also used in research work related to the analysis of active ingredients and pharmaceutical forms.

We cooperate with external research-and-development institutions to mutually improve and broaden our know-how and development results. Our own research-and-development processes generate innovations, which we protect by filing patent applications.

The achievements of our researchers have also been noticed by the wider community. Last year, we received prestigious awards for chemical synthesis of active ingredients and for developing finished dosage forms. We received several awards for innovation: seven regional awards from the Chamber of Commerce of Dolenjska and Bela Krajina and two awards at the state level conferred by the Slovenian Chamber of Commerce and Industry. The Chamber of Commerce of Dolenjska and Bela Krajina awarded our researchers for innovative solutions in the development of several products. We received gold awards for innovation in the development of paliperidone tablets from which the active substance is released by osmosis; in the development of the single-pill combination of olmesartan and amlodipine indicated for the treatment of hypertension; and in the development of antivirals containing darunavir and the combination of emtricitabine and tenofovir for the treatment of HIV. We won two silver awards for achievements in the development of the medicine containing vardenafil for the treatment of erectile dysfunction and the medicine containing vildagliptin indicated for the treatment of diabetes, and one silver award for innovative, environmentally sound and cost efficient solutions in the synthesis of telmisartan.

The Slovenian Chamber of Commerce and Industry conferred two awards on Krka for innovations in the field of pharmaceutical form development and finished product technologies: a gold award for the first generic paliperidone prolonged-release tablet using the OROS technology and a silver award for the solid dosage form containing the combination of olmesartan and amlodipine for the treatment of hypertension.

Protecting Our Know-How and Industrial Property

In 2019, we filed nine patent applications for technological solutions we had developed and evaluated as inventions. Based on priority applications from 2018, we submitted five international patent applications. We were granted eight patents in various countries. More than 200 patents filed by Krka are currently in force.

We submitted 62 applications for Krka trademarks in Slovenia and 38 international and 18 national trademark applications. All in all, we have registered more than 1,100 trademarks in several countries.

In addition to protecting our own accomplishments, inventions, and trademarks, the strategy for achieving most economical and at the same time acceptable technological solutions with respect to patent protection includes the use of available legal

measures (nullity or opposition proceedings against the grant of invalid patents or defending Krka's patent rights). This contributes to high-level legal security. We won 14 legal proceedings in 2019.

New Products and Marketing Authorisations of the Krka Group

In 2019, Krka obtained marketing authorisations for 20 new products in 43 pharmaceutical forms and strengths. We were awarded marketing authorisations for the following prescription pharmaceuticals: **Rosamera** or **Roxampex** (perindopril/amlodipine/rosuvastatin) single-pill combination; **Nebileta** or **Nebivolol Krka** (nebivolol); **Dasatilen** or **Dasatinib Krka** (dasatinib); **Atazanavir Krka** (atazanavir); **Tadusto** or **Twinpros** or **Dutamyz** (dutasteride/tamsulosin); **Sidarso** or **Silbesan** (silodosin); **Cinacabet** (cinacalcet); **Paracetamol Krka 1000** (paracetamol); **Pitavastatin Krka** (pitavastatin); **Maysiglu** or **Sitagavia** (sitagliptin); a new strength of **Camlocor** or **Kandoset** or **Camdero** (candesartan/amlodipine); **Metamizol Krka** (metamizole) solution for injection or infusion; and a new formulation of **Dexeto** or **Deksametazon Krka** (dexamethasone) solution for injection.

With regard to non-prescription products, we obtained marketing authorisations for **Vitamin D3 Krka** (cholecalciferol); **Herbion Ivy** (ivy leaf dry extract) lozenges; and **KontrDiar** (nifuroxazide). We were also granted marketing authorisations for our animal health products: **Awazom** (amoxicillin) and **Milprazon Chewable** or **Milpragold** or **Aderexa** or **Amcofen Sabor** or **Milprazon Plus** or **Mektix** or **Milgusto Chewable** (milbemycin/praziquantel) for cats; and **Prinocate** or **Imoxicate** (imidacloprid/moxidectin) for cats and dogs.

We pay special attention to our established products by monitoring new scientific developments and legislative requirements. In 2019, we submitted more than 30,000 regulatory variations to improve the quality and competitiveness of our products and provide our patients and users the latest safety information on our medicines.

Prescription Pharmaceuticals

We introduced 13 new prescription pharmaceuticals in 2019.

We added four new medicines to our cardiovascular portfolio. Under the decentralised procedure, we obtained marketing authorisation for **Rosamera** or **Roxampex** (perindopril/amlodipine/rosuvastatin) film-coated tablets in six strengths, our new single-pill combination for lowering blood pressure and cholesterol levels. It is indicated for adult patients whose levels are adequately controlled by the same doses of rosuvastatin and perindopril/amlodipine combination taken concomitantly.

We obtained marketing authorisation under the decentralised procedure for **Pitavastatin Krka** (pitavastatin) film-coated tablets in three strengths. Pitavastatin showed comparable efficacy to other statins and a reduced risk of interaction with other medicinal products compared to other statins.

We were granted marketing authorisation for our new pharmaceutical **Nolibeta** or **Nebivolol Krka** (nebivolol) tablets for the treatment of hypertension in adults. It can also be used for the treatment of stable mild and moderate chronic heart failure in addition to standard therapies in elderly patients 70 years of age and older.

We received marketing authorisation for **Camlocor** or **Kandoset** or **Camdero** (candesartan/amlodipine) 16 mg/10 mg tablets, a new strength of our single-pill combination indicated for the treatment of hypertension.

Marketing authorisation under the decentralised procedure was obtained for our advanced medicine **Maysiglu** or **Sitagavia** (sitagliptin) film-coated tablets in three strengths. Sitagliptin is a dipeptidyl peptidase-4 (DPP-4) inhibitor often combined with other medicines used to control blood glucose levels. It does not increase the risk of cardiovascular events or cause weight gain.

We also obtained marketing authorisation for our new oncology pharmaceutical **Dasatinib Krka** or **Dasatilen** (dasatinib) film-coated tablets in six strengths. Dasatinib is used to treat Philadelphia chromosome-positive acute lymphoblastic leukemia in adults, adolescents, and children aged one year and older.

Marketing authorisation was obtained for a new formulation of our established medicine **Dexeto** or **Deksametazon Krka** (dexamethasone) solution for injection. Dexamethasone, a synthetic glucocorticoid, is a basic medication for in-hospital use indicated as a supportive therapy for certain types of cancer and autoimmune disorders. Our portfolio of products for inpatient

care was extended with **Metamizol Krka** (metamizole) solution for injection or infusion, which was authorised for marketing under the decentralised procedure.

We supplemented the range of antivirals with **Atazanavir Krka** (atazanavir) hard capsules in three strengths. This new medication is indicated for the treatment of HIV infection, as it reduces the viral load in a body and chances of developing the disease. It is used concomitantly with other medicines to treat infected adults and children six years of age and older in a once-daily dose. We obtained marketing authorisations under the centralised procedure in the European countries.

We were granted marketing authorisations for two new pharmaceuticals indicated for the treatment of an enlarged prostate. **Tadusta** or **Twinpros** or **Dutamyz** (dutasteride/tamsulosin) hard capsules are indicated for treating moderate to severe symptoms of benign prostatic hyperplasia. This single-pill combination reduces the risk of developing acute urinary retention and the need for prostate surgery. Marketing authorisation was also granted for **Sidarso** or **Silbesan** (silodosin) hard capsules used to treat the signs of an enlarged prostate. The medicine is taken once daily, does not cause cardiovascular adverse reactions, and can therefore be used in the elderly and patients with cardiovascular diseases.

We obtained marketing authorisation under the European decentralised procedure for **Cinacabet** (cinacalcet) film-coated tablets in three strengths. The medicine regulates levels of parathyroid hormone, calcium, and phosphorus in the body. It is used for the treatment of secondary hyperparathyroidism in patients with kidney disease on dialysis therapy and for reducing high blood calcium levels in patients with cancer of the parathyroid glands or with primary hyperparathyroidism.

We supplemented our range of analgesics by a new strength of an established product, **Paracetamol Krka 1000** (paracetamol) 1 000 mg tablets. The medicine is indicated for the symptomatic treatment of mild to moderate pain and fever in adults and children weighing more than 50 kg.

In the European countries, we obtained new marketing authorisations for our established medicines. For cardiovascular products, registration procedures were concluded for: single-pill combinations **Amlodipin** or **Valsartan Krka** (amlodipine/valsartan); **Valtricom** or **Valsamtrio** (amlodipine/valsartan/hydrochlorothiazide); **Roxera Plus** (rosuvastatin/ezetimibe); and **olmesartan/amlodipine**; and two products for monotherapy **Atorvastatin Krka** (atorvastatin) and **Sorvasta** (rosuvastatin), all available as film-coated tablets.

We also obtained marketing authorisations for two antipsychotic agents, **Paliperidon Krka** (paliperidone) prolonged-release tablets and **Kventiax** or **Quetiapin Krka** (quetiapine) film-coated tablets and prolonged-release tablets.

We were granted marketing authorisation for a non-prescription **Rabeprazol Krka** (rabeprazole) gastroresistant tablets for the treatment of certain stomach problems. Rabeprazole supplied by Krka is the only rabeprazole in Finland marketed as a non-prescription product. The centralised marketing authorisation procedure was concluded for **Febuxostat Krka** (febuxostat) film-coated tablets indicated for the treatment of gout. New marketing authorisations were obtained for an analgesic, **paracetamol/tramadol** film-coated tablets; a non-steroidal anti-inflammatory drug (NSAID), **Dekenor** (dexketoprofen) solution for injection; and **tamsulosin** modified-release capsules and prolonged-release tablets indicated for the treatment of symptoms of benign prostate hyperplasia.

Our established medicines of various therapeutic classes, above all cardiovascular agents, received marketing authorisations in new markets of Eastern Europe. A single-pill combination **Roxatenz-inda** or **Roxiper** (indapamide/perindopril/rosuvastatin) film-coated tablets in four strengths were authorised for marketing in the Russian Federation and Ukraine. We introduced **Niperten Combi** (amlodipine/bisoprolol) tablets in Kazakhstan; **Valodip** (valsartan/amlodipine) film-coated tablets and **Ramladio** (ramipril/amlodipine) capsules in Kyrgyzstan; **Roxera Combi** (rosuvastatin/amlodipine) film-coated tablets in Azerbaijan; **Co-Vamloset** (valsartan/amlodipine/hydrochlorothiazide) film-coated tablets in Georgia and Armenia; **Teldipin** (telmisartan/amlodipine) tablets in Ukraine; and **Valaroks** (valsartan/rosuvastatin) film-coated tablets in Uzbekistan. **Bravadin** (ivabradine) film-coated tablets were authorised for marketing in Uzbekistan and Mongolia and **Co-Amlessa** (perindopril/amlodipine/indapamide) tablets, a single-pill combination in multiple strengths, in Kyrgyzstan and Mongolia.

With regard to the therapeutic class of antibiotics, we obtained marketing authorisations for **Azibiot** (azithromycin) powder for oral suspension in Armenia, Kyrgyzstan, and Uzbekistan and film-coated tablets in Kyrgyzstan. We were granted marketing authorisations for **Betaklav** or **Hiconcil Combi** (amoxicillin/clavulanic acid) powder for oral suspension in Armenia, Kazakhstan, Kyrgyzstan, and Uzbekistan and film-coated tablets in Armenia, Belarus, Kazakhstan, Kyrgyzstan, Uzbekistan, and Azerbaijan. We received marketing authorisation for **Furocef** (cefuroxime) film-coated tablets in Mongolia. In the Russian

Federation, we obtained marketing authorisations for two antibiotics, **Levofloksacin Krka** (levofloxacin) solution for infusion and film-coated tablets, and **Moflaxya** (moxifloxacin) solution for infusion.

We were granted marketing authorisations for oncology medicines on new markets: **Pemetrexed Krka** (pemetrexed) powder for solution for infusion in Ukraine; and **Neopax** (imatinib) dispersible tablets, **Tolnexa** (docetaxel) powder for solution for infusion, and **Tezalom** (temozolomide) capsules in Azerbaijan.

A new formulation and four new strengths of **Deksametazon Krka** (dexamethasone) tablets were authorised for marketing in Kazakhstan.

In new markets, we were granted marketing authorisations for two anti-diabetics: **Glypvilo** (vildagliptin) tablets in Ukraine, and **Glimepirid Krka** (glimepiride) tablets in Azerbaijan.

We received marketing authorisations for our medicines for the treatment of symptoms of benign prostate hyperplasia **Tanyz** (tamsulosin) modified-release capsules in Moldova and **Tanyz Eras** (tamsulosin) prolonged-release tablets in Ukraine. **Vizarsin Q-tab** or **Vizarsin** (sildenafil) orodispersible tablets and film-coated tablets were authorised for marketing in Kyrgyzstan.

Sleepzone (doxylamine) film-coated tablets for the treatment of occasional insomnia received marketing authorisation in the Russian Federation, Uzbekistan, and Ukraine. We obtained marketing authorisation for **Oprymea** (pramipexole) prolonged-release tablets used to treat Parkinson's disease in Azerbaijan.

Two medicines for the treatment of HIV infection were authorised for marketing in new markets. **Efavirenz/Emtricitabin/Tenofovir dizoproksil Krka** (efavirenz/emtricitabine/tenofovir) film-coated tablets were introduced in Ukraine and Kazakhstan and **Darunavir Krka** (darunavir) film-coated tablets in Ukraine.

We obtained marketing authorisations for a non-steroidal anti-inflammatory drug (NSAID), **Dekenor** (dexketoprofen) solution for injection in Ukraine, and an antirheumatic, **Etoriax** or **Etoxib** (etoricoxib) film-coated tablets in the Russian Federation, Azerbaijan and Uzbekistan. **Dilaxa** (celecoxib) capsules in two strengths received marketing authorisation in Mongolia. We obtained marketing authorisations for the following alimentary tract medicines: **Emanera** (esomeprazole) gastroresistant capsules and **Sulfasalazin** (sulfasalazine) film-coated tablets in Azerbaijan and **Ulcavis** (bismuth) film-coated tablets in Belarus.

In the markets of South-Eastern Europe, we increased marketing opportunities for our key products from various therapeutic classes. In the therapeutic class of cardiovascular medicines, new marketing authorisations were granted for a single-pill combination, **Roxiper** (perindopril/indapamide/rosuvastatin) film-coated tablets in Serbia; a medicine indicated for inhibition of platelet aggregation and formation of blood clots, **Eliskardia** (prasugrel) film-coated tablets in Serbia and the Republic of North Macedonia; **Tenox** (amlodipine) tablets, **Atordapin** (atorvastatin/amlodipine) film-coated tablets, and **Sobycor** (bisoprolol) film-coated tablets in Montenegro; and **Apleria** (eplerenone) film-coated tablets in the Republic of North Macedonia. Marketing authorisations were obtained for a single-pill combination **Valarox** (valsartan/rosuvastatin) film-coated tablets in Bosnia and Herzegovina; and **Tolura** (telmisartan) tablets and a single-pill combination **Valtricom** (valsartan/amlodipine/hydrochlorothiazide) film-coated tablets in the Republic of North Macedonia.

Of the central nervous system medicines, we were granted marketing authorisations for an anxiolytic, **Helex** (alprazolam) tablets in Montenegro; **Helex SR** (alprazolam) prolonged-release tablets in Albania; an antipsychotic, **Zalasta** (olanzapine) tablets in Bosnia and Herzegovina; an antipsychotic, **Zylaxera** (aripiprazole) tablets in Serbia; and a medicine for the treatment of occasional insomnia, **Calmesan** (doxylamine) film-coated tablets in Serbia and the Republic of North Macedonia. **Dulsevia** (duloxetine) gastroresistant capsules were authorised for marketing in Kosovo.

In Montenegro, we obtained marketing authorisations for the following antibiotics: **Betaklav** (amoxicillin/clavulanic acid) film-coated tablets and powder for oral suspension, **Furocef** (cefuroxime) film-coated tablets, and **Azibiot** (azithromycin) film-coated tablets.

We were granted marketing authorisations for **Deksametazon Krka** (dexamethasone) corticosteroid tablets in Kosovo, Montenegro, and Serbia, and solution for injection in Kosovo.

Marketing authorisations were obtained for an analgesic, **Dekenor** (dexketoprofen) solution for injection in Kosovo and Bosnia and Herzegovina, and an antirheumatic, **Etoxib** (etoricoxib) film-coated tablets in Serbia.

We were also authorised to market the oncology medicine **Pemetrexed Krka** (pemetrexed) powder for solution for infusion and the anti-diabetic **Glypvilo** (vildagliptin) tablets in Bosnia and Herzegovina; the medicine for protection of the gastric lining **Ulcamed** (bismuth) film-coated tablets in Montenegro; and the medicine for the treatment of symptoms of benign prostate hyperplasia **Tanyz ERAS** (tamsulosin) prolonged-release tablets in Serbia and Kosovo.

We obtained new marketing authorisations for our medicines for the treatment of HIV infection **Darunavir Krka** (darunavir) film-coated tablets and **Efavirenz/Emtricitabine/Tenofovir disoproxil Krka** (efavirenz/emtricitabine/tenofovir) film-coated tablets in the Republic of North Macedonia.

A number of established brand medicines were authorised for marketing in our markets overseas. Cardiovascular medicines accounted for the highest proportion, in particular: **Tolucombi** (telmisartan/hydrochlorothiazide) tablets; **Amlessa** (perindopril/amlodipine) tablets; **Prenewel** (perindopril/indapamide) tablets; **Ifirmasta** (irbesartan) film-coated tablets; **Irbesartan + Hidroclorotiazid Krka** (irbesartan/hydrochlorothiazide) film-coated tablets; **Roswera** or **Rosuvastatin TAD** (rosuvastatin) film-coated tablets; **Rawel SR** (indapamide) prolonged-release tablets; **Enap** (enalapril) tablets; **Enap-CO** (enalapril/hydrochlorothiazide) tablets; **Carzin XL** (doxazosin) prolonged-release tablets; **Clopidogrel Krka** (clopidogrel) film-coated tablets; and **Ezoleta** (ezetimibe) tablets.

From other therapeutic classes, the following medicines were represented: **Pragiola** (pregabalin) capsules; **Marixino** (memantine) film-coated tablets; **Ciprinol** (ciprofloxacin) film-coated tablets; **Levolox** (levofloxacin) film-coated tablets; **Etoxib** or **Roticox** (etoricoxib) film-coated tablets; **Aclexa** (celecoxib) capsules; **Emanera** (esomeprazole) gastroresistant capsules; **Gelbra** (rabeprazole) gastroresistant tablets; **Lanzul** (lansoprazole) film-coated tablets; **Ultop** (omeprazole) hard gastroresistant capsules; **Gliclada** (gliclazide) prolonged-release tablets and modified-release tablets; a single-pill combination, **Doreta** (tramadol/paracetamol) film-coated tablets; **Naklofen** (diclofenac) solution for injection; **Naklofen Duo** (diclofenac) hard capsules; **Desloratadin Krka** (desloratadine) film-coated tablets; **levocetirizine** tablets; **montelukast** film-coated tablets; **Yasnal Q-Tab** (donepezil) orodispersible tablets; **risperidone** orodispersible tablets; **Gentamicin** (gentamicin) solution for injection; **Ciprinol** (ciprofloxacin) film-coated tablets; **lansoprazole** capsules; and **Tadilas** (tadalafil) film-coated tablets.

Non-Prescription Products

We added three new products to our range of non-prescription products.

In the European countries, we obtained marketing authorisations for **Vitamin D3 Krka** (cholecalciferol) tablets in two strengths. The product contains bioactive form of vitamin D and is indicated for prevention of vitamin D deficiency in adults, adolescents and children aged 6 years or more, for the treatment of vitamin D deficiency in adults and adolescents, and as adjunctive therapy in specific treatment of osteoporosis in adults. It does not contain gluten, gelatine, sweeteners or sugar, and can be taken by patients with diabetes.

We obtained marketing authorisation for **Herbion Ivy** (ivy leaf dry extract) lozenges. The product thins the mucus in the respiratory tract and facilitates expectoration in wet cough. It is intended for adults and children aged 6 years and older.

In the Russian Federation, we were granted marketing authorisation for our new medicine **KontrDiar** (nifuroxazide) oral suspension. It is used for treating acute diarrhea if it is presumed to be of bacterial origin and is without complications. An oral syringe is supplied with the medicine for precise dosage measurement, also for children one month of age and older.

We received marketing authorisations on new markets for our cough and flu product **Septolete Total** (benzylamine/cetylpyridinium). Honey-and-lemon flavour lozenges were authorised for marketing in Uzbekistan, Kyrgyzstan, Azerbaijan, Belarus, the Republic of North Macedonia, and Kosovo and elder-and-lemon lozenges in Belarus, Kyrgyzstan, Uzbekistan, and Azerbaijan.

In Albania and Kosovo, we received marketing authorisations for **Flebaven** (diosmin) 500 mg film-coated tablets and 1000 mg tablets used for the treatment of chronic venous insufficiency.

We were granted marketing authorisations for our key product brands **Bilobil**, **Duovit**, and **Pikovit** in overseas markets.

Animal Health Products

We supplemented our animal health range for farm animals and companion animals with four new products.

We were granted marketing authorisations for two combination medicines from the group of products for companion animals. **Prinocate** or **Imoxicate** (imidacloprid/moxidectin) is a spot-on solution for dogs and cats. We obtained marketing authorisations for 100 mg/25 mg/ml spot-on for dogs in four filling sizes and 100 mg/10 mg/ml spot-on for cats and ferrets in two filling sizes. The combination of imidacloprid and moxidectin is an advanced medicine effective against external parasites such as mange, fleas, and lice, as well as against internal gastrointestinal parasites, heart worms, lung worms, and eye worms. It is appropriate for the treatment of mixed infestations in dogs, cats, and ferrets.

In the EU countries, registration procedures were concluded for our new companion animal broad-spectrum wormer **Milprazon Chewable** or **Milpragold** or **Amcofen Sabor** or **Milprazon Plus** or **Mektix** or **Milgusto Chewable** (milbemycin/praziquantel) film-coated tablets for the treatment of mixed infections in cats. The product contains natural flavour, which makes it palatable and easy to administer. Easy application and efficacy of the product are most important to pet owners.

We obtained marketing authorisations under the European decentralised procedure for our new medicine **Awazom** (amoxicillin) powder for use in drinking water. The medicine is indicated for the treatment of bacterial infections in chickens, ducks, and turkeys.

We expanded marketing opportunities for our established antiparasitics. In the United Kingdom, we obtained marketing authorisations for **Fleaway Combo** (fipronil/S-methoprene) spot-on solution for dogs, cats, and ferrets, **WormScreen** (febantel/pyrantel/praziquantel) tablets for dogs, and **WormScreen** (pyrantel/praziquantel) film-coated tablets for cats.

In Serbia, Kazakhstan, and Ukraine, we were granted marketing authorisations for **Selafort** (selamectin) spot-on solution indicated for the treatment of mixed infestations in dogs and cats. We obtained marketing authorisations for **Dehinel Plus Flavour** (febantel/pyrantel/praziquantel) tablets for dogs in Bosnia and Herzegovina. The product is indicated for the treatment of gastrointestinal infestations.

We introduced our products for farm animals into new markets. In Germany and Serbia, we obtained marketing authorisations for **Catobevit** (butafosfan/cyanocobalamin) solution for injection indicated for the treatment and prevention of metabolic or reproductive disorders in cattle. In Kazakhstan, we introduced a combination of vitamins and minerals (including selenium) **Solvimin Selen** oral powder indicated for the treatment of hypovitaminosis or as a supportive therapy for infections caused by stress in all farm animals. We received marketing authorisations for **Floron** (florfenicol) premix for medicated feed indicated for the treatment of infections of the respiratory tract in pigs in Serbia; **Tuloxin** (tulathromycin) solution for injection indicated for bacterial infections of the respiratory tract in cattle and pigs and infectious pododermatitis (foot rot) in sheep in Serbia and the Republic of North Macedonia; **Santiola** (closantel) solution for injection indicated for the treatment of parasitic gastrointestinal infestations in cattle and sheep in Bosnia and Herzegovina and Serbia; and **Flimabend** (flubendazole) oral suspension for the treatment of infections with internal parasites in chicken and pigs in the Republic of North Macedonia.

Health Resort and Tourist Services

The vision of Terme Krka development focuses on the health and well-being of our guests. In 2019, we allocated approximately €2.8 million to the renovation, modernisation, development and extension of our healthcare services, accommodation, wellness, and catering.

In **Terme Dolenjske Toplice**, we completed construction on a new outdoor swimming pool with roller coasters of various shapes and speeds and rejuvenated the surroundings with newly planted trees. In **Talaso Strunjan**, the sauna complex attached to Hotel Svoboda was expanded and now boasts seven different saunas, a whirlpool, an ice fountain, and an outdoor terrace. The hotel, which also includes an indoor swimming pool filled with warm seawater, an open-air swimming pool and Salia wellness centre, has everything a visitor needs to unwind and enjoy in Mediterranean-inspired pampering. We started extensive landscaping work on a popular beach in Strunjan and in the Mediterranean park of the Strunjan villa complex. Close to the Šport Hotel at **Otočec**, we laid out our own garden where we grow vegetables, herbs, aromatic plants and berries. Our

chefs from the Terme Krka restaurants use the produce from the Organic Garden, as we named it, to create their dishes. Our guests can also visit the Organic Garden with the gardener.

We invested in education of employees who provide services to our guests, and enriched the existing range of services. We are increasingly focused on experiential tourism, medical wellness, and programmes for maintaining and promoting health. In mid-June, **Terme Dolenjske Toplice** launched completely new programmes with elements of **mindfulness**, vitality, and relaxation. In **Terme Šmarješke Toplice**, our guests can undergo **hormone level testing** to measure levels of cortisol i.e. the stress hormone and melatonin i.e. the sleep hormone in the body. For those opting to undergo **food intolerance testing**, our experts present the results to the guest, adapt the guest's diet, and prepare a suitable meal plan.

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 rapidly respond to changing market demands, improve processes to reduce flow time along the entire supply chain, and integrate supply processes across all Krka Group companies and other contractual production sites.

We comply with new product manufacturing requirements and relevant laws by promptly introducing advanced technological processes to pharmaceutical ingredient and finished product manufacturing. We have been increasing production capacities and improving the cost effectiveness of processes in Slovenia and in Krka subsidiaries. We control all stages of a product life cycle, which allows to respond to new challenges in individual markets more easily and effectively.

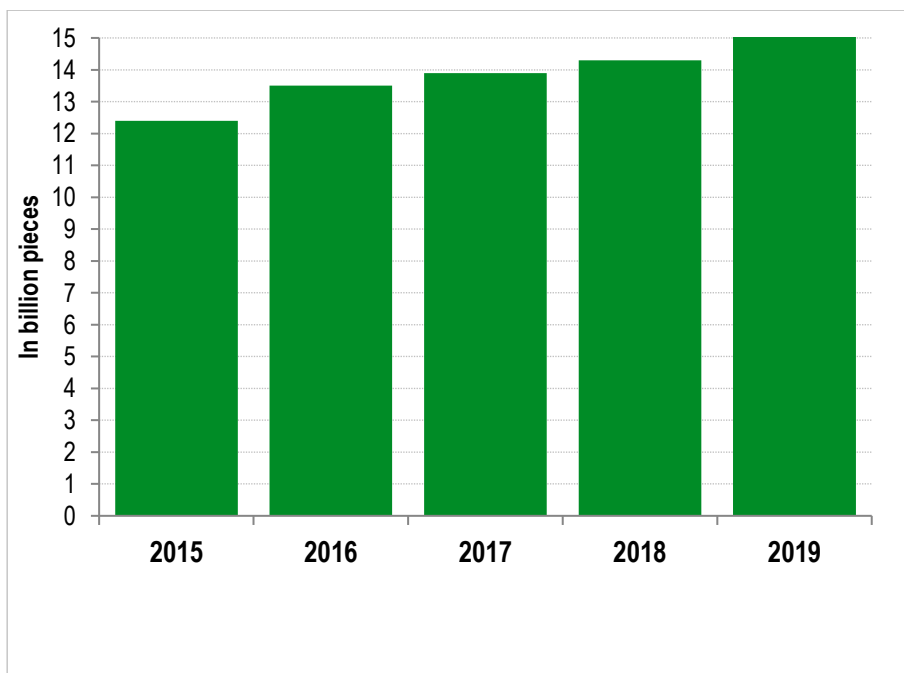
Effective connection between research and development, API, and pharmaceutical production resulted in fast and smooth transfer of new products from development to regular production also in 2019. We accelerated technological problem solving, optimised technological processes, and enabled uninterrupted production.

Planning

By implementing continuous process improvements, we have considerably reduced the average lead time from an order to delivery and, consequently, increased our responsiveness and flexibility of processes throughout the supply chain. We continued to optimise inventories of raw materials and finished products.

By optimal use of available resources in the controlling company and subsidiaries and through cooperation with contractors, we manufactured and packed a record quantity of 15.2 billion tablets and other pharmaceutical forms in 2019, up 6% on 2018. We once again reached the highest monthly and quarterly production volume ever.

Production of finished products



The number of products and production sites has increased, market requirements have changed, and texts on packaging materials must be in national languages. This is reflected in a growing number of finished products and bulk products. We managed to increase the total number of manufactured units by exact planning and effective production.

We regularly improved post-registration procedures for preparation of packaging materials and technological documents for production in Slovenia, companies abroad, and at contractual manufacturers in order to secure timely provision of products and response to sales requirements.

We continued to upgrade information technology support for managing, monitoring, and controlling processes, standardisation of production processes, and optimisation of the production documentation system and process controls. We also increased the use of manufacturing documents in e-format and process automation.

Supply Process

We mostly manufacture raw materials for our products ourselves, but we also buy some in the market. The number of raw material manufacturers further decreased in 2019, primarily due to environmental and financial reasons and those related to good manufacturing practices. Despite the unstable market situation, we managed to secure enough raw materials for uninterrupted production of finished products. We increased the proportion of finished products manufactured by our contractual partners from Europe and Asia and ensured their timely supply. We increased transparency of the process for purchasing raw and packaging materials and upgraded the system for managing purchasing agreements and coordination of raw material specifications with suppliers.

We continued the introduction of alternative resources of active pharmaceutical ingredients, excipients and packaging of equal quality, but at more convenient prices. This helps mitigate risks posed by changeable supply situation.

We increased integration and optimised purchasing processes with Krka subsidiaries. We also improved established partnerships with suppliers.

Production of Active Pharmaceutical Ingredients

A high level of vertical integration in the production process generates high added value. This means that we produce and technologically control a large proportion of active ingredients, which we incorporate into finished products, at various production sites in Slovenia and abroad. In this way, we reduce the dependency on external suppliers in this key segment of the supply chain.

We improve the cost efficiency of the production of key intermediates and raw materials by optimising production processes at all production sites. We transferred new technologies (products) to increase the capacity of our Sinteza 1 plant in Krško, and therefore considerably expanded the capacity to produce active ingredients for our vertically integrated products. We pursued intensive production of active ingredients and intermediates at our own production sites in Novo mesto and Krško. We increased their production volume by 12% in 2019.

Production of Pharmaceutical Products

We have introduced additional equipment and advanced technological solutions in pharmaceutical production. The Notol 2 plant started operating at the end of 2015 and was upgraded in 2019 by installing several packaging lines. The plant represents an important part of production capacities utilising cutting-edge technology, high level of automation and robotisation supported by advanced computerised systems. This approach helps us reinforce our competitive edge on demanding global markets. In 2019, 25% of total production volume of the Krka Group came from Notol 2.

We increased production in the newly built and equipped distribution centre in the Russian Federation, to which we transferred new technologies and products of major importance for the Russian market. This further consolidated our position of a local manufacturer. The plant in the Russian Federation manufactures over 70% of all our products intended for the Russian market.

We responded to challenging events in the pharmaceutical market and rising market demand for pharmaceutical products in a timely manner and supplied our products in line with our customers' expectations and in compliance with additional regulatory requirements. We were able to meet the challenges through technological optimisation, by increasing product batch sizes and launching new products, while maintaining a high level of quality standards required by laws, regulations and inspections and upgrading process management in terms of environmental care and health and safety at work.

In order to respond more quickly to the rising demand for our products, strengthen our presence in international markets, and reduce risks in the production process, we intensified transfers of production technology to contractors and expanded the network of contractual manufacturers. We successfully completed the transfer of several products to our joint venture Ningbo Krka Menovo, which we established together with our Chinese partner. Regular production of three products was launched in 2019.

We are among first generic manufacturers to have introduced technical and systemic solutions that help us comply with the new *Falsified Medicines Directive* (FMD) 2011/62/EU, which requires manufacturers to make sure that secondary package sealing is original and each finished product package has a unique identifier. In 2019, we successfully introduced new methods of operation to comply with the Directive and at the same time retained manufacturing capacities. We upgraded our equipment and information systems to ensure unique identification and aggregation required by the Russian legislation.

To raise awareness and the quality of work, we established a training centre in Pharmaceutical Production where our employees receive practical instructions for safe work on the production equipment. This method proved very useful, as it accelerates the pace of work and increases work efficiency during initial training and improves the quality of subsequent regular work.

Warehousing and Transport

We improved warehouse capacity utilisation through process optimisation, introduction of new computer system functionality, and optimisation of supplies in cooperation with other organisational units. A new multipurpose warehouse was put to use.

We increased the number of ecologically appropriate cargo vehicles for distribution of our products, augmented transport by sea and continued to use transport by rail in compliance with temperature requirements. We effectively utilise all necessary modes of transport to meet increased sales volumes.

We are approved as an authorised economic operator (AEO) in customs clearance procedures. In cooperation with the Slovenian Ministry of Economic Development and Technology, we applied for duty-free treatment of certain active pharmaceutical ingredients and raw materials and were granted such treatment for three of them. This allows for a faster flow of goods and facilitates acquisition of customs clearance documents.

We are a registered exporter according to the Registered Exporter system (REX).

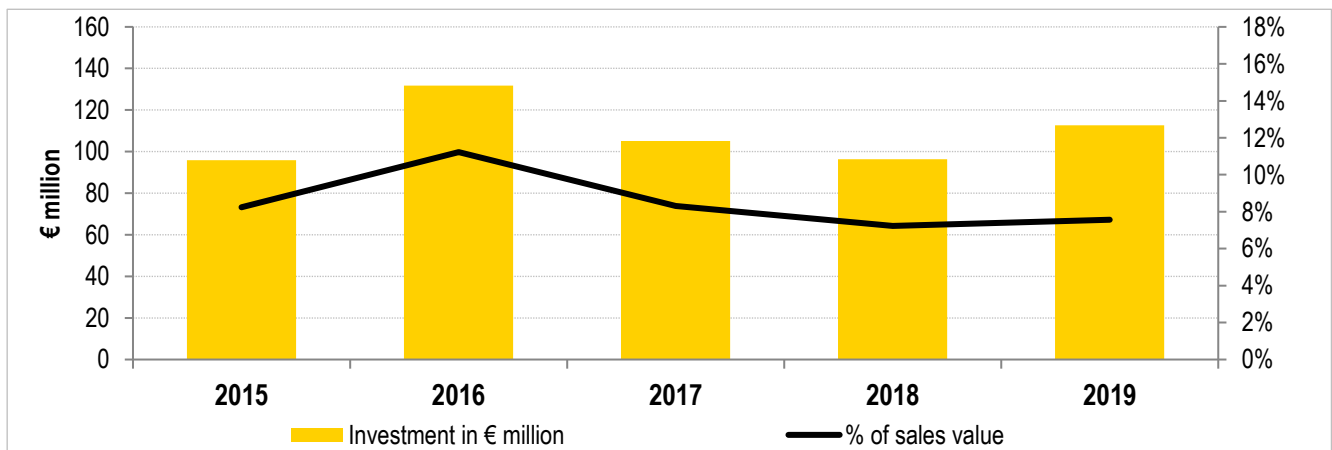
Investments

In 2019, the Krka Group allocated €112.6 million to investments, of that €90.5 million to the controlling company and €22.1 million to subsidiaries. We primarily invested in increasing and technologically advancing production and development, ensuring quality assurance, and in Krka owned production-and-distribution centres around the world.

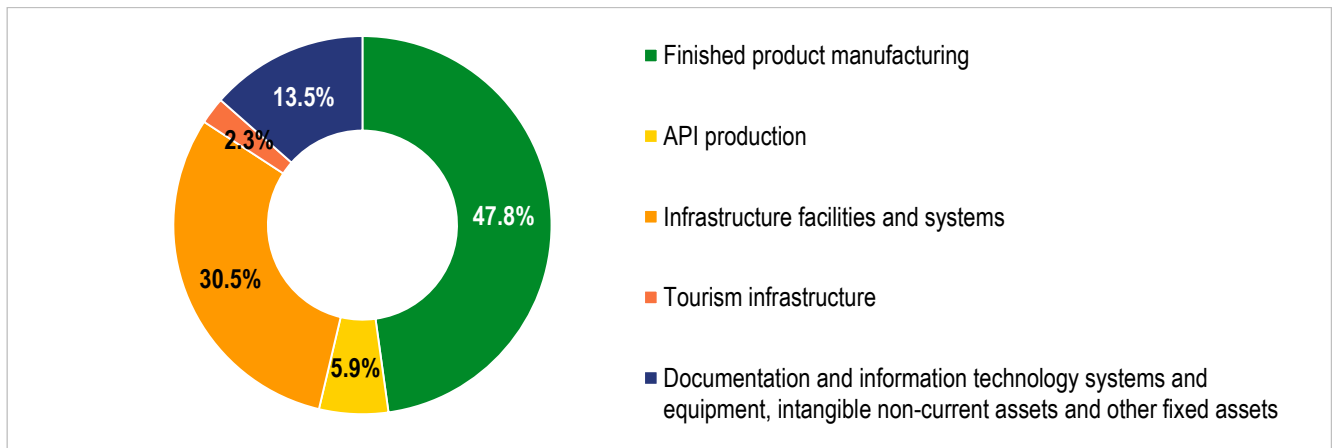
We funded new production equipment and infrastructure upgrades in Slovenia, Croatia, Poland, Germany, and the Russian Federation, which further increased our production capacities and improved quality.

All projects comply with environmental standards and take into account direct and indirect environmental impacts. The approved equipment corresponds to the best available technology as regards environmental protection and energy efficiency, and guarantees safe and efficient operations.

2015–2019 Krka Group Investments



Structure of 2019 Krka Group Investments



In 2019, we invested primarily in finished product manufacturing and increasing and upgrading R&D infrastructure. Infrastructure facilities and systems, including the multi-purpose warehouse under construction, will support business functions across the entire Krka Group. Investments accounted for 7.6% of sales revenue generated in 2019.

Key Investment of Krka in R&D Completed

At the beginning of October 2019, an opening ceremony was held for the product development and quality control facility, **Razvojno-kontrolni center 4** (hereinafter: RKC 4). This €55.6 million investment almost doubled our research-and-development and analytical capacities essential to providing high-quality products. Another important phase in Krka's technological development was completed and which serve to provide coordinated operations of research and development, and production and control, which are key advantages of our vertically integrated business model.

Construction of RKC 4 at Krka's central manufacturing site in Ločna, Novo mesto, started in July 2015 and was completed at the end of 2016. The eight-floor building houses 18,000 square metres of usable floor area. We received the operating permit in September 2018. In 2019, we completed installation of the state-of-the-art laboratory, analytical, and technological equipment for in-depth research work in the initial stages of product development.

Multi-Purpose Warehouse for Finished Products, Raw and Packaging Materials

At the end of 2017, we started building a multi-purpose warehouse at the Ločna site to ensure additional storage space for incoming materials and finished products and improve production speed and flexibility, product availability and market supply.

The €36-million warehouse was constructed in two phases. The first phase included setting up a new facility with expanded handling areas next to the raw material warehouse, laboratories, and sampling rooms. The second phase involved construction of a multi-purpose warehouse and the connecting structure to the raw material warehouse with space for additional weighing rooms.

Construction of buildings, technical examinations, installation, qualifications and start-ups of logistic equipment, quality assurance, obtaining permits from Javna agencija Republike Slovenije za zdravila in medicinske pripomočke (JAZMP; Agency for Medicinal Products and Medical Devices of the Republic of Slovenia, hereinafter: JAZMP), and start-ups of individual parts of the warehouse was a multi-phase undertaking. In December 2019, we passed the last technical inspection and obtained operating permits for all buildings. At the beginning of 2020, JAZMP carried out the final examination of sampling rooms and the transport equipment, so all requirements for the start-up of the multi-purpose warehouse were met.

Notol 2

We continue to buy new technological equipment due to the increasing demand for new production capacities. In 2019, we started equipping the new packaging facility at our plant for manufacturing solid dosage forms, Notol 2. We installed several highly automated and robotised packaging lines. In the coming two years, we plan to further increase their number.

In 2019, we allocated €18 million for equipping the packaging facility. The total investment is estimated at €41 million. After the small-scale production equipment is moved in and large-scale production equipment is installed, the plant will be fully technologically equipped in 2021, and its full production capacity will rise to 5 billion tablets per year.

Increasing and Upgrading Manufacturing Facilities

We purchased an inspection machine to increase the capacity for production of lozenges at our **Ljutomer** plant. We also upgraded the systems and equipment in compliance with ATEX standards in one part of the plant. We apportioned €1.9 million to the investment.

In October 2019, we started up the granulation line for mixture preparation at the **Solid Dosage Form Production Plant** (Slovene abbreviation: OTO).

We increased manufacturing capacities for animal health products with biocidal effect at our **Bršljin** plant in Novo mesto. This investment totalled €4.2 million.

In **Krško**, construction of a new warehouse for raw materials started in June 2019. The investment will ensure sufficient warehousing capacities for raw materials used in chemical and pharmaceutical production in compliance with the guidelines for spatial separation of hazardous substances of the *Technical Rules for Hazardous Substances* (TRGS). At the end of 2019, finishing works and mechanical and electrical installation commenced. Completion of the €8.2 million building is planned for July 2020.

Introducing New Technologies

In February 2019, the European Union introduced new rules for protection of public health by preventing the entry of falsified medicinal products into the pharmaceutical supply chain. In compliance with the Directive, we introduced obligatory safety features on the outer packaging of medicines, which prevent falsified medicines from reaching patients. We also made several upgrades to technological equipment and production procedures. Over the last three years, we allocated approximately

€20 million for the new equipment and technology. Safety measures required by Russian legislation as of mid-2020 are also covered by this investment.

New Office Building Put To Use

We constructed a new office building in Ljubljana and the opening ceremony was held in mid-September. When fully equipped, the building will house 231 work places and 228 car lots.

Gross floor area contains 13,700 m². It is connected with the current business premises in Dunajska cesta 65. The investment amounted to €12 million

Investment Outside Slovenia

One of the most important investments in Krka subsidiaries abroad is investment in the **Krka-Rus** plant in the industrial zone of the town of Istra, north-west of Moscow, where we manufacture slightly more than 2 billion tablets or 72% of products that Krka currently sells in the Russian Federation. Investments made over the next three years will increase the plant capacity to its maximum of 3.5 billion tablets annually. We have the status of a domestic producer in the Russian Federation.

We completed a €1.7 million investment in production of solid forms of animal health products at the production-and-distribution centre in **Jastrebarsko**, Croatia.

We invested a total of €0.5 million in optimisation of production equipment in our subsidiary **TAD Pharma**, Germany, and €0.6 million in upgrading the capacities at **Krka - Polska**.

At the end of 2017, we established a joint venture Ningbo Krka Menovo with a local partner Menovo in the city of Ningbo, **China**. We obtained an EU GMP certificate for the leased production facilities. Commercial manufacture of the first product intended for markets outside China started at the end of 2018, when we also filed all marketing authorisation documents required for its sale on the Chinese market. In 2019, we started manufacturing several products for markets outside China in leased facilities that we additionally equipped with laboratory-and-control equipment. In 2019, we invested €2.8 million in fixed assets primarily for production.

Terme Krka

Several small investments are in progress in business units of the subsidiary Terme Krka. In spring 2019, we completely refurbished the roof of the sports facility Športni center Otočec and terrace of the catering facility, and at the beginning of 2020, we upgraded the technological equipment of the kitchen at Hotel Šport.

The prefabricated catering facility in Struga, which opened to guests for the first time in mid-December 2019, enhanced the offering provided by Otočec golf course.

In accordance with the beach lease concluded with the Municipality of Piran, Terme Krka undertook to invest in improving the beach in Strunjan. In 2019, we drew up project documentation for refurbishing the coast, and works commenced at the beginning of 2020.

The subsidiary Terme Krka allocated slightly short of €1.9 million to investments in 2019.

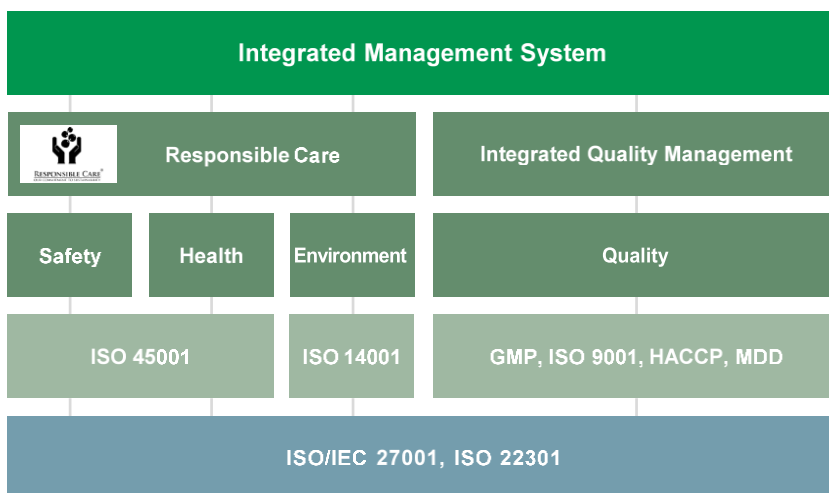
Integrated Management System and Quality

Krka's fundamental strategy in terms of quality is to ensure a competitive level of quality by continuously improving our products, processes and services. We guarantee these goals through an effective performance of the integrated management system (IMS) and quality system, compliance with the principles of good pharmaceutical practices (GXP), and regulations governing the quality in pharmaceutical industry. We maintain flexibility, respond quickly to new developments and market needs, adapt rapidly to legislative requirements, improve our processes, make investments, and apply various advanced work systems and control methods in order to meet the requirements of various clients and demonstrate the on-going suitability of processes for achieving the set goals. We therefore deal with all quality-related risks and opportunities in all processes systematically. Our aim is to achieve sustainable development. By thoughtfully planning and continuously developing our processes, we are able to meet the expectations of our internal and external clients and create new opportunities for further improvements.

Management System and Quality

Various aspects of our operations are managed in a uniform way with our integrated management system (IMS) aimed at achieving optimum business targets. The IMS determines our attitude to quality, environment, health and safety at work, food safety, medicinal device safety, information security and business continuity. It is structured according to the requirements of ISO 9001 standard, GXP and HACCP principles, Council Directive 93/42/EEC (*Medical Device Directive (MDD)*) and ISO 14001, ISO 45001, ISO/IEC 27001 and ISO 22301 standards. In 2019, we further upgraded our management systems to comply with the relevant legislation and guidelines. The compliance of the established management system was confirmed by the renewal of certificates of good pharmaceutical practices. We also confirmed the validity of certificates of other management systems (ISO 9001, ISO 14001, ISO 27001, ISO 45001, MDD, and HACCP). To ensure the credibility of our IMS and increase the trust of our partners, we have the IMS regularly certified by independent external institutions, and demonstrate its compliance with regulatory and legal requirements in inspections and audits.

The operation of the IMS is supported by a centralised information and document management system, which we regularly upgrade by implementing digitalisation and other measures to ensure that data in documents and electronic records are credible, easily accessible and protected and to provide transparency as regards our processes and products. With this approach, we are able to prepare analyses and observe trends that readily support improvements in process efficiency and product quality and fulfilment of all necessary requirements. Our data management system builds on ethical principles of personal integrity and responsibility of individuals to perform well in their work and on framework quality guidelines, operating procedures and controls integrated in IT systems and organisational 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 operations. We systematically manage processes from purchasing, research and development, production of active ingredients and finished products, distribution, marketing and sales to monitoring customer satisfaction by observing vertical integration of quality. Customer satisfaction and sustainable business success remain our key objectives for the future.

Inspections and Audits of the Management and Quality System

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

The IMS is certified by the Slovenian Institute of Quality and Metrology (SIQ) every year. SIQ is also the notified body for establishing the conformity of medical devices. It reviews Krka every year according to the EC certificate of conformity issued for the Septoqua medical device. This was also the case in 2019.

Krka manufactures a variety of medicinal products and is therefore subject to monitoring by several Slovenian bodies or institutions. The Agency for Medicinal Products and Medical Devices of the Republic of Slovenia (JAZMP) monitors medicinal products and devices. The Health Inspectorate of the Republic of Slovenia (ZIRS) monitors self-medication products 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 (UVHVV) inspects feed additives, food and wood packaging materials. The Metrology Institute of the Republic of Slovenia inspects measuring devices put into use and placed on the market as well as prepacked products.

The number of inspections and audits in 2019 was comparable to 2018. JAZMP regularly inspects medicinal products and API manufacturing processes, clinical trials, and the implementation of pharmacovigilance. In 2019, it carried out four inspections and four verifications of new production and control capacities. Based on regular inspections, Krka maintains the validity of GMP certificates confirming that the manufacture of medicines and APIs is carried out in conformity with the GMP principles and guidelines applicable to medicinal products and APIs. Successful verifications were the precondition to start regular work activities in our new and renovated capacities.

As our medicinal products are also marketed in non-EU states, we were inspected by certain regulatory bodies from those countries. Following successful inspections by the Russian institute GILSINP in 2019, we were granted new Russian GMP certificates which allow us to sell our products in the Russian market, providing us with the ability to operate and the flexibility to deliver our key products in the Russian Federation.

Our experts cooperated in European and Russian inspections conducted at our main contractors because we are aware that the control of operational compliance and of quality management in the production and testing of Krka products (active pharmaceutical ingredients, bulk products, and finished products) at our contractors greatly contributes to integrated quality management and quality-related risk management.

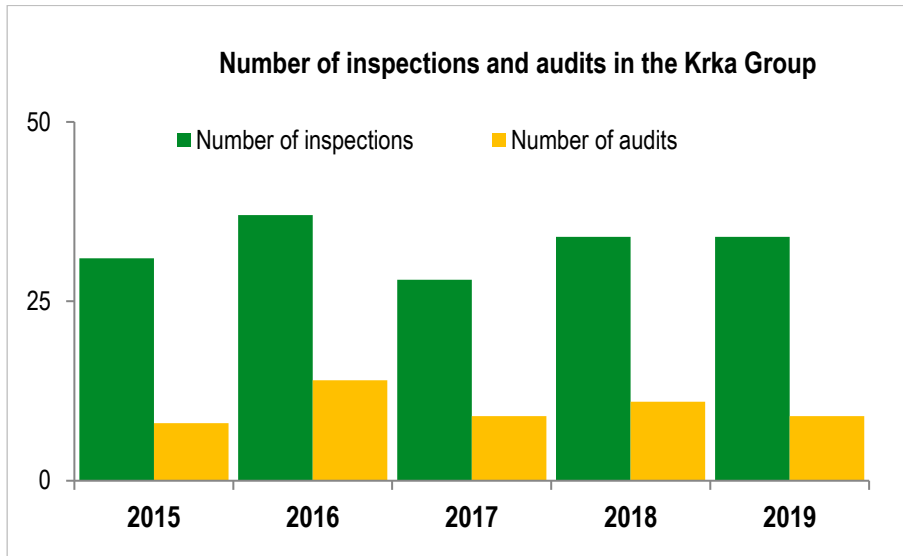
Successful inspections and related GMP certificates are a prerequisite for maintaining marketing authorisation status of existing products and submitting marketing authorisation applications for new ones. We are regularly inspected by the Belarus body acting as the agency for medicinal products. Submission of marketing authorisation applications for new products and renewal of marketing authorisations for existing products are only possible after successfully passing the inspection.

We were regularly certified for compliance with GOST ISO 9001:2015 to be able to export medicinal products to the Russian market without any additional quality control for product lots sold in the Russian Federation. Certain changes were introduced with the new Federal Law No. 449, which amended the requirements for domestic and foreign producers regarding the release of finished products in the Russian market and entered into force in November 2019. The Law abolishes the current procedure for declaring individual batches of medicinal product and requires a prior notification of planned termination of products to relevant state bodies, entry of data on individual batches of released products into a state database, and a submission of a certificate confirming that the imported medicinal product complies with the registration documentation. It also introduces the requirement to test the first three batches of a new product and one batch of an existing product on the Russian market each year. We successfully adapted all our processes in 2019 to comply with the newly adopted Federal Law.

In 2019, Krka products were subject to 98 controls and analytical tests conducted by agencies from Slovenia, Croatia, Poland, Germany, France, Estonia, Hungary, Denmark, Norway, and other countries. We passed all testing procedures, confirming the quality, safety, and efficacy of our pharmaceutical products.

Successful inspections and audits guarantee free access to our products in various markets by maintaining the validity of manufacturing authorisations, certificates on good manufacturing practice and marketing authorisations for our products.

Number of Inspections and Audits in the Krka Group

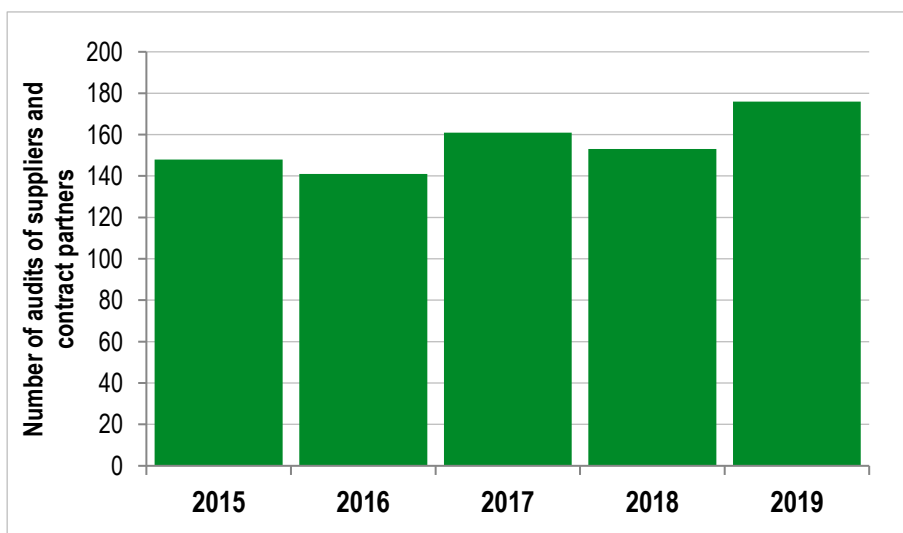


The Administration of the Republic of Slovenia for Food Safety, Veterinary and Plant Protection (UVHVVR) conducted three regular inspections of the operation of the HACCP system and a phytosanitary control for packaging materials.

The Health Inspectorate of the Republic of Slovenia (ZIRS) carried out one regular inspection of 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 Inspectorate confirmed that the system for ensuring the suitability of foodstuffs works properly.

Our partners conduct audits every year in order to review compliance with good manufacturing practices, the suitability of the pharmacovigilance system, and adherence to contractual requirements. In 2019, Krka was subject to eight audits and passed all of them. Their findings confirm that Krka meets the requirements of all partners.

The Krka Group auditors carried out further audits of quality management systems at our GXP partners, i.e. suppliers and contractual partners, focusing on legislative requirements related to good manufacturing practice and other requirements of good pharmaceutical practice, environmental protection, human resources and social responsibility. Subject to the findings on quality assurance for products and raw materials manufactured by partners, we implement measures to reduce the relevant risks to an acceptable level. Suitable quality and timely delivery of products and raw materials manufactured by partners provide for the optimum planning of production processes.



Quality Assurance Processes

Underlying principles for the set-up and development of the quality system are defined in the *Quality Policy of the Krka Group*, the umbrella document on quality outlining the uniform quality policy for all Krka Group subsidiaries based on legislation, good practices and standards. Developments in the field are closely followed and systematically implemented in all processes and management systems. Krka has introduced six key processes to implement its policies and deliver on 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 management processes and facilitate the implementation of the basic corporate rules of all process operations. Our permanent duty is to upgrade the quality system in order to increase process efficiency and the quality and competitiveness of products and services. To achieve this, it is vital that our employees are aware of the importance of the quality system, undergo continuous training, and constantly upgrade their knowledge in quality management. They cooperate with experts from various fields to identify possible improvements, 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 is integrated into the earliest stages of research and development. We apply the latest principles of good practice in the development phase of a product by incorporating new legislative developments in our work processes in a timely manner. We implemented in due time the *Falsified Medicines Directive*, which prevents entry of falsified medicines to EU markets. Each product package has a unique identifier and undergoes packaging control. Activities to implement serialisation requirements and finished product aggregation in the Russian market are underway.

With regard to the prevention of the entry of falsified medicinal products into the legal supply chain, the Commission Delegated Regulation (EU) 2016/161 entered into force on 9 February 2019. The Regulation specifies the rules on the placing of safety features consisting of a unique identifier (serialisation) and an anti-tampering device (ATD) on the packaging of certain medicinal products for human use, allowing their identification and authentication. A transitional period for implementing the Regulation applied in Slovenia, which ended on 1 December 2019.

On 8 November 2019, Slovenia adopted the *Decree on the Implementation of the Delegated Regulation (EU) on Laying down Detailed Rules for the Safety Features Appearing on the Packaging of Medicinal Products for Human Use*, which stipulates sanctions and designates the Agency for Medicinal Products and Medical Devices of the Republic of Slovenia (JAZMP) as the national competent authority for supervising the implementation of the Regulation.

To implement the relevant legislative requirements and provide compliant products in the market, Krka and its subsidiaries installed all necessary production equipment and equipment required to report to the European Medicines Verification System via the European Hub.

The Krka Group successfully implemented the FMD requirements in due time. The system is operational and has demonstrated a very good performance. Any errors that raise an alert in dispensing a medicine could be in most cases attributed to other stakeholders involved in the process.

In 2017, the Russian Federation also adopted laws on the prevention of the entry of falsified medicinal products on the market that apply to all medicinal products for human use and must be implemented by 1 July 2020. The new legislation lays down requirements on unique identification of medicines (serialisation), recording individual packaging units in a transport box (aggregation), the introduction of Crypto Code, and reporting to the Russian governmental information system called *Markirovka*. Our computerised systems and packaging lines were upgraded to comply with the serialisation, aggregation, and reporting requirements.

Thanks to in-depth expertise and introduction of new tools in the production of medicinal products for clinical trials, we are able to ensure an appropriate and legally required level of safety for the patients and volunteers. We employ new technologies in the development of our products to gain competitive edge on the market and increase acceptance of our medicines among patients and their adherence.

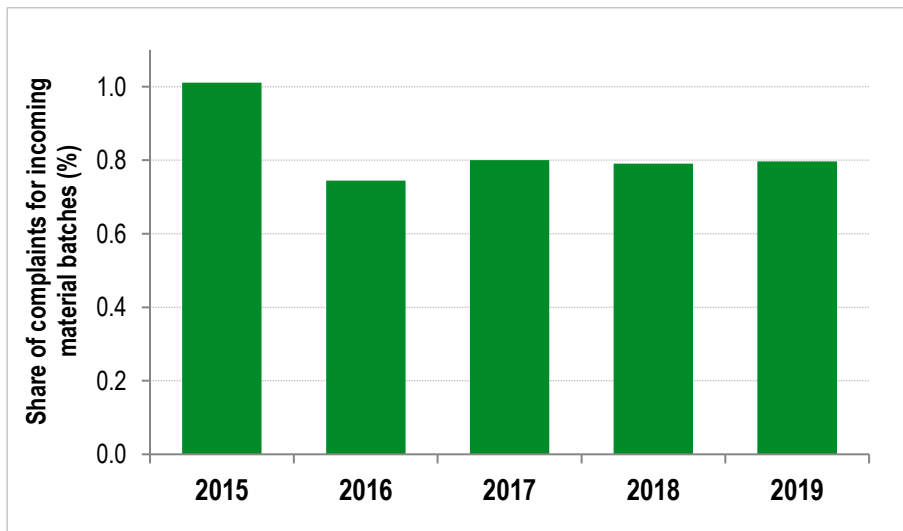
The quality management system is established for active ingredients, excipients, packaging materials, and finished products, and complies with the standards of good manufacturing practice. Incoming materials and finished products comply with registration documents for the chemical and pharmaceutical production of medicines for human use and animal health products. We maintain a very low number of complaints for incoming materials, which is evident from the small percentage of complaints for incoming material batches in the last five years.

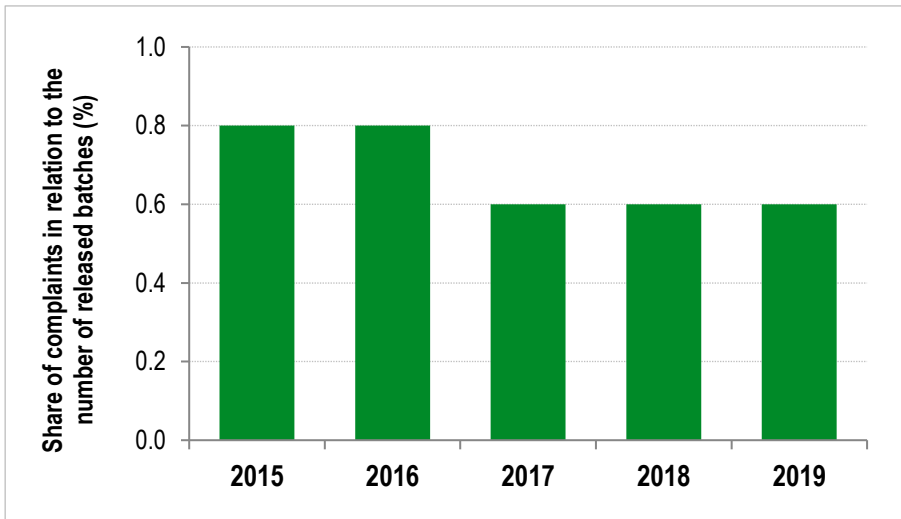
We regularly monitor the quality of our products in the market and quality-related responses of our customers. We respond quickly to any complaints, opinions or suggestions related to quality by observing the established procedure for processing quality-related information from the market. We follow quality trends for our products through the indicator for the proportion of complaints with regard to the number of released batches. The target value of the indicator is set low. Multi-annual results show that the proportion of batches with complaints in relation to the number of released batches is currently small and optimal despite increased production volumes. This is an indication of the quality of our products.

In 2019, various medicines agencies conducted comprehensive testing on all relevant products for possible contamination by genotoxic nitrosamine impurities at all marketing authorisation holders. After detecting nitrosamine impurities in valsartan and other sartans, pioglitazone, metformin, and ranitidine, many producers recalled their non-compliant products containing these active substances from the markets throughout the world, resulting in a substantial deficit of certain pharmaceuticals.

Owing to appropriate equipment, know-how, vertical product management and adequate safety and quality of our products, the situation represented a business opportunity for the Krka Group, rather than a setback in the delivery of products suffered by many of our competitors. To seize the opportunity, the Krka Group used all available capacities, complying with the current marketing authorisations.

The issue of genotoxic and nitrosamine impurities is believed to remain an important aspect in the establishment and determination of adequate quality, safety, and efficacy of products. The European Medicines Agency requested all marketing authorisation holders to prepare an evaluation of all their marketed pharmaceutical products regarding possible presence of nitrosamine impurities by the end of March 2020. We have already started with the preparation of underlying documents and evaluations of our products by taking advantage of our vertically integrated production model (covering all stages from the purchase of raw materials used in the API production to finished products, their testing and market release), by employing our know-how, qualified expert personnel, and experience in vertical integration of quality in all our operations.

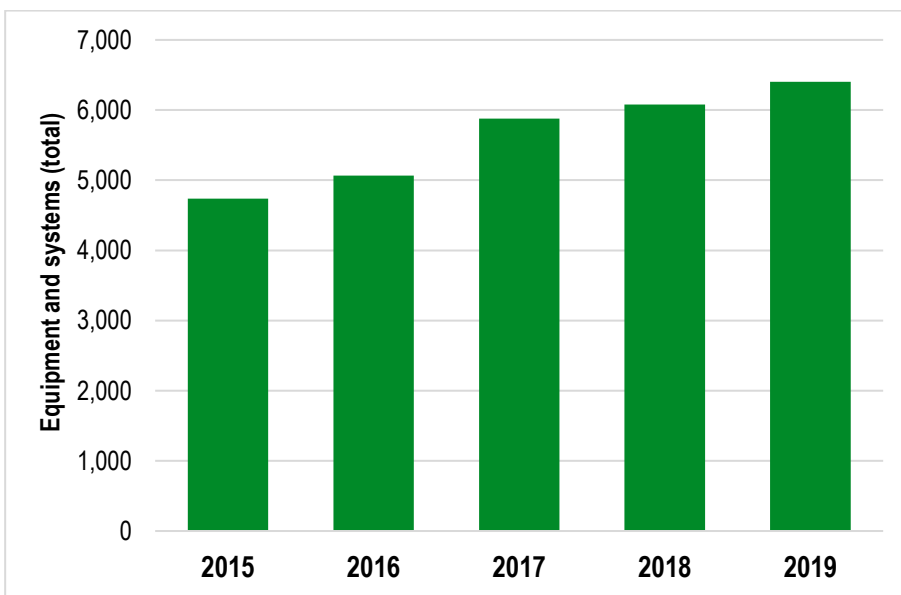




We have been upgrading the quality system with respect to good manufacturing and good distribution practices in Krka subsidiaries.

We produce strategically important active ingredients in accordance with technological procedures developed through our research and development. Their production is located in our chemical production plants or at our contractual partners and covered by the quality assurance processes. We further improved these processes in 2019 and their suitability was confirmed with successful inspections by JAZMP in Krka and at our key contractual partners, substantiating proper quality of API production and ensuring an increased quality and reliability of supplies. Our communication with regulatory authorities in response to the detection of genotoxic impurities in medicinal products of various producers was appropriate and effective.

The qualifications and validations of investment and computer projects, technological and laboratory equipment, utilities, air-conditioning systems, technological procedures, cleaning processes, calibrations and maintenance processes contribute to quality assurance in production and control processes. Due to the acquisition of additional equipment and introduction of new systems, the number of qualifications has increased over the years. Process validations and packaging validations are intended to ensure the compliance of technological procedures applied in bulk product manufacturing and packaging of finished products. We apply validation processes to confirm the suitability of transport conditions. Improved approaches are reflected in the successful implementation of annual plans and objectives. They have also been confirmed by permanent controls performed by internal and external auditors and inspectors.



When a new investment project is launched or a reconstructed building is made operational, we verify whether the new or reconstructed building complies with all applicable requirements of good manufacturing practice. We perform quality checks

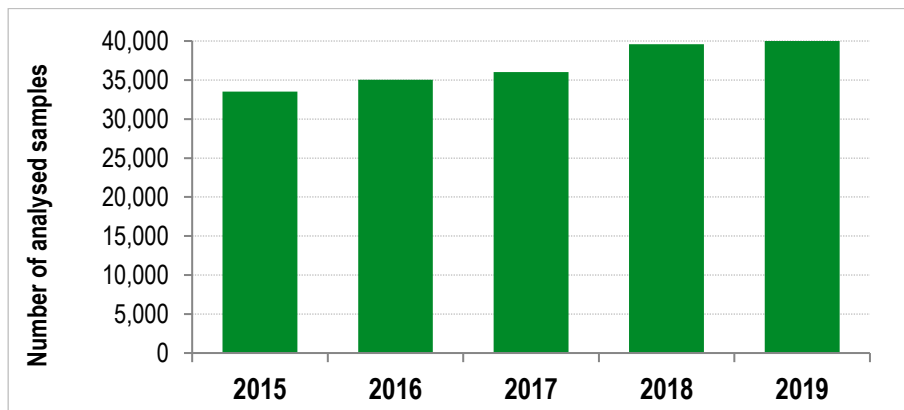
in our production plants, warehouses, control and development laboratories and chemical and pharmaceutical pilot plants. New investment projects and certain major reconstruction projects require an appropriate assessment or verification by JAZMP prior to their use. In 2019, the number of quality certificates issued was well over the 2018 figure as a result of investment activities in the production of active ingredients and finished products, including the purchase of additional equipment in the production of finished products, pharmaceutical pilot plant, incoming material warehouse, new laboratory equipment, etc.

We devote much attention to data integrity by ensuring compliance with regulatory requirements for data completeness, persistence, availability, legibility, accuracy, origin and descriptiveness throughout the prescribed data retention period. The principle of data integrity is considered in the development, production, control, distribution, product quality assurance, and pharmacovigilance. Particular attention is given to the development and implementation of information systems and introduction and management of laboratory and production equipment. We ensure source data integrity by performing validations and qualifications of equipment, change control and management of any process deviations.

To improve the ability to confirm proper management of data integrity, we upgraded our laboratory systems in 2018 and 2019. The new equipment complies with the strictest standards in pharmaceutical industry and is used in all analytical tests of incoming materials, intermediate products, bulk products, and finished products. We keep electronic or paper records and perform analytical testing in accordance with good manufacturing practice, good control laboratory practice, and data integrity requirements. We appropriately manage access, rights assigned in the systems, control and supervision of the performance and use of processes and systems, subsequent access to data records, and archiving.

Data archiving is one of the most important tasks that requires us to ensure appropriate response times in data retrieval; correct archiving; protection of archived data, records, and reports; and correct archiving periods.

We apply physico-chemical methods and analytical techniques in our control laboratories to examine the quality of finished products, bulk products and intermediate products, active ingredients, incoming materials, production environment, equipment and personnel, and production processes at all our production sites. Quality is also checked for finished products, bulk products and active ingredients produced by our contractual partners. We are constantly engaged in identification of potential risks in all areas of our operations and in individual processes. By adopting appropriate measures in good time, we minimise the identified risks and ensure timely analyses of appropriate quality and uninterrupted supply of products. We have established a system for regular monitoring of the quality of our marketed medicinal products throughout their shelf lives. We follow business objectives and legislative requirements by regularly optimising work processes, increasing laboratory capabilities and increasing the number of employees. Data integrity is at the core of our activities related to the management of existing laboratory systems and introduction of new ones. We ensure the quality and safety of work by educating employees and raising their awareness, introducing new analytical techniques and making improvements in all areas of our operations. Consistent quality of work and professionalism are the result of continuous transfer of knowledge and experience to our subsidiaries abroad and contractual partners.



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 prescribed procedures and good manufacturing practice guidelines. In particular, we improved quality assurance of sterile, liquid and semi-solid dosage forms by introducing new organisational measures, which provide for more effective cooperation with production departments in

order to provide quality, safe and effective medicinal products. Successful cooperation between the manufacture of sterile products and quality assurance helps improve the microbiological aspects of production environment. Microbiological conditions in sterile production have been steadily improving since 2013 and have attained target levels, which guarantee a permanent safety of sterile products. Microbiological conditions of environment, equipment, personnel, and utilities have also improved in non-sterile production.

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 and the performance of production activities. We record batch release times in order to make products available for timely dispatch. Certain actions in manufacturing, quality control and product quality assessment cycles are necessary to release batches to 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 pharmaceutical batch is made by persons responsible for the release of pharmaceutical batches according to the provisions of the Slovenian *Medicinal Products Act* and the applicable EU legislation on medicines. This is followed by issuing certificates and producing batch documents for clients. We regularly update finished product certificates of conformity in accordance with the guidelines of good manufacturing practice applicable in the EU.

We monitor the quality of products in the market throughout their life cycles. We also follow the safety of medicines within the pharmacovigilance system. Data on the safety of a medicinal product are collected and evaluated in the entire life cycle of the product, in the periods before and after obtaining the marketing authorisation for it, and during its daily use. Through the pharmacovigilance system, we assess the risks and benefits of a product, take risk management measures and provide appropriate information for doctors and users.

Quality System Orientation

A key objective of the IMS is our clients' satisfaction with Krka products and services. Our quality system addresses our clients' demands and expectations in accordance with the legislative requirements and the guidelines on 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 standards of 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. Quality is measured against five criteria: quality-related costs, complaints, deviations, response times, and inspection and audit findings. Each year, Quality Committee checks whether quality objectives have been attained and approves the objectives for the next year. Until now, the set objectives have been met. We regularly conduct monthly reviews of quality indicators for Krka's key processes that affect the quality, safety and efficacy of products in order to check whether objectives are fulfilled and whether any additional improvements should be introduced. In 2019, six such reviews were carried out.

Quality indicators are also subject to monthly reviews in our subsidiaries. We analyse the objectives and their achievement on quarterly basis and prepare guidelines for the next period. A report on quality indicators is submitted to Quality Committee twice a year.

In 2019, monthly reviews of quality indicators were introduced at our key contractual partners.

Krka places strong emphasis on environmental protection and health and safety at work (we also consider the requirements of ISO 14001, ISO 45001, and guidelines for responsible care), and on open and fair public relations. We regularly report to and inform the public of improvements. We have upgraded the environmental management system and the system for health and safety at work in the past two years to further improve their effectiveness. 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 employee. There is always room for improvement, so we continuously promote quality (also in relation to efficiency, safety, economising, knowledge, useful proposals, and the environment), for example by publishing a series of professional and motivation articles on our internal portal *Krkanet*, in our internal magazine *Utrip*, and our weekly bulletin *Bilten*. In this way we

inform our employees and raise their awareness about changes made in relation to IMS and the impact of quality work on the results of the Krka Group.

Our permanent aim is to improve the flexibility of our operations, in particular the understanding of changes, cooperation and consultation, adaptation to market requirements and needs, coordinated and coherent work of organisational units, and integration and streamlining of management and quality systems in the processes of all Krka Group companies. In view of this, we upgrade our systems and pursue work process optimisation. Such upgrades and optimisations in our subsidiaries continued in 2019. We also share information, introduce new developments, and provide assistance to subsidiaries, where we regularly audit their quality systems.

Constant growth of production volumes, new product launches and timely implementation of legislative changes require us to promptly upgrade and control our capacities and introduce improvements in order to manufacture and release onto the market larger volumes of products and lots, and ensure that they are produced according to both regulatory and Krka's requirements. Quality issues are important also in relation to expansion to new markets, as we have to understand, implement, and adapt to regulatory requirements on the new markets and ensure our processes are adjusted accordingly. In 2019, Ningbo Krka Menovo continued its active pursuit of regulatory activities intended to obtain marketing authorisations for products in China and made preparations to start sales activities after the anticipated issue of marketing authorisations. The company was also engaged in the manufacture of finished products transferred from Krka and intended for the European markets.

Information Security and Personal Data Protection Systems

Our information security management system (ISMS) is ISO/IEC 27001 certified. In 2019, we successfully completed the recertification audit of the system. We regularly assess risks related to information sources. The ISMS is regularly reviewed in self-inspections, audits, and external security inspections. In 2019, we applied measures required by the external security inspection in 2018, conducted the security inspection and implemented the recommendations. We employed most advanced technologies to protect our systems from external attacks. All Krka subsidiaries adopted the guidelines of the controlling company set out in the *Information Security Policy*.

We completed the first phase of inspections by the Information Commissioner of the Republic of Slovenia. The inspections related to the processing of personal data in clinical studies and are planned to continue in 2020. Certain processes in personal data processing were reviewed and adapted to comply with the latest practices required by the Slovenian and EU supervisory authorities, for example personal data in databases of all Krka subsidiaries in the EU are now regularly updated and individuals are informed of personal data processing. We submitted reports to the Information Commissioner on how we comply with the provisions of the *General Data Protection Regulation (GDPR)* on the maintenance of records of processing activities for employees, information on the processing of their personal data, and designation of a data protection officer. The aim is to minimise the risk of violations and ensure compliance with the applicable legislation and practice.

Regular and continuous training courses for our employees and raising their awareness are key elements for successful implementation of the ISMS. In 2019, we devoted special attention to raising awareness of all Krka Group employees about phishing attacks by adapting simulation examples to correspond to real-life situations.

We maintain high availability of critical systems including the business system, production system, documentation system, e-mail, control systems, and others. The expected minimal availability of critical systems is 99.5%. To support system availability and data safety, Krka's data centre has been duplicated. Together with the basic data centre, it ensures a high level of redundancy, meeting the requirements of high-level availability and data safety. Backups are produced in real time for all computer systems, applications and databases at the remote location outside Novo mesto.

	Annual availability in %				
	2019	2018	2017	2016	2015
Business system	99.9	99.9	99.9	99.9	99.9
Production system	99.6	99.8	99.9	99.9	99.9
Documentation system	99.9	99.3	99.8	99.8	99.7
E-mail	99.9	99.9	99.9	99.8	99.9

Business Continuity Management System

The purpose of the business continuity management system (BCMS) is to prepare measures and procedures for uninterrupted production and sales of our key products in the event of major incidents and disasters. We implement BCMS on the basis of the adopted strategy and policy, and make improvements according to the ISO 22301 standard (*Business Continuity Management Systems*). Important parts of the BCMS are procedures for optimising Krka's resistance to damaging incidents, procedures for incident management, and business continuity plans for crisis management. The BCMS is part of Krka's comprehensive risk management. In 2019, we conducted practical verifications of the feasibility and efficiency of business continuity measures in all critical processes and used the findings to partly update our business continuity plans.

SUSTAINABLE DEVELOPMENT

Sustainable development is a mainstay of Krka's strategy. We consider ourselves successful when our success has a positive effect on the natural and social environment. It is a challenging mission to which we are fully committed.

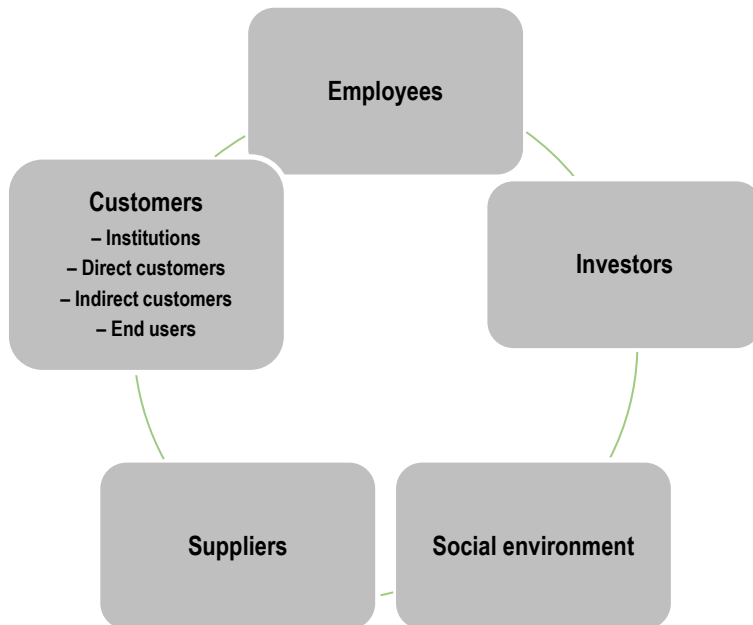
We are also committed to producing high-quality products and motivated by the desire to care for people's health. We believe that only excellence will suffice when it comes to health, and with this in mind we carefully plan the development of our products and all processes that affect lives and the environment in which we operate. We have earned the trust of our patients and partners thanks to our know-how, professional and ethical approach, and high quality standards in all spheres of our operations.

Our actions are socially and environmentally responsible in order to further improve our performance with regard to nature conservation, health and safety, and to co-design our social environment. We incorporate these aspects in our research work, our actions to improve production processes, investments in technology and employees, in providing a safe, healthy, stimulating, and pleasant working environment, and in our cooperation with business partners, suppliers, scientific and educational institutions, non-governmental organisations and other institutions. We operate in line with the highest ethical standards.

Cognisant of the fact that social responsibility contributes to financial performance of a company, we pursue social, environmental and economic goals with equal fervour. We deliver on sustainable business targets in line with annual plans and programmes, and include economic, social and environmental impacts into reporting. Financial and non-financial information related to sustainability is covered in various chapters of our annual report and on our website www.krka.biz.

The needs of our stakeholders and the social environment as well as impacts of our business are addressed through a constant, proactive dialogue, which improves interpersonal relations and allows us to rapidly adapt to market changes. Our stakeholders and key areas are set out and examined below.

Krka Group Key Stakeholders



Stakeholder engagement	
Stakeholder group	Engagement modality
Employees	<ul style="list-style-type: none"> – international conferences for employees (on various topics) – measuring organisational climate – Works Council – worker assemblies
Investors	<ul style="list-style-type: none"> – meetings with investors at the Krka headquarters – meetings between financial analysts and Krka management – participation in investor conferences – presentation meetings in financial centres around the world – conference calls with financial analysts after releasing business results – regular annual general meetings – communications with financial media
Customers	
Institutions (supervisory authorities, health insurance companies, government bodies, etc.)	<ul style="list-style-type: none"> – long-term cooperation and provision of reliable documents – cooperation with specialised development institutions and companies – cooperation with universities and scientific institutes – involvement in reshaping professional, scientific and regulatory environments by cooperating in various professional and industry associations in Slovenia, the European Union and in other markets
Direct customers (wholesalers, pharmacy chains, hospitals, other pharmaceutical companies)	<ul style="list-style-type: none"> – long-term partnerships – annual online survey on satisfaction with core aspects of business operations (general satisfaction, satisfaction with products, sales personnel, order processing and fulfilment, and complaint procedures) – suggestions for improvement – regular information on products provided in print and electronic forms
Indirect customers (doctors, veterinarians, pharmacists)	<ul style="list-style-type: none"> – direct contacts through medical representatives in 40 countries – organisation and support for professional and educational meetings – advanced digital content for the professional public – feedback and opinion obtained through daily contact and market research
Patients and other end users	<ul style="list-style-type: none"> – responsible, professional communication about products through various media, including social networks and digital channels
Local community and social environment	<ul style="list-style-type: none"> – identification of needs of local and social environments through various activities related to sponsorships and donations, annual meeting for clubs and associations, Krka's Week of Charity and Volunteering, Krka Prizes Fund for young researchers – open dialogue and exchange of views with residents (inclusion of their views when planning environmental goals and sustainable environmental protection) – cooperation with environmental organisations
Suppliers	<ul style="list-style-type: none"> – cooperation in tenders and competitions – working meetings – auditing
Media	<ul style="list-style-type: none"> – transparent information on business operations and events in press releases and responses to media inquiries – press conferences and meetings with media representatives – information on websites

Employees

The company's success is largely built on the contribution of its employees. The Krka Group operates on markets from Vladivostok to Lisbon, in diverse cultural settings that give us a wider perspective, broaden our understanding and provide an opportunity to achieve common company goals as partners. 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 a duty of care towards employees and Krka values. Our values – speed and flexibility, partnership and trust, creativity and efficiency – guide us in setting our goals, delivering results, cooperating and working with employees.

Special attention is paid to attracting, identifying and developing young talent, so as to ensure that the company remains successful in the future.

We maintain a working environment that promotes the professional and personal development of employees because we are aware that successful market presence, development and marketing of new products and investments in modern production capacities are only possible with the help of highly trained personnel. We believe that an individual's success depends on the desire to achieve professional excellence and on continuing education, personal development and the development of interpersonal relations.

Since quality is important for us at every stage of the work process, we encourage employees to cooperate, exchange relevant information and be creative. We create an environment in which the goals and needs of individuals may be linked to company's objectives. This is achieved through demanding and interesting work challenges, ensuring the best possible work conditions, facilitating the development of skills and competencies, and cooperating on career development. Quality is also at the centre of our educational activities as only properly trained employees can follow the requirements of all standards and processes.

The employees work in an environment where they can develop professionally and personally and make progress by meeting the challenges arising from their tasks. They can also attend many different courses on leadership, personal and professional development, or learn foreign languages. In order to achieve synergy and provide our employees from different backgrounds an opportunity to meet, we organise international conferences related to different fields of our operation: marketing, sales, technology, human resources, regulatory affairs, accounting, etc. Employees of Krka and its subsidiaries and representative offices abroad can exchange experiences, analyse current challenges, discuss common strategies and goals, and exchange good practices. This is how we create the company's success and its future.

We appreciate commitment and respect the contribution of each employee to the achievement of the Krka Group objectives. We foster the awareness that employees play a role in shaping the working environment and organisational climate and thus contribute to business results. We regularly gauge the organisational climate in the company to learn how our employees feel about their work at the company and provide them the opportunity to express their opinions. Analyses of the findings are useful for preparing improvements, which contribute to an efficient and creative environment.

The competitiveness and performance of the Krka Group are also maintained by improving internal processes and rapidly addressing market needs. In 2019, the number of the Krka Group employees increased by 306 year-over-year. A high level of responsiveness is becoming increasingly important given our intense growth and expansion to new markets. The Krka Group is becoming increasingly complex, which is why we pay special attention to our organisational efficiency. A continuous search for new solutions in the processes and structure, reorganisation and restructuring of the units in Slovenia and abroad provide us with the flexibility and the ability to respond quickly to the demands of the competitive environment. Moreover, exchanging experience in an international environment allows for the synergy of various cultural patterns and values.

Equal opportunities for all employees, regardless of their gender, race, religion, nationality or cultural backgrounds, compliance with legal norms and rules, and an ethical approach to other people and the wider social community are the foundations of our work. We respect human rights as enshrined in internationally recognised principles and guidelines, including the United Nations *Universal Declaration of Human Rights*. We abide by all legal regulations and standards related to human rights in all countries where we operate. Krka is bound by high ethical standards, hence all employees receive training on Krka's *Code of Conduct*. The Code defines the principles and rules for ethical conduct, good business practice and standards of conduct, which are binding for all employees of Krka, d. d., Novo mesto, and of its subsidiaries. We respond quickly to any identified inappropriate conduct in interpersonal relations and prevent any forms of mobbing on the basis of clear rules and procedures.

Key data about employees for 2019

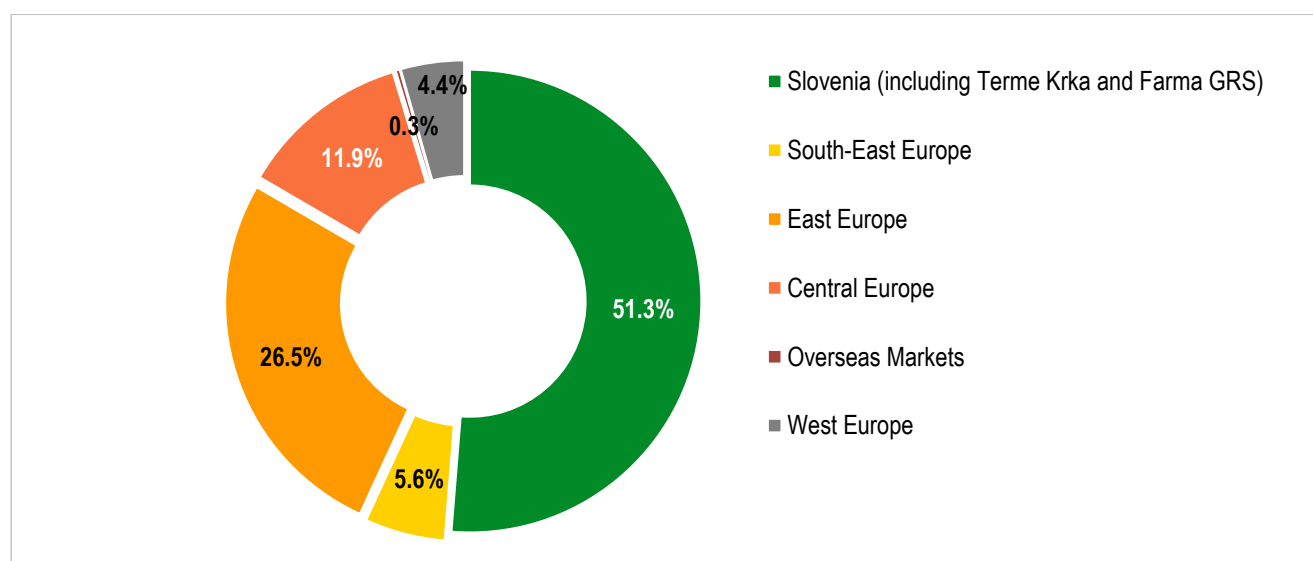
Number of employees	11,696 of which 51.3% in Slovenia
Average age	39.72 years
Female employees	61.75%
Female employees in management positions	47%
Permanent employees	89.3% (women 87.9% and men 91.5%)

Number of Employees as at 31 December 2019

	2019	2018	2017	2016	2015	Index 2019/18
Krka in Slovenia	5,386	4,995	4,514	4,343	4,292	108
Krka's representative offices outside Slovenia	521	501	506	546	506	104
Krka	5,907	5,496	5,020	4,889	4,798	107
Subsidiaries outside Slovenia	5,178	5,278	5,192	5,388	5,151	98
Terme Krka	578	580	584	576	578	100
Farma GRS*	33	36	36	36	37	92
Krka Group	11,696	11,390	10,832	10,889	10,564	103

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

Employee Structure by Region as at 31 December 2019



Educational Structure

One of the pillars of Krka's human resource policy is the continuous improvement of the educational structure of its employees. We are aware that we can respond to the demands of a highly competitive market quickly and effectively only through extensive investments in development, complex technology and a high level of qualification of our experts. The Krka Group employs 6,104 people with at least university-level qualifications, which accounts for 52.2% of all Krka employees. Of that number, 198 employees hold a doctoral degree and 388 employees a master's degree or specialisation.

Educational Structure of the Krka Group Employees as at 31 December 2019

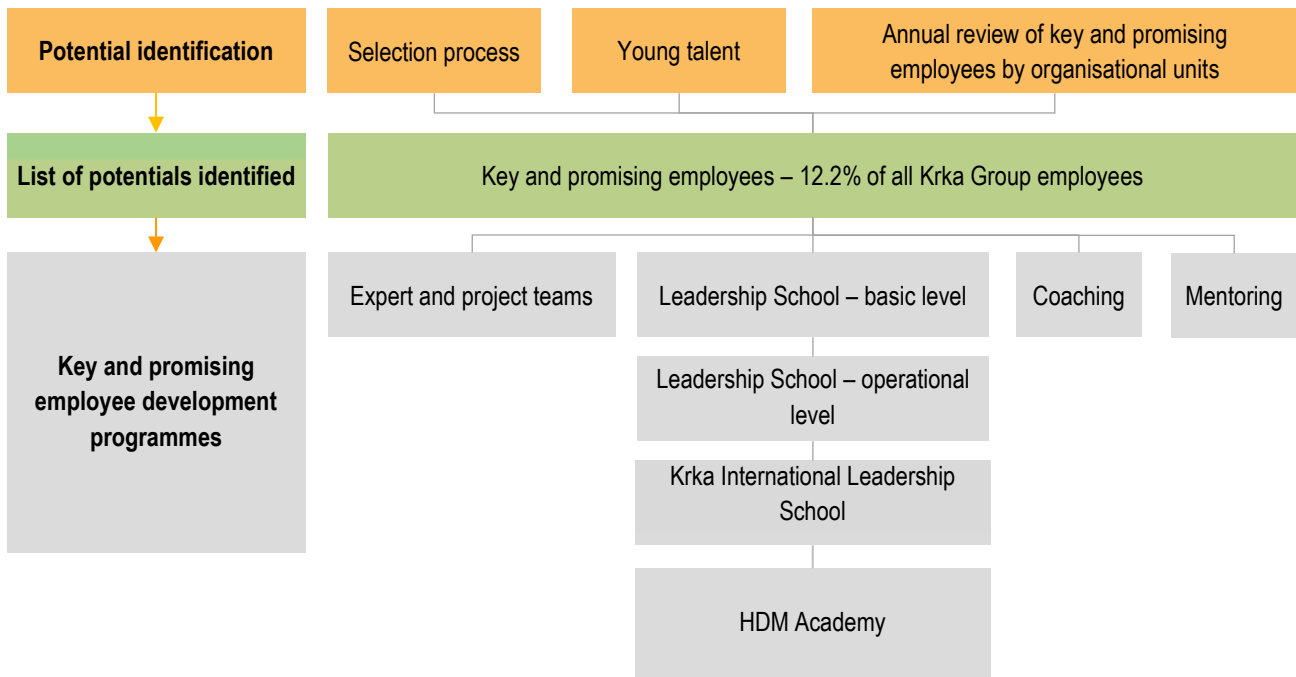
	2019	2018	2017	2016	2015
Higher professional, university degree or higher (level VII or higher)	67%	68%	69%	70%	68%
Vocational college degree (level VI)	3%	2%	2%	2%	3%
Secondary school education (level V)	21%	20%	18%	17%	17%
Other (less than level V)	9%	10%	11%	11%	12%
Number of Krka Group employees	11,696	11,390	10,832	10,889	10,564

Employee Education and Development

Know-how is highly valued at Krka. We systematically plan employee development and deliver continuing education programmes where our employees can upskill in various fields, **develop professionally and personally** and advance their career.

Special emphasis is placed on attracting, identifying and developing young talent. In this way, we make sure that the company remains successful in the future.

Key and Promising Employees



We identify and systematically train our **key and promising employees** early in their careers. We provide training, mentoring and coaching to prepare them for the most challenging and pivotal roles.

Identifying talented employees is of crucial importance and takes place early in their careers. They are invited to a workshop where we test their abilities in various individual and group tasks. By observing them, we determine their motivation, insight and capacity to cooperate. This method of talent identification is used for promising employees with less than one year of service at Krka whose proactive approach, determination and the ability to cooperate are particularly evident during the selection process or at the beginning of their career at Krka. We also use this method to select candidates for challenging roles and for internal transfers of employees to other roles.

A competence-based system for various work areas serves to identify knowledge development and upskilling needs, and to develop employee skills. Competencies are also a good starting point for recruiting new employees and for designing training and skills development programmes and their evaluation.

To support their individual development, identified key and promising employees and young talents can choose among several programmes on the basis of their needs and the nature of their work.

The need to train key and promising employees and develop well-trained leaders encouraged us to start our own leadership programme. It comprises four programmes adapted to different levels of leadership: the Krka International Leadership School, the Krka Operational Leadership School, the basic level leadership programme, and the HDM Academy for heads of District Managers. The programmes are complemented by coaching and action learning, thus contributing to the development of leaders.

We also provide an international programme for expert and project teams aimed at training professionals in communication skills, teamwork and project work, learning about and exchanging Krka's good practices, establishing linkages between employees from various backgrounds, as well as employees' personal development.

Mentorship, which is a goal-oriented and planned process enabling an exchange of experience and development of employee potential, is implemented with new employees who have just started in their jobs and with employees who take on new and more responsible tasks. A special form of mentorship at international level is used for a systematic development of promising employees. They meet renowned Krka employees, deal with hands-on issues and develop their potentials and competences with a specific aim.

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

An important tool enabling effective leadership, identification of potentials, motivation and the development of employees is Krka's Appraisal interview. The appraisal system covers all employees of the Krka Group. Managers and employees use it to review objectives defined in the previous appraisal period, discuss the main tasks and expectations relating to work and employee development, and on that basis plan the employees' future work and training.

Our employees learn about the most recent developments at higher-education institutions, institutes and other organisations in Slovenia and abroad. In 2019, 530 Krka employees were part-time students, of whom 61 pursued postgraduate studies.

We are the only company in the country to offer six programmes of national vocational qualification related to the pharmaceutical industry. These programmes are available also to employees of pharmacies and other pharmaceutical companies. In 2019, this training (level IV) was completed by 98 persons. In total, we have awarded 1,598 certificates since 2004: 1,456 to Krka employees and 142 to employees of other companies and pharmacies.

In its marketing-and-sales network, Krka employs more than 90 in-house trainers whose job is to train the employees and their managers, implement the corporate strategy in markets, and ensure that good practices are transferred in the market and also internationally. Trainers help employees and managers at regular training sessions and by giving individual support in the field.

Traditional forms of education and training are supplemented with e-learning and e-testing, which have gained considerable importance given Krka's widely dispersed organisation. E-learning and e-testing are also used as preparation materials for seminars and meetings to increase the level of attained knowledge and employees' cooperation at training sessions.

We give special attention to preparing training programmes on people management, conflict resolution and respectful communication because we are convinced that care for the employees and good relations lead to good results. The basis for good cooperation is self-awareness, recognising one's strengths and weaknesses, and respecting the differences between people, which is the main message of these training sessions. We lay great emphasis on quality-related training because of its importance in the pharmaceutical industry. Quality comprises a significant proportion of our educational activities and investments. In 2019, we recorded 150.541 hours of training and 79.682 participants in training courses on quality.

Key data about employee education in the Krka Group for 2019

Average number of trainings per employee	14
Average number of hours of training per employee	43
Proportion of revenue allocated for education (in %)	0.59

To recruit young people, we offer scholarships to those students who demonstrate talent and high competence during their studies. We systematically work with them to provide them with the best possible opportunity to build a strong relationship with the company and gain experience. These students learn about Krka and the company's working processes at organised meetings and during their internship, where they can also develop and prove their skills and competencies. We assist students and junior researchers with their theses on various topics. Our employees run courses at educational institutions and help design course content for undergraduate and master's study programmes. In 2019, Krka had 93 scholarship students, 9 of

whom graduated and started their work at Krka. We also work with secondary schools and faculties in providing obligatory work placement. In 2019, 203 pupils and students acquired work experience at our company.

Quality of Life

Employees' quality of life has a decisive impact on the success of the company where they work. Krka is a socially responsible company, and we pursue our mission of **living a healthy life** in various ways.

We have been promoting well-being of our employees and good interpersonal relationships for several decades by organising a wide range of cultural and sports events. Our employees participate in various activities that contribute to the quality of life in general and not only in their working environment. They can do a wide range of sports organised by Trim Klub Krka. More than 80 sports activities for various age groups, fitness levels and interests are available each week, and every employee can find something that best suits his or her interests. The Krka Culture and Arts Society contributes to cultural life. It organises gallery exhibitions, includes a choir and a theatre club, and arranges creative workshops and cultural events. We advocate a healthy diet and offer quality meals at all company's locations.

We are also committed to charity. Krka's Week of Charity and Volunteering that is organised every April fosters the spirit of volunteering among Krka employees. They can donate blood, help residents in retirement homes across Slovenia, care for animals, collect basic necessities or do other volunteer work. Krka employees from subsidiaries and representative offices abroad also take part. We encourage employees to act as volunteers throughout the year, not least by presenting volunteer-of-the-year awards.

Employee gatherings are an important part of Krka's corporate culture. Our annual events are Krka Day, a social and sports gathering for all Krka employees, and Krka Awards Day, a ceremony where our long-serving employees as well as our best employees, best managers, and best proposers of innovations and useful suggestions are rewarded for their contributions. Skiing enthusiasts come together on our winter sports day. Krka employees also meet at gatherings honouring the disabled, blood donors, fire fighters, and athletes, on environmental cleaning campaign days, at events celebrating the opening of new facilities, and at cultural and other events.

Retired Krka employees may become members of the Krka Pensioners Club, through which they keep in touch with other former Krka employees and stay connected to the company. They can also attend a traditional New Year's meeting for retired Krka employees.

Employee Rewarding and Motivation

We recognise good work and encourage employees to perform well through various reward and recognition systems. Their aim is to encourage dedication and loyalty, and praise excellence and commitment.

Our best employees receive recognition awards and performance bonuses. We select and award the best employees and the best managers at organisational unit and Group levels, 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 annual Krka Awards Day.

Encouraging Inventive Work

Through inventive work system, which was established in Krka in 2003, all employees are included in the continuous improvement system, which is a part of the quality system and hence the integrated management system. We encourage our employees to always strive to improve the quality of their work. Innovations seek to resolve issues related to economy, production, logistics, technology, engineering, administration, environment, business, information science, quality, and health and safety at work. Useful proposals that are easy to implement, and complex improvements with notable effects, matter. We wish to encourage all employees to look for opportunities for improvement and draw everyone's attention to the fact that every proposal is important and worth considering. The biggest reward for every employee who has submitted a useful proposal or improvement is the recognition that their proposal makes a difference.

We encourage inventive work by conferring awards every quarter, 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 *Utrip* internal magazine, publications of interviews with individual proposers in the *Utrip* internal magazine, 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 often contributed to savings. This is also the purpose of the corporate campaign under the slogan 'Your effectiveness counts', which gives Krka employees an opportunity to put forward useful proposals and improvements.

In 2019, 560 useful proposals and improvements were submitted, and we awarded 523 proposals that were put forward by 463 employees.

Digitalisation in Human Resources

Digitalisation greatly contributes to efficiency of work and processes. To follow the trends in this field, we have implemented an e-recruitment system in Slovenia and plan to expand it gradually to certain other markets where we operate.

Health and Safety at Work

Krka provides its employees with a healthy and safe working environment. The latest developments in health and safety at work and fire prevention are incorporated into every new project and technology. We monitor the risk of accidents and potential health hazards for every work position and technology. In order to ensure continuous long-term improvement in the working environment, risks are assessed periodically and protective measures are taken to reduce them to acceptable levels.

Care for the health is the shared 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, workshops on healthy lifestyle and the negative effects of psychoactive substances, healthy meals at our canteens, etc. In 2019, we modernised the health promotion plan and took effort to raise employees' awareness of the importance of promoting health for a quality life, among others, by encouraging them to contribute proposals and suggestions. Employee satisfaction with health and safety at work has been rated 4.39 on the scale from 1 to 5 (1 is the lowest). We raise awareness about good health and well-being of employees through various health promotion activities. We have established a health promotion plan, a dynamic process to which all Krka employees can contribute by presenting their proposals and initiatives. The relevant document is published on *Krkanet*.

The Interpersonal Relations and Sick Leave project, which has helped reduce sick leave, has been in place for several years. In 2019, 5.7% of the Krka Group employees were on sick leave and 5.6% were on maternity leave.

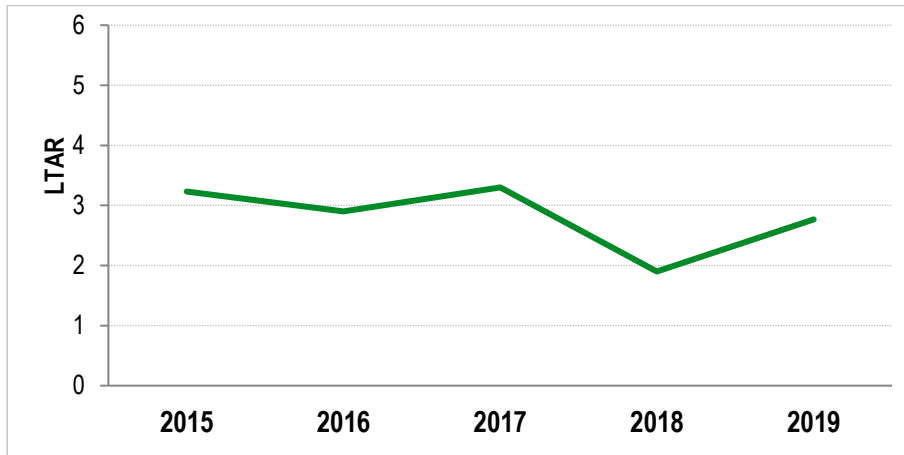
A total of 5.3% of Krka employees have a registered disability and work in appropriate job positions in accordance with the legislation related to the disabled and their limitations. We apply various preventive measures to reduce the risk of additional health issues and disabilities. We provide preventive and curative care to our employees and guarantee they can continue 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 work in their current positions.

The occupational safety system is incorporated into Krka's integrated management system and complies with the ISO 45001 standard. Krka was certified to ISO 45001 in 2019. A health and safety at work workgroup operates in each organisational unit at Krka and comprises, among others, a certified health and safety officer. At the company level, we have a health and safety at work team responsible for the preparation and implementation of key objectives and programmes approved by the Management Board.

We continually monitor data on workplace accidents. The LTAR (Lost Time Accident Rate) indicator in graph 1 indicates the number of accidents in the workplace requiring three or more days of sick leave per million hours of work. In 2019, the LTAR

reached 2.77, which is 45.8% more than in 2018 and 18.7% less than in 2017. All accidents were minor and involved 55% of men and 45% of women with no significant representation of any age group.

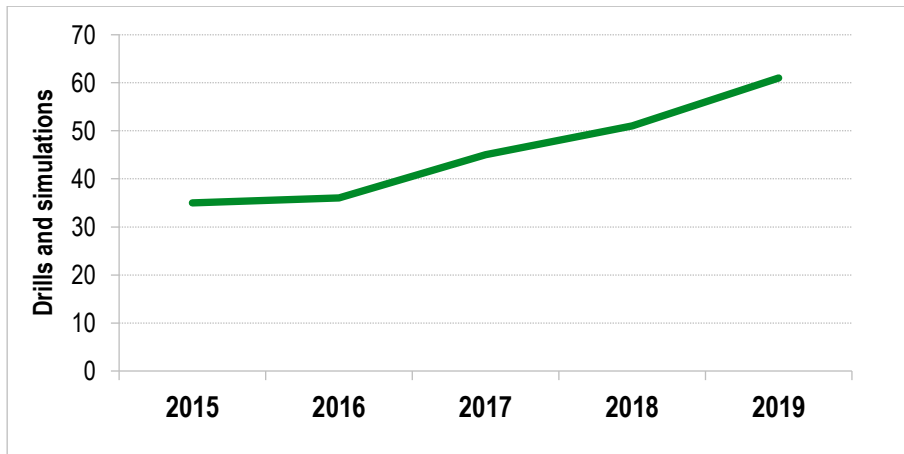
Workplace Accidents Requiring Three or More Days of Sick Leave per One Million Hours of Work (LTAR)



We recorded no incidents such as major fires or major spillages of hazardous chemicals in 2019.

The Fire Protection Department and the Industrial Fire Service Crew are responsible for any emergency response. In 2019, the number of emergency drills increased by 19.6% in comparison to 2018. We conducted 61 emergency drills, among them six were major. We worked hand-in-hand with the Novo Mesto Fire and Rescue Service and emergency medical service teams. We analysed and presented the risks and realistic emergency scenarios and their possible impact on the stability of business operations in Krka. We also tested the coordination and efficiency of work of internal and external intervention teams, as well as Krka first aid and medical teams.

The Number of Drills and Simulations for Emergency Situations



Communicating with Employees

We promote open, regular, responsible and ethical communication between employees and the management team as well as between the Krka Group employees. This helps create a productive working environment, develop a sense of commitment, and build a culture of mutual trust and respect, as well as responsible and efficient work.

The **Works Council** is the link between the employees and the management team. Its members represent all organisational units of the company. Employees can put their initiatives and questions forward through their Council representatives, the President of the Works Council, or the Worker Director. Another important source of information is the annual **worker assembly**, where the President, members of the Management Board and representatives of the Works Council inform

employees about the operating results of the previous year, plans for the current year, development strategy, and other developments. Employees may also 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 can make an appointment to see him personally.

Internal corporate communication takes place through various internal media and tools in order to inform employees quickly and effectively about events in the company. Employees receive news regularly in our internal weekly bulletin **Bilten**, which is available in print and electronic form, and on the internal portal **Krkanet**. Our monthly magazine **Utrip** contributes to a better understanding of the vision, mission and values, and objectives and strategies of the company. We provide our employees with the latest information via e-mail address **Krkaš.si**, **information screens in entrance halls**, and **notice boards** at manufacturing and other sites.

We inform employees about important company guidelines also in **communication campaigns** and at numerous **internal events**. Since 2013, we have been leading the campaign *Your effectiveness counts* to raise awareness of all Krka employees that even a small contribution has a significant impact on achieving company goals. We encourage employees to perform their tasks efficiently and responsibly, and to find new ways that may raise the quality of work, from environmental protection measures to useful proposals and improvements. The campaign was adapted as necessary and transferred to other markets where we operate. Since 2015, in accordance with Krka's Mobility Plan, we have been encouraging our employees to use alternative and less environmentally harmful ways of commuting. As part of workplace health promotion programmes, we devoted much time over the past three years to raising awareness about prevention and a healthy life style. Every year, we organise over twenty various events, including the Krka Awards Day, where we award our long-serving employees, best employees, and best managers; sports days; and award ceremonies for proposers of useful suggestions, longstanding blood donors, and others.

For **internal communication abroad**, we utilise the same communication tools as in Slovenia: local editions of *Utrip* (*Puls* in countries outside Slovenia), *Bilten* (*Bulletin*), and e-mails. They include local news from our markets, important corporate news items, and internal campaigns. Our employees in key markets can use intranet sites (*Krkanet*) in their national languages, and our marketing and sales personnel receive another Krka newsletter *M-Bulletin* in electronic form. All employees outside Slovenia receive information related to all Krka Group employees also via e-mails and the *Krkanet* portal. Communication with employees in minor markets is the responsibility of directors of subsidiaries and representative offices abroad, whereas good practices of internal communication in key markets are implemented by local customer marketing professionals.

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

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 financial analysts is an important aspect that contributes to the attainment of Krka's principal objective and helps understand our business story. We strive to make our communication with investors as transparent, prompt and consistent as possible. We provide them information mainly related to our business results and the Group's future strategy, complying with the information disclosure policy.

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 deliver on these objectives through:

- meetings with investors at the company's headquarters;
- meetings between Krka's management and financial analysts;
- participation in various investor conferences;
- road shows in financial centres around the world;
- conference calls with investors after releasing business results;
- publications for investors (the *Utrip prihodnosti* magazine and presentation 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 Krka's webpages.

For more information, shareholders may contact our Finance Division by phone +386 7 331 75 91 or e-mail finance@krka.biz.

Customers

Our customers are classified in four groups according to the nature of our operations:

1. institutions (health-care, regulatory, industrial property, health insurance, etc.);
2. direct customers (wholesalers, other pharmaceutical companies);
3. indirect customers (pharmacies, hospitals, pharmacists, doctors, veterinarians); and
4. end users (patients, buyers).

Institutions

V In different stages of product development, production, and sales and marketing, we cooperate with various institutions, health insurance companies and other bodies dealing with medicinal and other Krka products. We cooperate with them according to prescribed procedures, and providing current and reliable documents is our main concern. The reliability and currency of documents are achieved by appropriate procedures and a systematic, clearly organised and complete documentation. We work towards long-term cooperation with institutions and are quick and responsive in our communication with them.

We ensure compliance with our quality systems at all stages of operation. We continuously modernise and upgrade all the previously mentioned systems as well as standard procedures and good practices. Regulatory bodies conduct periodic audits and inspections and regularly review compliance of our operations and integrated management system with the relevant standards.

In order to deliver on our research and development objectives, we exchange ideas and know-how with specialised development institutions and companies. Target-oriented project cooperation with universities and institutes as well as other education and science institutions is of particular importance. We cooperate with these institutions on a daily basis. Another relevant aspect of Krka's cooperation in this field is the Krka Prizes and scholarships for young people in education. Our experts receive continuous training and upgrade their knowledge 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.

Direct Customers

The direct customers who buy our products include wholesalers, pharmacy chains, hospitals, and other pharmaceutical companies. Their satisfaction with our sales and post-sales services provides the foundation for successful business operations and business growth, and we are endeavouring for it. That is why we conduct annual opinion polls to check their satisfaction with the most important aspects of business operations, which include satisfaction with our products, sales personnel, order processing, complaint procedures, and general level of satisfaction. We thoroughly review customer

satisfaction levels to establish crucial areas of improvement, we set goals, take measures, and check how successfully they have been attained.

In 2019, we conducted an online opinion poll and recorded an 86% response rate. An 89% overall satisfaction index confirmed our efforts in providing a high level of customer satisfaction.

Indirect Customers (*Products marketed under different product brand names in individual markets are marked with an asterisk and listed at the end of Product and Service Groups. Products may also be marketed under the Krka trademark in individual markets.)

Indirect customers, known as the professional public, are one of our biggest and most important customer groups. They include doctors, veterinarians and pharmacists, who prescribe, recommend, and dispense Krka products and represent a link with the end users for whom the products are intended.

We regularly inform our indirect customers about our products, enabling them to make an informed decision about which product is most suitable for their patients and customers. We are in direct contact with them through our medical representatives in 40 countries, and provide them information in printed or electronic form. We are particularly careful to ensure that the information serving as the basis for the appropriate and safe use of our products is current.

We contribute to the professional development of doctors, pharmacists and veterinarians. Every year, we organise and support several professional and educational meetings where they can upgrade their knowledge, learn about new guidelines, and exchange opinions and experience. Meetings take place in various countries where Krka is present. In addition to many local events, we organised several international symposia in 2019 held to coincide with large international congresses.

In communicating with the professional public, we act responsibly and in accordance with applicable laws and other regulations related to business operations, including product marketing and personal data protection regulations, and comply with good business practice, the Medicines for Europe's recommendations, and ethical promotion code. The advertising of pharmaceutical products is subject to strict regulation and control. We consistently introduce measures to improve transparency and business compliance in all the fields concerned.

Medical representatives are regularly professionally trained to inform the professional public about latest treatment guidelines and provide accurate and up-to-date information about therapeutic classes and our products. We also make sure that they are familiar with legal and other regulations, and standards of work related to the advertising of pharmaceutical products. For this purpose, modern learning and testing methods are put in place, including our uniform and user-friendly e-learning tool.

We inform and support the professional public in their work through digital content, tools and channels, which we further upgraded in 2019. We introduced KrkaDeplink, a mobile application that helps evaluate the symptoms of depression, and other educational tools to gain knowledge in various therapeutic areas, including webinars and interactive tools for studying patient cases. We used virtual reality and augmented reality technologies to give the presented content a more realistic feel.

Feedback and opinions obtained through daily contact and independent market research are important. For Poland, our second largest market, IQVIA data indicate that we are among the most visible companies with medical specialists from 21 specialist areas of medicine and general practitioners, and the leading company with cardiologists and gastroenterologists. In the Russian Federation, our major market, Proxima research data show that general practitioners and cardiologists rank us first in terms of visibility and the frequency of prescribing, whereas in Ukraine we are the most visible company with general practitioners and ranked second with cardiologists, and the leading company with general practitioners and cardiologists as regards the frequency of prescribing.

We are one of the few generic pharmaceutical companies whose products have had clinical efficacy demonstrated in several international clinical studies. Nearly 350,000 patients from 27 countries have participated so far in over 130 clinical studies with our medicinal products. In 2019, patient inclusion period ended for the Precious study. This international interventional clinical study includes 452 patients with essential arterial hypertension from seven countries. The patients receive single-pill combinations of perindopril and amlodipine (Amlessa*) and of perindopril, amlodipine and indapamide (Co-Amlessa*). The interim statistical analysis of 103 patients showed that both medicines effectively lower high blood pressure. Almost two thirds of patients achieved target blood pressure values after four months of treatment. With regard to non-prescription products, we completed the Lighten-up interventional clinical study of Flebaven* in 2019. The study was conducted in Slovenia in 389 patients with chronic venous disease. Its main objective was to determine the proportion of patients with a $\geq 30\%$ reduction

of leg pain and the proportion of patients whose NRS score did not exceed 3. The objective was attained by 85.4% patients after 12 weeks of treatment. In November 2019, the inclusion period started for the Blossom international interventional clinical study of pregabalin (Pragiola*) and duloxetine (Dulsevia*). The purpose of the study is to examine the efficacy of these medicines in patients with painful diabetic peripheral neuropathy. In 2019, preparatory work started for two new clinical studies related to cardiovascular diseases. Data obtained in clinical studies are statistically analysed, and the results are published in professional journals and used in optimising our product range.

End Users

We care for the health of end users by providing high-quality, effective and safe products. A broad range of Krka products is used to treat the most common illnesses of modern time.

We feel great responsibility to our end users and put all our efforts into ensuring the high quality of our products and services for them. The quality of active ingredients, excipients, and all incoming materials used in finished products is examined with laboratory tests under 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 relevant requirements and regulations.

We implement health protection, safety, and consumer protection 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 for collecting information about risks to the health of patients or public health related to prescription pharmaceuticals and non-prescription products, scientific data evaluation, assessment of potentials for risk reduction and prevention, and adoption of measures for safe use of medicines comply with the European legislation and 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. We engage in responsible and professional communication with end users, and comply with relevant legislation. We do our best to ensure that our consumers receive all the necessary information about our products.

We adopt novel approaches to our digital communication in order to provide our end users with quick access to the latest information about our products. We publish information about products and related topics on product, corporate, and thematic web pages in more than 30 languages and make constant effort to improve and upgrade them. We also develop digital content with useful information for our end users, such as techniques to improve mental vitality, exercises to relieve lower back pain, and a breathing technique to relax and overcome insomnia problems.

Equipment Suppliers and Contractors

Our long-term relations with business partners, including suppliers, contractors, and partners in discovering new opportunities for common growth, are based on mutual respect, trust, honesty, integrity, and fairness.

In all stages of the purchasing process, employees must comply with the procedures defined in internal guidelines, international agreements, and local regulations. Roles and responsibilities in purchasing activities ranging from the identification of user needs and selection of suppliers to contracting and placing orders are precisely specified.

In line with Krka's long-term objectives, sustainability goals, and main principles, we select potential suppliers by considering their:

- previous experience of performing activities at Krka;
- references in implementing similar projects with other clients;
- technical facilities;
- number of key employees and their qualification; and
- financial stability and relation to sub-suppliers/sub-contractors.

We perform supplier audits in individual projects in accordance with quality standards and Krka guidelines, and take into consideration suppliers' price, quality, delivery date, reliability, regulatory compliance, compliance with Krka guidelines, and their social responsibility.

We regularly verify our equipment suppliers and contractors, and efficiently manage risks related to our business relations with them.

By following the policy and practice of involving local suppliers and contractors, we strengthen our cooperation with the local community, in particular when an acceptable price has to be complemented by the responsiveness, flexibility and a frequent or constant involvement of suppliers and contractors in investment and service processes.

We fully meet our contractual obligations to suppliers and, by making a good example, strive to add to the reputation of the industry and make a positive impact on its development.

Our long-term cooperation with reliable and competitive suppliers and contractors has contributed to our status of a reliable and trustworthy partner.

Involvement in successful development and investment projects of the Krka Group is also a favourable reference for engineers, equipment suppliers and contractors when acquiring new business deals on domestic and foreign markets.

Suppliers of Raw and Base Materials

Responsible, long-term cooperation with the suppliers of raw and base materials strengthens our partnerships and ensures good business relations, growth and progress for all parties involved and their milieus.

We cooperate with suppliers from various cultural environments; therefore, good knowledge of their cultural and business specificities plays an important role when establishing, maintaining and developing relations with them.

Continuous education provided to our employees ensures that they are able to keep up with the developments and the pace of change in international and local regulation. The entire purchasing process builds on Krka's procedures.

We regularly assess the quality of cooperation with suppliers and use these assessments to prepare proposals for improvements in our cooperation methods. One of the improvements is the introduction of the system for electronic operations with our suppliers.

Krka is committed to cooperation that builds on mutual trust, integrity, proper conduct, and compliance with the agreed terms. We are well aware that only such cooperation can lead to reliable partnerships and ensure a timely provision of raw and base materials of required quantity and appropriate quality and value.

Corporate Social Responsibility

Social responsibility is one of Krka's main principles. We allocate most of our sponsorships and donations to projects related to health and improving the quality of life by following clear criteria. We build partnerships through sports, culture, healthcare, science, education, and humanitarian actions and by contributing to the protection of natural environment.

In 2019, we allocated 0.26% of sales revenue for sponsorships and donations and helped over 850 non-profit institutions, associations, and organisations achieve their goals.

Caring for a Healthy Society

We foster the development of many different activities, in particular by supporting clubs and associations encouraging young people to take up recreational or professional sports or engage in art, cultural, or other activities. As they are a fundamental aspect of any society, we should do our best to preserve them in order to contribute to a healthy society and a better and brighter tomorrow.

In view of this, it is not a coincidence that we primarily support clubs and institutions that encourage young people to lead a healthy life style, take care of their physical and personal development, build team spirit and friendship, foster persistence, and develop a healthy winning attitude. In doing so, we work together to encourage values of partnership, trust, creativity and efficiency, each the key to the development of society.

In 2019, 17 sports and cultural clubs appeared under the name of Krka, and we also supported institutions in the wider community. They included more than 2,500 young people under 18 years of age who were coached and motivated by 330 professional workers. The clubs and associations organised and held 914 sports and cultural events, and their members won numerous trophies and medals in national and international competitions representing Krka and Slovenia in 30 countries across the globe.

The 13th annual meeting of sponsorship recipients was attended by 200 representatives of clubs and associations, among them 110 young athletes, musicians and other creative individuals. We set new goals and considered possibilities for further cooperation. For the fourth year in a row, special attention was given to young talents by presenting them three Talent-of-the-Year awards.

In 2019, we continued our socially responsible campaign *Caring for Your Health – Together We Scale the Heights*. It was launched in 2009 when we worked with the Alpine Association of Slovenia to signpost and carry out maintenance work on fifteen hiking trails around Slovenia. Over the past few years, we have promoted walking for good physical and mental health through a campaign for collecting mountain stamps. More than 30,000 mountaineers took part, and 2,066 of them climbed up all fifteen mountain peaks. The campaign started with fifteen hiking trips attended by almost 5,800 Krka employees. In 2019, we worked hand in hand with the Alpine Association of Slovenia and mountaineering clubs to carry out maintenance work on signposted hiking trails and improve safety in the Slovenian mountains.

Krka Retirees Society has been active since 2000. It organises trips, hikes, and visits to cultural and professional events, it arranges sports and recreational gatherings, and provides its members with the opportunity to take part in social events, creative workshops, and similar events. Its members can use Krka premises for their events and help is also offered. The Society also cooperates with Trim Klub Krka sports club.

Krka allocates a certain proportion of its funds to provide healthcare institutions with modern and better equipment. In 2019, we made a donation to Brežice General Hospital for a new ultrasound system for diagnostic procedures.

Supporting Cultural Creativity

Culture has been an essential part of the mindset of our company from its establishment 65 years ago. We marked the company's anniversary by unveiling a statue of a Krka girl with a book in the spring of 2019. The statue is placed at the entrance of the Notol 2 plant, our state-of-the-art solid dosage form production facility in Novo mesto.

We acquired a new grand piano by Steinway & Sons and with the first piano concert in November 2019 started Krka evening concert series. The concerts will also afford talented pupils of elementary and secondary music schools and students of graduate and post-graduate music programmes an opportunity to perform and show their talent.

To honour this year's Slovenian cultural holiday, we opened an exhibition of microscopic photos of Krka medicines featuring crystals contained in active ingredients. The photos not only represent an active ingredient but also unveil its interesting aesthetic imagery. Our researchers observe similar images every day to obtain information needed to develop and produce high-quality, safe and effective medicines. The exhibition entitled *Beauty is Found in Small Things* was staged at Krka galleries in Novo mesto and Ljubljana.

Krka's Culture and Arts Society organised the 42nd Dolenjska Book Fair, the fair with the longest, unbroken book fair tradition in Slovenia. The fair promotes reading culture in all generations of readers and contributes to the importance of books and knowledge by organising supporting events and hosting important Slovenian authors as guests.

In 2019, 17 exhibitions of works of Slovenian and foreign artists were held at galleries in Krka business premises in Novo mesto and Ljubljana. Krka's theatre club organised eight gatherings with guests from the world of theatre, music, film and literature, while contributing to employee creativeness with various workshops. *Mešani pevski zbor Krka* (Krka's mixed choir) continued its performances and concerts in 2019 thus building good connections with the local audience and other performers.

The Galerija Božidarja Jakca Gallery in Kostanjevica was the venue of the 13th Krka Cultural Evening with the performance of the Belgrade Chamber Choir led by a renowned conductor Vladimir Marković. Every year, the event offers performances by great artists from Slovenia and abroad.

We continued to support the symphony orchestra from the Glasbena šola Marjana Kozine Music School, the Galerija Božidarja Jakca Gallery in Kostanjevica, Pihalni orkester Krka Brass Band, and the Novo Mesto Anton Podbevšek Teater Theatre. We fostered many cultural projects in the local environment and internationally, among them music and other festivals; book publishing; publishing of illustrated children books and monographs; art exhibitions and colonies; opera performances; touring of cultural clubs abroad; and artistic, theatrical, and literary projects undertaken by primary and secondary schools.

In particular, we supported the publication of a book on the life of the Slovenian missionary and researcher Ignacij Knoblehar; a monograph entitled *Popotnik, zaljubljen v življenje (A Traveller Who Loved Life)* about Severin Šali, a poet and translator from Novo mesto; and memoirs by Ivanka Mestnik entitled *Krka, zelena žila do srca (Krka, a Green Vein Leading to the Heart)*. We contributed to the publication of the monographic series *Carniola Archaeologica*, in particular its 344-page-long eighth volume written by the Slovenian archaeologist Borut Križ presenting the findings from more than thirty years of research on Kapiteljska njiva in Novo mesto, one of the largest pre-historic cemeteries in Europe. We were also involved in the promotion of the gala concert celebrating the 80th anniversary of the Academy of Music in Ljubljana and the transcription of the score of Beethoven's Sixth Symphony with handwritten corrections by the composer, kept by the Slovenian National and University Library in Ljubljana.

Our operations build on research and development and the use of the latest technologies for the production of high-quality, safe and effective pharmaceutical products. That is why we teamed up again with the Cankarjev Dom Cultural and Congress Centre and participated as the main sponsor in the exhibition *Idea – Ancient Greek Science and Technology*, hosted by the CD Gallery of the Cankarjev Dom Cultural and Congress Centre from June 2019 to March 2020. The exhibition, arranged in cooperation with the Science Centre and Technology Museum 'NOESIS' from Thessaloniki, presents the advancement of ancient Greek thought and innovation through a series of scientific and technological findings and artistic achievements, laying the foundation of today's society. The biggest and most lasting contribution of ancient Greece to Western science and philosophy comes from an intense sense of curiosity and the desire for exploration. Krka experts also rely on their research curiosity and in-depth knowledge to set new scientific milestones in chemistry and pharmacy, contributing to a better overall health of people all over the world and the development of society.

We continued our cooperation with the Slovenia-Russia Association in 2019 by supporting the commemoration and accompanying events organised by the Association at the Russian chapel on the Vršič Pass. We also supported the Tone Pavček Fund and their activities aimed at fostering the Russian language and culture at various Slovenian primary and secondary schools.

Charity

We allocated 0.13% of sales revenue to donations representing almost a half of all funds for sponsorships and donations. We supported several non-profit, non-governmental and non-political organisations.

Collaboration with the Society of Friends of Youth Mojca in Novo mesto contributed to offering presents to more than 5,000 children. Seven families were given substantial support as we helped them together with some other humanitarian organisations.

We have been encouraging the spirit of volunteering ever since Krka was established, and over the past 65 years it has become an inseparable part of our organisational culture. Many employees are active volunteers. Krka's Week of Charity and Volunteering is the central charitable campaign in Krka which has brought together more than 8,300 Krka employees since 2012.

In 2019, more than 1,250 employees participated in the campaign, representing more than 20% of all Krka employees in Slovenia. Krka employees from more than 24 subsidiaries and representative offices abroad also participated in the event.

Almost 300 employees donated 131 litres of blood. Over the past eight years, we have donated a total of 933 litres of this precious liquid and helped save many lives. At various Krka sites in Slovenia, our employees collected 4.2 tonnes of clothes,

toys, footwear, food, books and other consumables for adults and children. We collected 400 kilograms of pet food. We helped prepare 4.7 tonnes of food packages and sort 1.9 tonnes of clothes at the Red Cross and Karitas organisations. We kept company to residents at 28 retirement homes, users at twelve occupational activity centres and schools for children with special needs, and prepared various workshops and presentations for them.

There are over 1,300 blood donors at Krka. Several employees are members of various non-profit associations and organisations. Many of our employees have been volunteers for many years on sponsorship boards (of the retirement home in Novo mesto or of the Novo mesto Dragotin Kette Primary School), members of various associations and societies, or volunteers in retirement homes, in schools for children with special needs, and in other institutions.

Through our Works Council, we help colleagues who have suffered from natural disasters, accidents or social misfortunes.

For the eighth year in a row, we have presented awards to Krka's best volunteers and thanked 143 Krka employees who have been donating blood for several years.

We have also been the biggest donor to the Novo mesto Dragotin Kette Primary School for children with special needs for several years with the aim to contribute to favourable working and living conditions at the school. Our donations in 2019 were used for end-of-year school trip and gifts, New Year gifts, cultural events (visit to the theatre and opera and transport costs), therapeutic riding, above-standard education courses for teachers and pupils, additional educational supplies, sports accessories, and playground equipment. We also co-funded landscaping work to arrange an outdoor learning and entertainment area.

We have been sponsoring the operation of several occupational activity centres and retirement homes. We have supported the retirement home in Novo mesto since its establishment, among others by setting up a sponsorship board, which strives to make lives of its residents as pleasant as possible. Every year, we donate funds to improve living conditions at the retirement home and purchase new equipment, which helps residents maintain or improve their physical and mental fitness. In January 2019, we donated a specialised therapy device.

In 2019, we also donated to the Red Cross and Karitas. In our long-term effort to act in a socially responsible manner, we again cooperated with the Regional Branch of Red Cross in Novo mesto, which marked the 20th anniversary of its People in Need Fund in 2019. Krka has been the Fund's main sponsor since its establishment, striving to help as many families and individuals from socially disadvantaged backgrounds as possible. In particular, we reached out to vulnerable groups and individuals over 65 years of age who found themselves in an unfortunate life situation. The Intergenerational Centre at the Red Cross in Novo mesto with its programmes and activities undoubtedly helps empower socially disadvantaged persons and improve their social integration. Support to children from socially disadvantaged backgrounds remained one of our priorities. We collected school necessities for primary school pupils and helped secondary school students with scholarships to step into the future with a brighter view. We contributed to the Red Cross's People in Need Fund by participating in the charity auction organised by the Regional Branch of Red Cross in Novo mesto to celebrate the anniversary of the Fund. Many Krka employees actively support the Fund's activities. Krka has worked hand in hand with the Fund for 20 years by encouraging acts of charity and fostering the value of mutual help. Our long-lasting commitment to help others has become a tradition in all these years.

In 2019, we joined the Chain of Good People project launched by the Association of Friends of Youth Ljubljana Moste-Polje. This charity programme offers comprehensive support to families by providing financial, material, psychosocial, legal and learning aid, mediation services, educational and training courses, therapeutic weekend family trips, holidays for children, and various activities for social integration and restoration of family relations.

Since 2005, we have donated **48 defibrillators** to medical teams in remote out-patient health centres and stations, as well as to other Slovenian organisations. They are also installed at various sites in Krka premises and in Terme Krka hotels. We supported the purchase of **10 defibrillators** in 2019.

We provided material and financial support to 79 fire departments and firefighting agencies in Slovenia and contributed towards the purchase of new fire engines, equipment, and defibrillators and the renovation of fire stations.

We helped individuals facing difficult situations and the disabled from various parts of Slovenia.

For several years, Krka has been the exclusive sponsor of the Ski Flying World Cup Finals in Planica. In 2019, we took 430 children and their mentors from eight primary special education schools from the regions of Dolenjska and Bela Krajina and Posavje and from the coastal region and the central region of Slovenia to see the qualifications for the final competition. With this winter trip and all other similar acts of charity we aspire to put a smile on children's faces in communities where our company is present.

Supporting New Scientific Discoveries

Young researchers eager for knowledge and discoveries have been encouraged to excel in their work through **Krka Prizes Fund** since 1971. Its aim is to make research work popular among students, pupils, and mentors in educational institutions. Research papers are mainly related to pharmaceutical science, chemistry, medicine, biochemistry, biotechnology, microbiology, veterinary science, and other related sciences. Many of the 2,825 Krka Prize winners are now renowned experts. They work as professors at universities, researchers in institutes and industry, and over 300 of them are Krka employees. In 2019, five Krka Grand Prizes and 25 Krka Prizes were presented to 30 graduate and postgraduate students for their research work, while 83 secondary school students received 49 Krka Prizes and recognitions for their research papers. Enthusiasm for research work comes from professors, who encourage students to closely study various scientific topics and guide them through the research process. To recognise their work, we awarded special plaques to two supervisors for their long-standing encouragement and successful supervision of students engaged in research work for the third year in a row.

New scientific developments can only be achieved by highly qualified experts. With this in mind, we support projects implemented at various educational and scientific institutions to upgrade the infrastructure and to provide scholarships, above-standard educational activities, research work, and participation at domestic and international competitions. We have been sponsoring the Slovene Science Foundation and the Central Medical Library for years.

Through our donation, the Gimnazija Novo mesto Grammar School refurbished their chemistry rooms to provide a safe and pleasant environment for the students, professors, and laboratory technicians. Our contribution confirms our understanding of how important it is to encourage young people to study science and take up research work together with its experimental part. That is why we donated funds for the purchase of four ventilated cabinets for chemicals, three laboratory workbenches, and one fume exhaust arm. Students of the Gimnazija Novo mesto Grammar School are regular participants in the national Pregl competition in chemistry, named after the renowned chemist and medical doctor of Slovenian origin Friderik Pregl, and in science olympiads. They are also members of teams representing Slovenia at various chemical olympiads across the world. Many students are involved in after-school research work to prepare research papers with impressive results at state level and regularly respond to calls for Krka Prizes.

Caring for the Environment

Responsibility to the natural environment is an integral part of all business activities at Krka. To preserve the environment, we have been utilising renewable sources of energy. We installed a solar power station on the rooftop and the façade of the packaging material warehouse to generate green energy. An important sphere of our responsible care is electric vehicles. Following global trends that demonstrate a rapid development of electric vehicles, we have installed a charging station for electrical vehicles at Krka headquarters. It can be used by employees, business partners, and Krka visitors.

To minimise our impact on the environment, we have launched an internal communication campaign *Your care for the environment!* to encourage energy savings, print savings, recycling, and similar actions.

We are actively involved in projects for developing sustainable mobility. In 2019, we organised **Krka Car-Free Day** for the fourth time in a row. Our employees in Slovenia and 17 subsidiaries and representative offices abroad were encouraged to go to work on foot, by bike, public transport or carpooling with co-workers.

We have added activities for developing sustainable mobility to Krka's Mobility Plan, which encourages the use of alternative and less environmentally harmful ways of commuting. Our employees receive information about the issue in articles published in the internal magazine and via Mobility intranet site.

We supported the project to set up the GONM automated bicycle rental system, which promotes cycling in Novo mesto, by making a donation for one bicycle docking station. Our actions confirmed our willingness to support sustainable development programmes and contribute to health.

Members of the Krka Volunteer Industrial Fire Service have been in charge of the fire protection of Krka employees and local residents for nearly five decades.

Natural Environment

In 2019, we remained dedicated to our values and sustainable development goals to preserve natural heritage for future generations and all living things. With the adoption of the United Nations *2030 Agenda for Sustainable Development* in September 2015, which was also signed by Slovenia, we have been faced with many challenges. As our operations affect people, the community and the natural environment, we seek to reduce their environmental impact and provide a sound and healthy living environment for the employees and the broad community. A responsible environmental management leads to long-term competitiveness, because our customers appreciate our sustainable approach to all aspects of life. The environmental certificate ISO 14001, which we obtained in 2001, and the integrated environmental protection permit oblige us to continuously reduce our impact on the environment. In line with the new ISO 14001:2015, we included environmental care in the earliest development activities and projects.

Operational tasks are conducted by Environmental Protection, whereas the environmental management system, specified in our framework document on the environment, includes all employees. Our environmental management system requires us to integrate environmental care in the entire life cycle of a product. As we are aware that the impacts of integrating environmental aspects can only be maximised if applied in the initial stages of the process, we pay special attention to product development, the selection of environmentally less cumbersome raw materials, and the manufacturing process. Waste materials generated in certain processes are managed in line with best available techniques (BAT) and in compliance with legal and other requirements adopted by Krka. We report on the efficiency and performance of our environmental management system to Krka's management, national authorities (reports on monitoring environmental emissions submitted to the Slovenian Environment Agency (ARSO)), the Association of Chemical Industries at the Chamber of Commerce and Industry of Slovenia (responsible care reports – RC), and other stakeholders. We monitor sustainable development indicators closely to obtain a clear picture of our environment-related operations and recognise environmental impacts of our products and services in their entire life cycles. We maintain the Register of Environmental Impacts for all company sites in Slovenia. Following its review and update each year, we draw up annual environmental objectives and programmes, which can only be implemented after their approval by Krka's management. By delivering on set objectives, we actively contribute to improved environmental conditions. Such approach fosters a positive and responsible attitude to the environment with all the employees.

Our responsibility to the natural environment is set out in our environmental policy, which we regularly update and closely follow. In line with it, we remain committed 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 the environmental impact throughout the product life cycle by employing the best available techniques and other measures;
- replace (wherever possible) hazardous substances used in technologies with less hazardous ones;
- reduce risks of incidents and improve measures undertaken in any such events;
- control environmental impact regularly;
- increase environmental awareness of employees 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 environmental awareness of contractual partners as much as possible;
- set environmental objectives and programmes systematically to improve the current state of the environment; and
- implement the applicable environmental policy in Krka subsidiaries abroad.

We are bound to comply with legal and other requirements. The Slovenian *Environmental Protection Act* sets out framework requirements specified in implementing acts on air emissions, emissions into water, noise, waste, light pollution, and other environmental factors. They serve as the basis for environmental protection permits issued for individual Krka production

sites. According to the applicable law, we maintain lists of valid legislative acts for 19 environmental protection aspects and publish all related developments on our internal website. Compliance with legal and other requirements adopted by Krka is periodically reviewed and evaluated by the Committee for Monitoring Environmental Aspects. The Committee is also responsible for designating responsible persons and setting deadlines when additional activities must be carried out to adhere to amended legal requirements. Compliance with legislation and environmental protection permits is checked by regularly monitoring emissions into air and water, monitoring noise, and conducting waste assessments. We regularly check reservoirs and equipment which contains ozone depleting substances. In 2019, all deviations from legal threshold values were managed in compliance with internal standards, and we carried out appropriate corrective measures to ensure compliance of our operations with the existing legislation. The Inspectorate of the Republic of Slovenia for the Environment and Spatial Planning conducted three environmental inspections at our production sites in Ljutomer, Krško, and Ločna. The Inspectorate issued a decision to draw up a corrective action plan in order to reduce waste water load at Sinteza 1 in Krško and a formal notice on wastewater discharge from the Ljutomer plant into public sewerage system. Based on the inspection findings, we developed an action plan on wastewater treatment at the Krško plant and adopted appropriate preventive and corrective measures related to wastewater discharge at the Ljutomer plant. Activities are underway and comply with the environmental programme. Remaining findings by the Inspectorate confirmed that Krka's operations comply with relevant legislative requirements. In environmental audits conducted by SIQ and contractors, non-compliance was not established. Their findings show that Krka complies with the requirements of ISO 14001 and constantly improves the environmental protection situation.

Environmental Milestones in 2019

- The consumption of river water used to supply cooling towers was reduced by 1.6% and replaced with clean rinse-water from production.
- The consumption of river water used to supply cooling towers was further reduced by 2.5% and replaced with rainwater.
- Despite intensified production, the consumption of drinking water decreased by 6.4% compared to 2018. Specific use of drinking water in relation to production costs improved by more than 16%.
- A total of 451 tonnes of waste composites were handed over to processing, from which the contractor recovered 166 tonnes of aluminium and 252 tonnes of plastic.
- The quantity of waste for disposal in landfills was reduced by 3%.
- CO₂ emissions were reduced by 17,000 tonnes in the last few years. The impact of the reduction is comparable to planting 85,000 trees.

Costs of Environmental Protection

The Krka Group allocated €7.7 million to environmental protection in 2019. Indirect costs totalled €5.6 million and included the costs of wastewater discharge and treatment, waste management, waste air treatment, and noise reduction, monitoring costs, environmental levies and other indirect costs of environmental protection. Investments in environmental protection totalled €2.1 million. Investing in equipment and technologies ensured continuous improvement in all fields of environmental protection.

Use of Natural Resources

Natural resources are exhaustible and as such must be used efficiently. Our commitment to use them sustainably requires us to respond to new challenges through various projects and activities and through cooperation of all employees.

Water

Water is a strategically and vitally important natural resource and as such also limited; which we much too often forget. Pollution, lower ground water levels and climate change cause shortage of fresh water resource availability. Water is becoming a limiting factor and an indicator of inequality because over 700 million people have no access to clean and fresh water. Slovenia, on the other hand, is one of the richest countries in water resources, as it comprises around 28,000 km of watercourses. Rivers and streams feature a dynamic and rapid flow, species abundance and self-purification capacity; however, we should be aware that our water resources are vulnerable because of the Karst hinterland and an uneven distribution of water supplies. Access to safe drinking water in Slovenia is a privilege; it requires us to act responsibly and respect and preserve our water resources for the future. Weather outlooks for Slovenia suggest more frequent storms and droughts and possible unreliable rainfall. Pharmaceutical industry is among less intensive industries as regards water consumption but among demanding ones regarding water quality. As water consumption is a very important element of environmental protection, we consistently plan, monitor and control it. Many of our activities are aimed at maintaining the

quality of water bodies at all our production sites. 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 water sources are:

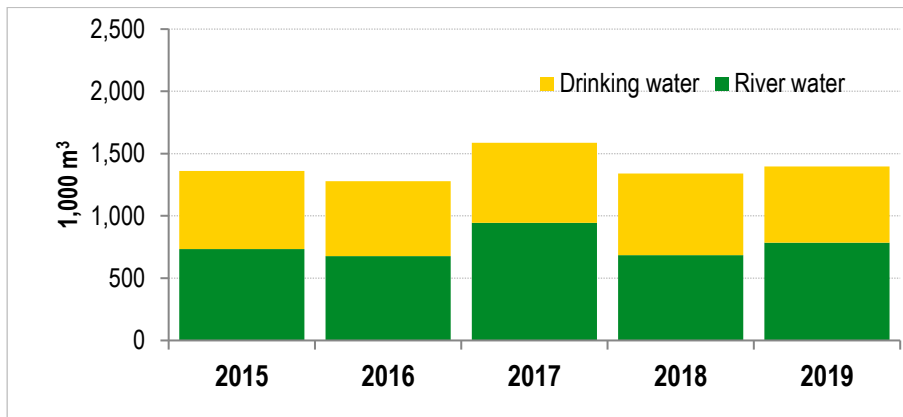
- drinking water from the municipal utility services; and
- river water.

Drinking water consumption is monitored by a computerised control system, which records total flow rate and total consumption at the plant input and main user points. By closely controlling these parameters, we can immediately identify any increased drinking water consumption and investigate the underlying reasons. Drinking water supplied by municipal utility services is additionally purified depending on its purpose of use, most commonly using sophisticated membrane technologies. Water preparation and distribution are managed through a computerised system, which allows us to control the process and ensure that water used in our production processes is optimally prepared and consumed. By suitable preventive maintenance, by monitoring operations of machines and making technological improvements, we ensure consistent water quality, extend the useful life of the equipment, and decrease consumption of water and chemicals and generation of waste.

In 2019, the consumption of drinking water was reduced by 6.4% despite intensified production, and the specific use of drinking water in relation to production costs improved by more than 16% year-over-year. The consumption of drinking water for the preparation of pharmaceutical waters was similar to the 2017 level, whereas the consumption of drinking water in pharmaceutical production decreased as a result of an integrated approach to the management of automated washing systems for production equipment.

Approximately half of total river water is used for cooling by various heat exchangers, especially in API production, while the remaining quantity is used in the preparation of technological waters for energy supply and production. In 2019, the river water consumption rose by 15% compared to 2018, mainly due to increased API production

Consumption of Drinking and River Water



Consumption of drinking and river water		2019	2018	2017	2016	2015
Water consumption (total)	m ³	1,399,303	1,341,333	1,588,474	1,279,065	1,362,297
Drinking water	m ³	613,919	655,837	644,577	600,781	628,770
River water	m ³	785,384	685,496	943,897	678,284	733,527

Energy

Krka's main sources of energy are:

- natural gas;
- liquid petroleum gas;
- electric power; and
- fuel oil as back-up fuel.

Consumption of energy in GJ	2019	2018	2017	2016	2015
Energy (total)	956,577	961,319	935,484	910,031	889,239
Electric power	356,610	344,983	330,274	313,560	308,585
Natural gas	580,048	595,739	588,121	569,831	559,010
Liquid petroleum gas	19,409	20,214	17,029	22,975	20,083
Fuel oil (extra light)	510	383	60	3,665	1,561

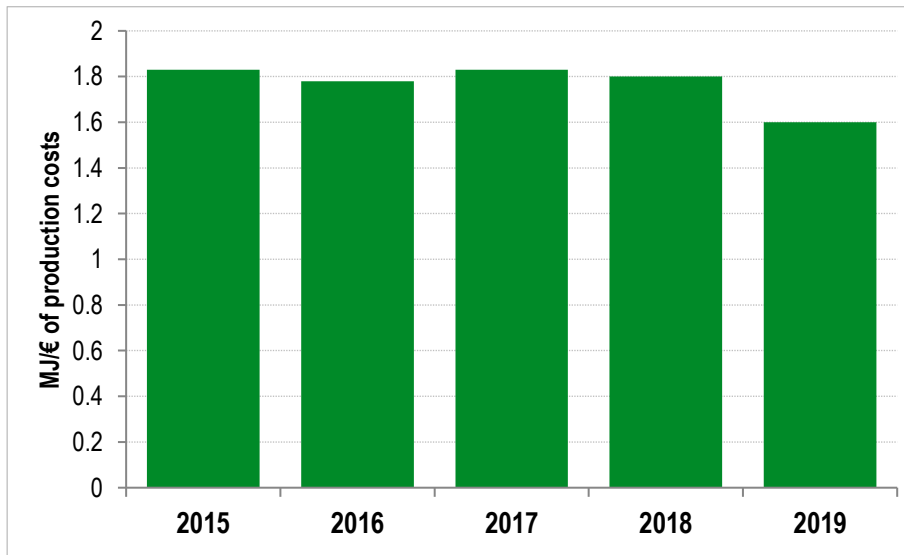
The electric power supply comes from the public utility electricity grid, from Krka's own generators powered by renewable sources such as the solar power station, and from the cogeneration plant operating on natural gas.

Generated electric power – alternative sources in GJ	2019	2018	2017	2016	2015
Solar power plant	252	223	258	238	241
Cogeneration	39,230	46,686	45,756	49,617	48,180

Specific Use of Energy

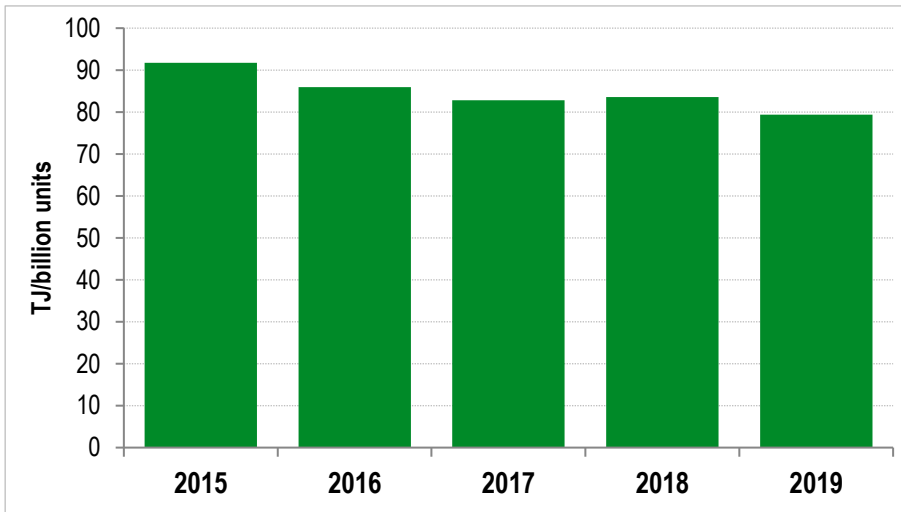
Specific use of energy is represented in relation to production costs and the physical volume of production.

Specific use of energy in relation to production costs has not increased over the last few years. Despite the start of production in the new plants, the specific use of energy remained similar to the 2018 figure.



		2019	2018	2017	2016	2015
Specific use of energy	MJ/€	1.60	1.80	1.83	1.78	1.83

Specific use of energy in relation to the physical volume of production has not increased over the last few years. The existing levels were maintained through various activities related to efficient energy use, investments in energy efficiency, and energy-efficient maintenance.



		2019	2018	2017	2016	2015
Specific use of energy	TJ/billion units	79.4	83.6	82.8	85.9	91.7

Energy Management

Energy management strategy is a part of a broad corporate strategy and covers activities and actions necessary to achieve cost-related and environmental objectives.

The strategy is incorporated into Krka’s integrated management system and drafted in accordance with the principles of ISO 50001 *Energy Management System*. We have established the Committee for Monitoring Environmental Aspects, which is responsible for periodic identification of energy-related aspects in accordance with ISO 14001 and bye-laws. In this way, we manage and refine our processes based on the principles of sustainable development and circular economy thereby maintaining a high level of environmental protection.

Energy management system directly includes:

- energy operators in production plants in Slovenia and abroad;
- corporate energy manager, who supervises and coordinates the work of energy operators; and
- all employees committed to an efficient and rational energy use pursuant to the environmental policy.

In 2019, we designated additional energy operators within the energy management system. We continued with the implementation of the action plan and key measures identified as such during the comprehensive energy review at all production sites in Slovenia.

Human and natural factors play an important role in climate change, which is known to influence extreme weather and climate events drastically altering the environment and posing a threat to all living things. Data monitored and published by the Slovenian Environment Agency show that climate in Slovenia has changed. We can reduce climate change vulnerability and environmental damage and contribute to environmental conservation only by adapting to the new reality. As regards efficient energy use, we launched a pilot project on detailed energy analysis of our production site and development-and-control centre. Benchmarking of building energy performance in relation to microclimate and technological conditions should give us clear orientation on how to reduce energy intensity levels and increase the use of renewable energy sources. We will use the results to draft basic principles for internal standards and corporate strategy on the transition to low- or zero-fossil-energy design, construction and operation of new facilities and systems. The project was prepared in line with Krka environmental policy and EU guidelines.

Energy Supply Control Information System

Energy supply control information system is the key information tool supporting the energy management system and supplementing the computer system for the monitoring and control. In 2019, additional measurements were added to the system to increase transparency of mass and energy flows in Krka.

Optimisation of Air-Conditioning System Operation

The concept, planning, design, regulation, control and operation of air-conditioning (HVAC) systems are among deciding factors of an efficient end use of energy in production and non-production facilities. HVAC systems have an impact on approximately 60% of end use of energy at Krka. We have intensified the control of operating parameters to further increase energy efficiency. We regularly performed hydraulic balancing of distribution systems and heating and cooling consumers and launched new projects on dry air preparation using dehumidification technology with glycol refrigeration, which replaces outdated and energy inefficient drying wheel systems.

Replacement of Joinery Elements

We renovated our around 45-year-old office building in Ločna by replacing worn-out windows on the entire building. Based on the *Rules on Efficient Use of Energy in Buildings with a Technical Guideline*, we decided to replace the windows and external window blinds. The new ones were installed following the principles of building physics, good construction practice, and RAL quality guidelines. The investment is expected to generate approximately 20% energy savings in heating and cooling and provide a more pleasant working space for our employees.

Replacement of FLUO Lighting with LED Lights

Internal analysis findings showed that it would be beneficial to modernise the lighting system of the finished product warehouse in Ločna. High energy consuming FLUO T8 lights required more maintenance interventions and generated higher operating costs compared to modern LED lights. With the modernisation, the illumination of rooms and work surfaces was improved. The investment offered energy savings of 109 MWh per year equal to the energy consumed by more than 27 average households in Slovenia.

Recovery of Waste Heat

To comply with our environmental and energy policies and internal standards, we make constant and considerable effort to maximise the recovery of heat generated as a by-product in various processes. We prepare heating water by using waste heat from the compressed air station, flue gases from steam boilers, vapours from the steam boiler system, and condensed heat from cooling aggregates and cogeneration, resulting in a 54% (or 23.5 GWh) reduction of natural gas consumption in the preparation of heating water.

By systematically implementing measures and investing in energy efficiency improvements in recent years, we have achieved average electricity and natural gas savings of more than 50 GWh per year. This means that we have reduced our CO₂ emissions by 17,000 tonnes. The impact of the reduction is comparable to planting 85,000 trees.

Biodiversity

Biodiversity, the variety of plant and animal life in the world, equilibrates function of all ecosystems and is basic to human life on Earth. It is a natural phenomenon that we should not exploit. It concerns terrestrial, marine, and other aquatic ecosystems and ecological complexes and includes diversity within species and between species, and diversity of ecosystems. People depend on biodiversity in various ways that ensure our needs for food, energy or raw materials are met. Changes to the composition of air, water and soil have an adverse impact on biodiversity and ecological balance.

Slovenia is a country with an above-standard biodiversity. By signing the *Convention of Biological Diversity*, Slovenia undertook to comply with international recommendations and guidelines on the protection of species and ecosystems.

Slovenia is a habitat for around 22,000 registered plant and animal species; however, based on scientific estimates the number might range from 50,000 to 120,000. No less than 850 of the species are endemic, which means they can be found only in Slovenia and should be protected to prevent their extinction.

A systematic biodiversity evaluation of watercourses in Slovenia has not been established yet. Therefore, we observe various publications and reports issued by the Slovenian Environment Agency, the Institute of the Republic of Slovenia for Nature Conservation, the Statistical Office of the Republic of Slovenia, and other professional institutions.

The area around the Krka River is important as it is a natural habitat of several water and riparian plant and animal species, especially fish, amphibians and birds. As such it is defined as an ecologically important area (EIA) and protected as a

Natura 2000 site. According to the *Nature Conservation Act*, EIA is an area of the habitat or of a larger ecosystem unit, which importantly contributes to biodiversity. Natura 2000, as specified by the *Decree on Special Protection Areas*, is a European network of special protection areas in EU member states. In Slovenia, it was established in 2004 and subsequently updated, most recently in 2018. The basic aim of the network that represents 41.4% of the Slovenian 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, the thick-shelled river mussel, the olm, as well as the European otter and beaver, which are often spotted along the Krka watercourse. Historically, the last reports on otter population in Slovenia date from the 18th century. Otters reappeared in 1998 in the Radulja Stream in the Krka Basin and several years later in the Dobljčica River in the region of Bela Krajina. The number of otter couches along the Krka River has been rapidly trending higher.

All Krka industrial buildings are concentrated within their respective sites and do not extend into ecologically sensitive areas. The capture of river water and discharge of treated waste water from our wastewater treatment plant do not threaten the preservation of water and riparian areas or the conditions for connecting these areas.

The areas of our Ljutomer and Krško plants are not included in the Natura 2000 network. Nevertheless, all waste water is treated appropriately at the municipal wastewater treatment plant in Ljutomer and the Vipav wastewater treatment plant in Krško so that we do not endanger biodiversity with our emissions.

With a positive attitude to environmental protection and consistent compliance with legal requirements at all our production sites, we ensure an ecological, biotic and landscape preservation of natural wonders. Nature preservation and biodiversity are covered in internal training courses aimed at raising employees' awareness of their importance.

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 environmentally sound engines. By employing new vehicles with the latest drive units, we reduced the average fuel consumption by 1.4% (also by using thermal power units in trucks). We supply products to distant markets by sea, air or rail. In 2019, we continued test transports of goods by rail under required temperature-controlled conditions from China to the European Union. We have increased the share of shipping.

In 2019, we organised transport for 10,971 shipments of finished products, raw materials and packaging materials. Krka's vehicles made over 1.9 million km. We further modernised our fleet of vehicles and organised training for vehicle operators.

The competent national bodies for transport control found no violations of the legislation last year. All our carriers and other parties involved in transport regularly attend annual training courses. 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 fleet of vehicles comprises 19 vehicles and is regularly modernised. All vehicles satisfy relevant requirements regarding drivers and meet safety and environmental standards. New vehicles are equipped with state-of-the-art accessories (e.g. adaptive cruise control systems, ESP/ESC emergency braking, traction control system, and blind spot detection system) that only add to better traffic safety.

When possible, we substitute business travel by teleconferencing or video conferencing to minimise fuel consumption and air pollution.

Emissions

Waste Water

Wastewater treatment has a significant impact on the environment, which is something Krka is well aware of. Wastewater treatment protects surface and ground water from organic and microbiological pollution and the entry of nitric and phosphorus ingredients, so ensuring the most effective treatments is one of Krka's priorities regarding environmental protection. We use various physical, chemical and biological processes to remove pollutants in waste water. Our specialised teams comprising chemistry, chemical engineering, microbiology, mechanical engineering, sanitary engineering and other experts work to

preserve long-term water quality at all Krka production sites. Our operations comply with the *Decree on the Emission of Substances and Heat in the Discharge of Waste Water from Installations for the Production of Pharmaceutical Products and Active Substances*, which serves as the basis for environmental protection permits issued for individual Krka production sites.

Waste water in Ločna is treated at Krka's modern industrial wastewater treatment plant, which meets the requirements based on the best available technologies in the field, while waste water from dislocated plants is treated at highly efficient municipal wastewater treatment plants.

Our plant in Ločna generates industrial, municipal and cooling waste water. We treat industrial and municipal waste water at our own biological wastewater treatment plant. In 2019, we treated 736,811 m³ of waste water, or 18,942 m³ less than the year before. We generated 390,990 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 waste waters, which are discharged by the public sewerage system and treated at the municipal wastewater treatment plant in Novo mesto. In 2019, we generated a total of 23,721 m³ of waste water.

Our plant in Šentjernej generates industrial and municipal waste waters. Effluents are discharged by the public sewerage system and treated at the common municipal wastewater treatment plant in Šentjernej. In 2019, we generated a total of 12,475 m³ of waste water.

Our plant in Ljutomer generates industrial, municipal, and cooling waste waters. Effluents are discharged by the public sewerage system and treated at the common municipal wastewater treatment plant in Ljutomer. In 2019, we generated a total of 33,961 m³ of waste water.

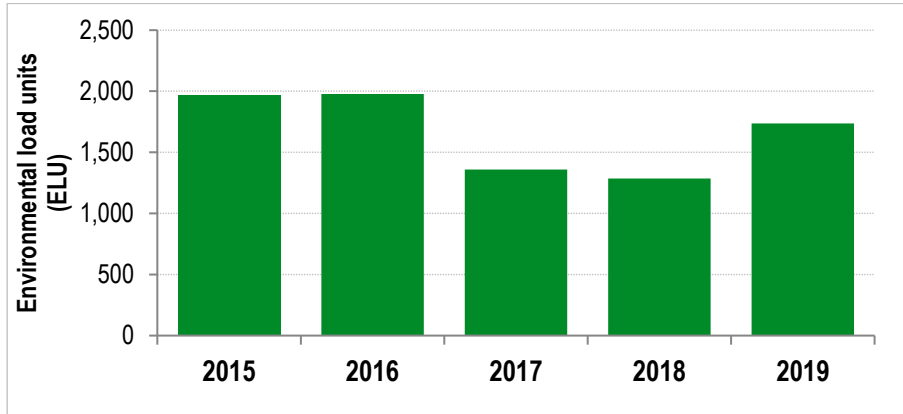
Our plant in Krško generates industrial, municipal and energy supply waste waters. Effluents are discharged by the public sewerage system and treated at the Vipap wastewater treatment plant in Krško. In 2019, we generated a total of 27,045 m³ of waste water. Construction of an in-house water treatment plant is planned at the site and we have already prepared URS and conceptual design.

Due to higher wastewater load resulting from intensified production, the total environmental load units (ELU) increased by 26% in comparison to 2018. The volume of organic matter removed from waste water (in COD content) at our own wastewater treatment plant in Ločna increased by 218 tonnes compared to 2018, achieving a 92.2% efficiency of wastewater treatment.

We comply with the requirements of environmental protection permits for the wastewater discharges issued for individual production sites and the requirements of the *Decree on the Emission of Substances and Heat in the Discharge of Waste Water from Installations for the Production of Pharmaceutical Products and Active Substances*. Waste water monitoring at all sites is performed by an authorised subcontractor. Its frequency and scope are defined in individual permits.

According to various sources, the proportion of active pharmaceutical ingredients discharged into water from pharmaceutical industry is far lower than the proportion of these substances released into water by end users. Nevertheless, we supplemented this well managed aspect of wastewater treatment with risk assessments for individual active pharmaceutical ingredients and other substances. We assess the impact of waste water on water environment to minimise any related risks. Hazard assessment for the water environment is a part of a broad risk assessment. The method of treating waste water, any additional measures and the procedure for handling waste are prescribed according to the calculated risks based on physico-chemical, eco-toxicological and toxicological data for each active pharmaceutical ingredient and data on the familiar water environment. Based on most recent studies and other credible technical information, we regularly control and update the calculations and apply them to wastewater and waste management. Complex analytical methods for monitoring substance concentrations in waste water were developed together with our external partners for several active pharmaceutical ingredients that present an increased environmental risk.

Wastewater Management



Environmental load units (ELU) are the prescribed mathematical calculation of pollution from all wastewater outlets in Slovenia (Ločna, Šentjernej, Bršljin, Ljutomer, and Krško). The calculation takes into account the annual wastewater rate of discharge; organic pollution; nitrogen, phosphorous, and suspended solids load; and the impact of wastewater treatment.

Waste

Waste is defined as a substance or object that is disposed of or is intended to be disposed of or is required to be disposed of. Krka complies with legislative arrangements and requirements and is committed to restricting waste generation and prioritising preparation of waste to be reused.

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. We have set up a waste management system that relies on advanced equipment for separated collection, pressing and waste transportation. All employees take part in the process.

By constantly improving the waste management system and increasing the quantity of separately collected waste materials, we have achieved the set goals. We reduced the amount of waste disposed at landfills by 3% compared to 2018.

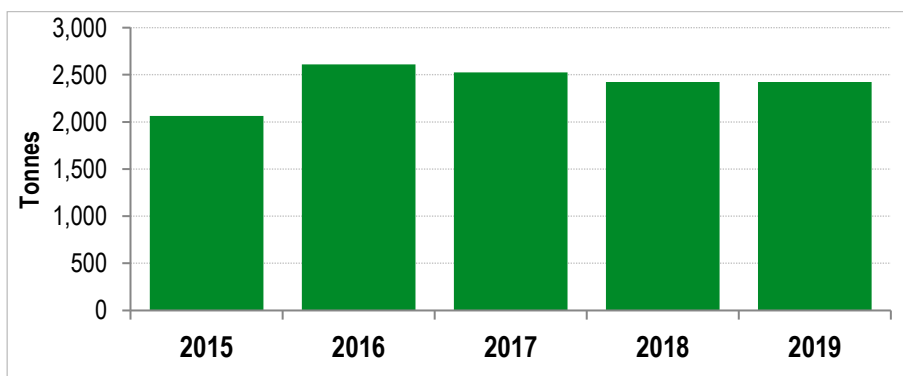
We upgraded the system for separated collection of aluminium and plastic composite materials. We separately collected 451 tonnes of waste and handed it over to a waste processing plant, which recovered 166 tonnes of aluminium and 256 tonnes of plastic for further processing. In doing so, we contributed to the circular economy in waste management.

By effectively applying the technology for aerobic stabilisation of sludge, the quantity of sludge generated in wastewater treatment remained at the levels of 2018 despite increased wastewater load.

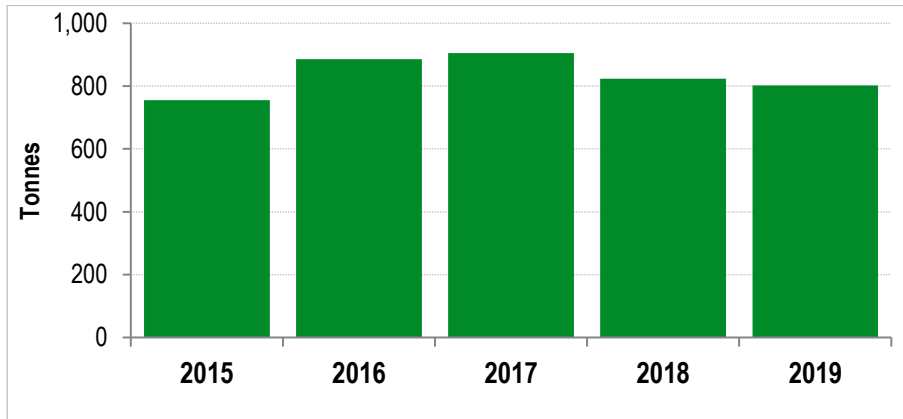
Risks related to the reception and removal of certain types of waste in Slovenia persisted in 2019. To manage the identified risks more efficiently, we diversified our waste management channels and started cooperating with additional waste collection and removal companies in Slovenia and abroad.

Good results can only be achieved with responsible work of all the employees, so an important part of our activities was also providing regular training on waste management.

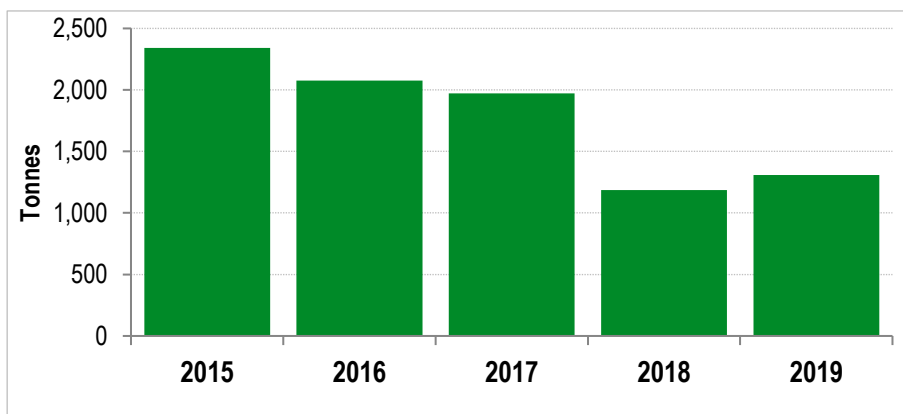
Recyclable Waste



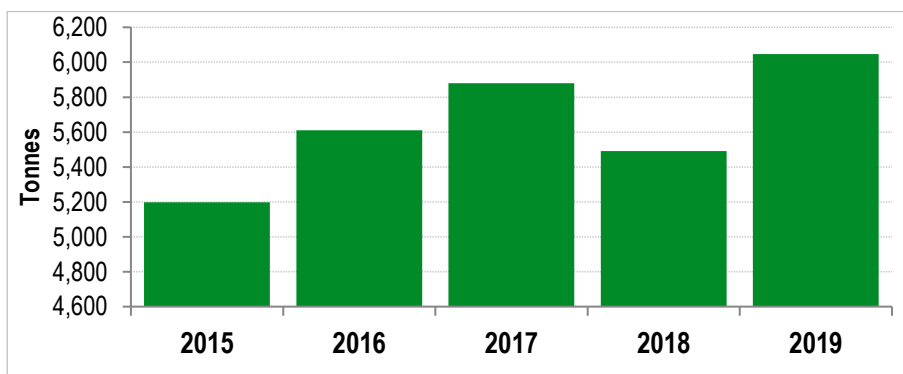
Waste Disposed at Landfills



Waste for Biological Processing



Waste for Incineration



Noise

Noise is any disturbing, unpleasant sound that has an adverse impact on human health or well-being or on the environment. Despite its versatility, industry is among minor noise pollutants. We minimise noise emissions by installing suitable equipment, setting up noise barriers, fitting cargo vehicles with electrical cooling aggregates, and moving the handling area for cargo vehicles to the central area of the production site. According to the regulation on limit values for environmental noise indicators, noise levels are measured every three years and when any alteration is made that could cause noise levels to increase. This ensures that measurement results are within legally defined limits.

Air Emissions

Sulphur dioxide, nitrogen oxide, carbon monoxide, ozone and particulate matter air pollution is one of the most important aspects of environmental pollution with greater impact on health and quality of life than other environmental factors. As a result of stricter legislative requirements and energy efficiency improvements, European industry significantly reduced its air emissions in the last decades. To follow these developments, air emission reduction has been included in our environmental

protection priorities as well. We reduce air emissions with treatment systems fitted to all outlets that constitute a potential source of pollution. Effective de-dusting systems, filters, wet-type filtration systems, condenser columns and thermal oxidisers keep air emissions below the legal threshold and at the levels made possible by state-of-the-art emission control technology. Devices for thermal oxidation are used for waste air treatment. The third thermal oxidation device was installed in 2019 at our production site in Ločna. This technological solution is highly efficient in eliminating organic materials and minimises emissions of these materials into the air. Air pollution from PM₁₀ particles has become quite problematic in Slovenia. These particles travel deep into the lungs and cause numerous health problems. They also adversely affect the environment and cause damage to various materials. At Krka, absolute air filtration is applied to all airborne particle emissions, making sure that all particles, or at least over 99.7% of all particles, are removed. Air released into the environment is not polluted with dust particles and as such does not excessively pollute the air with PM₁₀ particles.

Air emissions		2019	2018	2017	2016	2015
Energy related CO ₂ – direct	t CO ₂ -eq	33,332	34,242	33,603	33,227	32,288
Energy related CO ₂ – indirect	t CO ₂ -eq	47,251	45,710	43,761	43,115	42,430
TOTAL CO₂	t CO₂-eq	80,583	79,952	77,364	76,342	74,718

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. Despite an increased production, direct and indirect CO₂ emissions remained comparable to 2018 levels.

As our production site in Ločna is included in the EU emissions trading scheme, we report on our emissions to the Ministry of the Environment and Spatial Planning to comply with the relevant legislation.

Environmental Protection at Krka Subsidiaries outside Slovenia

Krka complies with high environmental standards which must be applied by all EU member states globally and aims to incorporate the responsibility to our natural environment in various activities performed by its subsidiaries abroad.

By permanent cooperation, information exchange and investment, we transfer good practices in environmental protection to all subsidiaries, considering the local legislation. We have set up separate waste collection systems, and waste is only handed over to authorised waste collection and treatment companies. Waste water generated in the production of highly potent active ingredients at our plant in Jastrebarsko, Croatia, is treated at our wastewater treatment plant using advanced oxidation processes (AOP) with a 99.9% degradation of active substances. In 2019, we completed the construction of an in-house wastewater treatment plant in Krka-Rus in the Russian Federation and expanded and upgraded the wastewater treatment system in the Šmarješke Toplice resort which resulted in a significant improvement of discharge into the Toplica Stream. Waste water from other production plants and companies is discharged to modern municipal wastewater treatment plants. To reduce emissions, we install highly efficient absolute filtration devices on units emitting particulate matter. We transfer good practices in the rational use of energy and water to subsidiaries.

We provided further exchanges of good practices and organised internal trainings on energy efficiency in our Terme Krka subsidiary. We launched a project on the integration of energy accounting into the energy supply control information system established at Krka and completed the energy audit in Terme Dolenjske Toplice. By implementing organisational and small-scale investment measures, we decreased energy consumption and costs. The reconstruction of the air-conditioning system at Terme Šmarješke Toplice was completed by installing a low-temperature system for an energy efficient heat generation with thermal water heat pumps.

Environmental Communication

The awareness of the importance of sustainable development and related environmental values are anchored into 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 qualification programmes. Krka's Catalogue of Training Programmes was supplemented to include courses not only on waste, waste water, noise, air emissions, and light pollution but also on comprehensive environmental management. In 2019, the environment-related trainings were attended by 420 employees. Our aim is to provide educational programmes and courses to our employees also in the future, and we have made this our environmental policy commitment vital to achieve corporate

goals of sustainable development. Articles on environmental protection are published in our internal magazine *Utrip*, while short notices and suggestions related to the environment are published in our internal bulletin *Bilten* and on internal web pages. In this way, we constantly encourage our employees to treat the environment responsibly and build awareness on environmental issues, thus decreasing the impacts 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 engaged 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, our employees contribute to the syllabus of under- and post-graduate study programmes.

Sustainable improvement of the environment depends on good relationships with the representatives of the social environment, especially with the closest neighbours as we have an effect on their living space and the quality of life. We feel greatly responsible to the local community with whom we share the environment. In March 2019, we organised the traditional bi-annual meeting for local residents. We presented them our activities, performance, and plans related to environmental protection. Such meetings offer an ideal opportunity for an open dialogue and exchange of opinions. We receive information on what the locals think and on our role in environmental protection, and consider it when planning environmental goals and programmes.

Publicly available information on environmental protection is published on www.krka.si.

Krka's Sustainable Development Indicators for 2019

ENVIRONMENTAL DATA		2019	2018	2017	2016	2015
Water consumption (total)	m ³	1,399,303	1,341,333	1,588,474	1,279,065	1,362,297
Drinking water	m ³	613,919	655,837	644,577	600,781	628,770
River water	m ³	785,384	685,496	943,897	678,284	733,527
Energy consumption (total)	GJ ¹	956,577	961,319	935,484	910,031	889,239
Electric power	GJ	356,610	344,983	330,274	313,560	308,585
Natural gas	GJ	580,048	595,739	588,121	569,831	559,010
Liquid petroleum gas	GJ	19,409	20,214	17,029	22,975	20,083
Fuel oil (extra light)	GJ	510	383	60	3,665	1,561
Generated electric power – alternative sources (total)	GJ	39,482	46,909	46,014	49,855	49,212
Solar power plant	GJ	252	223	258	238	241
Cogeneration	GJ	39,230	46,686	45,756	49,617	48,180
Energy intensity						
Specific use of energy	MJ/€	1.60	1.80	1.83	1.78	1.83
Specific use of energy	TJ/billion units	79.4	83.6	82.8	85.9	91.7
Wastewater (total)	m ³	1,225,003	1,150,578	1,376,629	1,123,735	1,277,944
Cooling water	m ³	392,490	298,137	509,091	315,987	458,522
Industrial wastewater	m ³	832,513	852,441	867,538	807,748	819,422
– Suspended solids load	t	23.9	16.1	24.3	25.9	15.8
– Biochemical oxygen demand	t	6.9	5.0	5.8	3.7	4.7
– Chemical oxygen demand	t	57.5	38.4	43.6	67.4	74.1
– Nitrogen	t	4.9	4.8	3.9	4.1	3.7
– Phosphorus	t	0.7	0.6	0.6	0.7	0.3
Environmental load units (ELU) ³	ELU	1,737	1,286	1,359	1,977	1,969
Waste (total)	t	11,091	10,312	11,541	11,472	10,640
Hazardous waste (total)	t	6,047	5,491	5,879	5,611	5,198
– Solid waste	t	789	670	718	735	704
– Liquid waste	t	5,258	4,821	5,161	4,876	4,494
Non-hazardous waste (subtotal)	t	5,044	4,821	5,662	5,816	5,442
Disposal at landfills (subtotal)	t	802	824	905	886	755
– Mixed waste (disposal)	t	802	824	905	886	755
– Biomass (disposal)	t	0	0	0	0	0
Mixed waste (energy use and processing)	t	489	371	246	228	272
Biomass (composting)	t	1,308	1,187	1,971	2,077	2,341
Recycling waste (total)	t	2,422	2,422	2,524	2,610	2,063
– Paper	t	1,221	1,191	1,097	1,038	1,018
– Plastics	t	401	432	392	295	273
– Glass	t	136	125	132	118	86
– Metal	t	239	201	193	436	159
– Wood	t	425	473	710	723	527
Electric and electronic equipment	t	23	17	16	15	11

		2019	2018	2017	2016	2015
Air emissions						
Energy related CO ₂ – direct	t CO ₂ -eq ⁴	33,332	34,242	33,603	33,227	32,288
Energy related CO ₂ – indirect	t CO ₂ -eq	47,251	45,710	43,761	43,115	42,430
Energy related SO ₂	t	1	1	1	1	1
Energy related NO _x	t	27	28	27	28	26
Ozone-depleting substances and fluorinated greenhouse gases	t CO ₂ -eq	1,744	1,954	2,267	2,366	1,298
Compliance						
Extraordinary events related to environment		0	3	0	0	0
Environmental protection (total)						
	€ thousand	7,672	6,738	6,585	6,004	7,010
Environmental protection costs	€ thousand	5,517	5,107	4,882	4,540	4,361
Investments in environmental programmes	€ thousand	2,155	1,631	1,703	1,464	2,649
SOCIETY						
Number of employees		5,907	5,496	5,020	4,889	4,798
Slovenia		5,386	4,995	4,514	4,343	4,292
Representative offices abroad		521	501	506	546	506
Health and safety						
Sick leave rate	%	5.3	6.8	6.3	5.8	5.6
Number of accidents		27	18	27	21	23
Lost time accident rate (LTAR)		2.8	2.8	1.9	3.3	2.9
Proportion of disabled employees	%	6.9	5.4	5.5	5.1	5.0
Education and training						
Number of education and training hours	hour/employee	41	42	42	37	60
Education and training costs	€/employee	897	881	862	854	745

¹ The calculation of GJ was based on net calorific 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 waste water 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 (*The Rules on Initial Measurements and Operational Monitoring of Wastewater*; 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.



FINANCIAL REPORT 2019



Living a healthy life.

CONTENTS

INTRODUCTION TO THE FINANCIAL STATEMENTS	165
STATEMENT OF COMPLIANCE	165
CONSOLIDATED FINANCIAL STATEMENTS OF THE KRKA GROUP	166
Consolidated Statement of Financial Position	166
Consolidated Income Statement.....	167
Consolidated Statement of Other Comprehensive Income.....	167
Consolidated Statement of Changes in Equity	168
Consolidated Statement of Cash Flows.....	170
Notes to the Consolidated Financial Statements	171
Independent Auditor's Report	224
FINANCIAL STATEMENTS OF KRKA, D. D., NOVO MESTO	229
Statement of Financial Position	229
Income Statement.....	230
Statement of Other Comprehensive Income.....	230
Statement of Changes in Equity	231
Statement of Cash Flows.....	233
Notes to the financial statements.....	234
Independent Auditor's Report	290
ENCLOSURE 1	295
SIGNING OF THE 2019 ANNUAL REPORT AND ITS CONSTITUENT PARTS	297

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 encompasses the financial statements and related notes of Krka, d. d., Novo mesto (hereinafter also 'Krka'). 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 of Krka d. d., Novo mesto, held on 6 July 2006.

The financial statements of the Krka and the Krka Group are presented in the euros, rounded to the nearest thousand. They are an integral part of the 2019 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 (<https://www.krka.biz/en/for-investors/financial-reports/>).

Each section of financial statements was audited by ERNST & YOUNG Revizija, poslovno svetovanje, d. o. o., and two separate reports as individual sections have been prepared accordingly.

The Statement of Compliance presented below includes an acknowledgement of the Management Board's responsibility for all financial statements of both Krka 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 Krka 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 2019.

The Management Board hereby acknowledges that:

- the financial statements of Krka and its subsidiaries have been 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 are in compliance with the principles of prudence and due diligence;
- the financial statements and the notes thereto for Krka 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 the measures required to preserve the assets of Krka and the Krka Group 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 the audit of the Krka's operations, which may lead to additional tax liabilities, default interest, and penalties with regard 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.

Novo mesto, 24 March 2020

Management Board
Krka, d. d., Novo mesto

CONSOLIDATED FINANCIAL STATEMENTS OF THE KRKA GROUP

Consolidated Statement of Financial Position

€ thousand	Notes	31 Dec 2019	31 Dec 2018
Assets			
Property, plant and equipment	12	862,848	839,448
Intangible assets	13	109,082	110,329
Loans	14	10,908	10,810
Investments	15	9,681	9,389
Deferred tax assets	16	48,825	40,376
Other non-current assets		489	459
Total non-current assets		1,041,833	1,010,811
Assets held for sale		41	41
Inventories	17	421,578	365,149
Contract assets		1,874	395
Trade receivables	18	434,695	438,291
Other receivables	18	31,924	26,370
Loans	14	31,832	21,491
Investments	15	2,174	4,720
Cash and cash equivalents	19	218,667	117,801
Total current assets		1,142,785	974,258
Total assets		2,184,618	1,985,069
Equity			
Share capital	20	54,732	54,732
Treasury shares	20	-73,774	-52,076
Reserves	20	129,871	104,062
Retained earnings	20	1,553,489	1,430,817
Total equity holders of the controlling company		1,664,318	1,537,535
Non-controlling interests	20	3,198	2,735
Total equity		1,667,516	1,540,270
Liabilities			
Provisions	22	120,403	100,989
Deferred revenue	23	8,709	9,798
Trade payables	24	10,000	0
Lease liabilities	28	10,201	0
Deferred tax liabilities	16	11,592	12,271
Total non-current liabilities		160,905	123,058
Trade payables	24	128,574	136,806
Borrowings		3	0
Lease liabilities	28	2,799	–
Income tax payable		18,824	3,842
Contract liabilities	25	123,312	110,225
Other current liabilities	26	82,685	70,868
Total current liabilities		356,197	321,741
Total liabilities		517,102	444,799
Total equity and liabilities		2,184,618	1,985,069

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction with them.

Consolidated Income Statement

€ thousand	Notes	2019	2018
Revenues		1,493,409	1,331,858
– Revenue from contracts with customers	5	1,490,090	1,327,190
– Other revenue		3,319	4,668
Cost of goods sold		-646,048	-561,131
Gross profit		847,361	770,727
Other operating income	6	13,709	12,791
Selling and distribution expenses		-350,327	-344,686
– Of that net impairment and write-down of receivables		333	-223
R&D expenses		-152,421	-130,700
General and administrative expenses		-84,127	-75,446
Operating profit		274,195	232,686
Financial income	10	24,987	5,935
Financial expenses	10	-14,814	-36,048
Net financial result		10,173	-30,113
Profit before tax		284,368	202,573
Income tax	11	-40,096	-28,565
Net profit		244,272	174,008
Attributable to:			
– Equity holders of the controlling company		245,545	174,585
– Non-controlling interests		-1,273	-577
Basic earnings per share (€)	21	7.73	5.46
Diluted earnings per share (€)	21	7.73	5.46

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

€ thousand	Notes	2019	2018
Net profit		244,272	174,008
Other comprehensive income for the year			
Other comprehensive income reclassified to profit or loss at a future date			
Translation reserve	20	19,151	-19,510
Net other comprehensive income reclassified to profit or loss at a future date		19,151	-19,510
Other comprehensive income that will not be reclassified to profit or loss at a future date			
Change in fair value of financial assets		292	568
Restatement of post-employment benefits	22	-17,034	-520
Deferred tax effect		1,699	76
Net other comprehensive income that will not be reclassified to profit or loss at a future date		-15,098	16
Total other comprehensive income net of tax		4,053	-19,494
Total comprehensive income net of tax		248,325	154,514
Attributable to:			
– Equity holders of the parent		249,565	155,093
– Non-controlling interests		-1,240	-579

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

€ thousand	Reserves								Retained earnings			Total equity holders of controlling company	Non-controlling interests	Total equity
	Share capital	Treasury shares	Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserve	Translation reserve	Other profit reserves	Retained earnings	Profit for the year			
At 1 Jan 2019	54,732	-52,076	52,076	105,897	14,990	30,000	-11,918	-86,983	1,167,388	100,332	163,097	1,537,535	2,735	1,540,270
Net profit	0	0	0	0	0	0	0	0	0	0	245,545	245,545	-1,273	244,272
Total other comprehensive income (net of tax)	0	0	0	0	0	0	-14,357	19,118	0	-741	0	4,020	33	4,053
Total comprehensive income (net of tax)	0	0	0	0	0	0	-14,357	19,118	0	-741	245,545	249,565	-1,240	248,325
Transactions with owners, recognised in equity														
Formation of other profit reserves under the resolution of the Annual General Meeting	0	0	0	0	0	0	0	0	43,904	-43,904	0	0	0	0
Transfer of previous period's profits to retained earnings	0	0	0	0	0	0	0	0	0	163,097	-163,097	0	0	0
Repurchase of treasury shares	0	-21,698	0	0	0	0	0	0	0	0	0	-21,698	0	-21,698
Formation of reserves for treasury shares	0	0	21,698	0	0	0	0	0	0	0	-21,698	0	0	0
Other – TAD Pharma	0	0	0	0	0	0	-650	0	0	650	0	0	0	0
Acquisition of a stake in Golf Grad Otočec	0	0	0	0	0	0	0	0	0	575	0	575	-846	-271
Dividends paid	0	0	0	0	0	0	0	0	0	-101,659	0	-101,659	0	-101,659
Acquisition of non-controlling interests	0	0	0	0	0	0	0	0	0	0	0	0	2,549	2,549
Total transactions with owners, recognised in equity	0	-21,698	21,698	0	0	0	-650	0	43,904	18,759	-184,795	-122,782	1,703	-121,079
At 31 Dec 2019	54,732	-73,774	73,774	105,897	14,990	30,000	-26,925	-67,865	1,211,292	118,350	223,847	1,664,318	3,198	1,667,516

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction with them.

€ thousand	Reserves								Retained earnings			Total equity holders of the controlling company	Non-controlling interests	Total equity
	Share capital	Treasury shares	Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserve	Translation reserve	Other profit reserves	Retained earnings	Profit for the year			
At 1 Jan 2018	54,732	-40,588	40,588	105,897	14,990	30,000	-12,523	-67,475	1,129,172	90,233	141,702	1,486,728	971	1,487,699
Net profit	0	0	0	0	0	0	0	0	0	0	174,585	174,585	-577	174,008
Total other comprehensive income (net of tax)	0	0	0	0	0	0	605	-19,508	0	-589	0	-19,492	-2	-19,494
Total comprehensive income (net of tax)	0	0	0	0	0	0	605	-19,508	0	-589	174,585	155,093	-579	154,514
Transactions with owners, recognised in equity			0											
Formation of other profit reserves under the resolution of the Annual General Meeting	0	0	0	0	0	0	0	0	38,216	-38,216	0	0	0	0
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0	0	0	0	141,702	-141,702	0	0	0
Repurchase of treasury shares	0	-11,488	0	0	0	0	0	0	0	0	0	-11,488	0	-11,488
Formation of reserves for treasury shares	0	0	11,488	0	0	0	0	0	0	0	-11,488	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	-92,798	0	-92,798	0	-92,798
Acquisition of non-controlling interests	0	0	0	0	0	0	0	0	0	0	0	0	2,343	2,343
Total transactions with owners, recognised in equity	0	-11,488	11,488	0	0	0	0	0	38,216	10,688	-153,190	-104,286	2,343	-101,943
At 31 Dec 2018	54,732	-52,076	52,076	105,897	14,990	30,000	-11,918	-86,983	1,167,388	100,332	163,097	1,537,535	2,735	1,540,270

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

€ thousand	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		244,272	174,008
Adjustments for:		177,690	130,325
– Amortisation/depreciation	12, 13	111,242	110,594
– Foreign exchange differences		8,386	-6,750
– Investment income		-6,249	-7,978
– Investment expenses		21,356	3,806
– Interest expense and other financial expenses		2,882	2,198
– Financial income		-23	-110
– Income tax	11	40,096	28,565
Operating profit before changes in net current assets		421,962	304,333
Change in trade receivables		-4,152	61,863
Change in inventories		-56,429	-54,478
Change in trade payables		11,190	29,634
Change in provisions		374	852
Change in deferred revenue		-1,089	-1,155
Change in other current liabilities		9,267	-8,326
Income tax paid		-31,600	-42,771
Net cash from operating activities		349,523	289,952
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,254	470
Dividends received		358	975
Proceeds from sale of property, plant and equipment		1,465	1,526
Purchase of intangible assets	13	-6,120	-6,984
Purchase of property, plant and equipment	12	-104,502	-86,259
Acquisition of subsidiaries and a share of minority interests net of financial assets acquired		-271	0
Proceeds from repayment of non-current loans		-2,414	-2,881
Acquisition of non-current investments		2,239	1,086
Proceeds from sale of non-current investments		-69	-153
Payments for current investments and loans		37	27
Payments for derivative financial instruments		-9,244	-22,681
Proceeds from derivative financial instruments		-7,540	-2,737
Proceeds from repayment of non-current loans		0	3,255
Net cash from investing activities		-124,807	-114,356
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		-490	-657
Repayments of current borrowings		3	0
Lease liabilities paid		-2,970	0
Dividends and other profit shares paid		-101,668	-92,811
Repurchase of treasury shares		-21,698	-11,488
Proceeds from payment of non-controlling interests		2,549	2,343
Net cash from financing activities		-124,274	-102,613
Net increase in cash and cash equivalents		100,442	72,983
Cash and cash equivalents at beginning of year		117,801	45,948
Effect of foreign exchange rate fluctuations on cash held		424	-1,130
Closing balance of cash and cash equivalents		218,667	117,801

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 of the Krka Group with its registered office at Šmarješka cesta 6, 8501 Novo mesto, Slovenia. The consolidated financial statements for the year ended 31 December 2019 relate to the Krka Group consisting of the controlling company and its subsidiaries in Slovenia and abroad.

The Krka Group is engaged in development, production, marketing and sales 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's Management Board on 24 March 2020.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, with the exception of derivative financial instruments, financial instruments at fair value through profit or loss, and financial instruments at fair value through other comprehensive income (OCI). Methods applied in the measurement of fair value are presented in Note 3.

Functional and reporting currency

The consolidated financial statements are presented in the euro, which is the functional currency of Krka. All financial information presented in the euro has been rounded to the nearest thousand.

The use of estimates and judgements

The preparation of financial statements requires the management board of the controlling company to make judgements, estimates and assumptions that affect the carrying amounts of assets and liabilities of the Krka Group as well as the reported income and expenses for the period.

Management estimates include among other: determination of the useful life and residual value of property, plant and equipment, as well as intangible assets; allowances for inventories, receivables and financial instruments; assumptions material to the actuarial calculation of defined employee benefits; assumptions used in the calculation of provisions for lawsuits; as well as assumptions and estimates relating to impairment of goodwill and the TAD Pharma trademark. Regardless of the fact that the management board of the controlling company duly considers all factors that may impact the preparation of these assumptions, the actual consequences of business events may differ from those estimates. In the process of making accounting estimates, the 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 indefinite useful life, determining its assessed recoverable amount at each reporting date. As from

1 January 2013, the TAD Pharma trademark is recognised as an intangible asset with finite useful life. Krka annually verifies the need for impairment of the trademark and goodwill that arose on the takeover of TAD Pharma.

Key estimates and assumptions as at the day of the statement of financial position that are 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 determination of the appropriate discount rate.

- *Note 5 Revenue from contracts with customers*

Revenue from contracts with customers is recognised when control of the goods and services is transferred to the customer at an amount that reflects the consideration to which the Krka Group expects to be entitled in exchange for those goods or services, while considering specific terms and conditions of an individual contract. In assessing the amount of variable consideration, the Krka Group specifically addresses returns, while considering specific terms and conditions of an individual contracts for the sale of products and services to customers, statutory provisions and business practices in a given environment. When assessing the variable consideration, the Krka Group applies either the expected value method or the most likely amount method, whichever better predicts the amount of the consideration to which the Krka Group will be entitled.

Given the large number of contracts with customers, the Krka Group determined the expected value method as the most appropriate for estimating the variable consideration for the sale of products with a right of return. To estimate the variable consideration for expected future volume rebates on the quantity of products purchased, the Krka Group identified combination of the most likely amount method and the expected value method as the most appropriate. The method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract, legal provisions and business practices in various environments. The most likely amount method is best suited for contracts with a single-volume threshold, and the expected value method for contracts with more than one volume threshold.

Prior to including any variable consideration in the transaction price, the Krka Group assesses whether there is a constraint on the variable consideration. Based on past experience, business forecasts and current economic conditions, the Krka Group has determined that there are no constraints on the variable consideration.

The Krka Group sells products that are subject to payment terms in excess of one year in some markets. The Krka Group recognises financial income and expenses on these sales using the appropriate discount rate.

- *Note 13 Impairment testing of the TAD Pharma trademark and the associated goodwill*

The criteria used in goodwill impairment testing are verified at least once a year by the controlling company. Determination of the present value of future cash flows requires the controlling company's management board to assess estimated future cash flows from each cash generating unit, as well as to determine the appropriate discount rate and other significant assumptions as explained in Note 13.

- Note 18 *Impairment testing of receivables*

On the financial statement preparation (quarterly and annually), individual companies of the Krka Group recognise allowances (impairment) of those receivables for which it is assumed that will not be settled in full or not at all. Allowances are recognised using uniform methodology applicable to the Krka Group and in consideration of the probability or assessed probability of receivable settlement by the debtors. The methodology includes quantitative and qualitative criteria, grouped into the following four sets: an analysis of the existing business dealings with the customer, an analysis of the customer's financial statements, a qualitative assessment of the customer by the sales staff, and assessment of the customer's country risk. Thus, allowances of receivables due from individual customer are calculated by means of an algorithm that includes all the above criteria.

- Note 22 *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 using assumptions and estimates effective at the time of the calculation, and which may, as a result of future changes, differ from actual assumptions applicable at that future time. This applies primarily to determination of a discount rate, assessment of employee turnover, mortality assumption, as well as assessment of an 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 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 intellectual property (patent rights or competition law) and those referring to other areas. A provision is recognised when a Group 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 entirely within the control of the Krka Group. The management board of the controlling company continually assesses 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 *Current liabilities from contracts with customers*

The Krka Group accrues contractually agreed discounts in its financial statements when, based on the annual sales, individual customers gain 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 at the time of the financial statement preparation, past experience in trading with individual customers, and other relevant facts.

- Note 28 *Leases*

The controlling company recognises leases based on measurement of lease liabilities and thus its determination of the lease term, its incremental borrowing rate if the implicit interest rate is not readily determinable, and its assessment at contract inception whether a contract is, or contains, a lease.

At contract inception, the Krka Group assesses whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee, the Krka Group determines the lease term as the period during which the lease cannot be terminated, inclusive of:

- a) the period for which the option to extend the lease applies, if it is reasonably certain that the lessee will exercise that option; and
- b) the period for which the option to terminate the lease applies, if it is reasonably certain that the lessee will not exercise that option.

The Krka Group considers all relevant facts, circumstances and past practices that provide an economic incentive for the Krka Group not to exercise the option of contract extension or termination.

The Krka Group reassesses the lease term upon occurrence of any significant event or a material change in the circumstances it controls that affect its decision to exercise the option of contract extension or termination.

The Krka Group uses its incremental borrowing rate when the implicit interest rate in the lease cannot be determined. The assessed borrowing rate is based on the average bond yield of issuers in the relevant region and the contract maturity.

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 Krka Group.

The accounting policies and calculation methods used are consistent with those applied in the previous year, except for application of newly adopted standards and interpretations as noted below and which have been applied if relevant events occurred in the Krka Group in the reporting period.

New standards and interpretations effective from 1 January 2019

IFRS 16 - Leases

The final version of *IFRS 16 – Leases* replaces *IAS 17 – Leases*, *IFRIC 4 – Determining Whether an Arrangement Contains a Lease*, *SIC 15 – Operating Leases – Incentives*, *SIC 27 – Evaluating the Substance of Transactions in the Legal form of a Lease*. *IFRS 16* sets out new requirements for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single lessee accounting model as at the reporting date.

The Krka Group applied the *IFRS 16* on the date the standard came into effect, i.e. 1 January 2019. The transition was based on a simplified method. Upon transition, it recognised a cumulative effect of transition to the new standard with no retrospective restatement of the comparable data. Recognition of lease liabilities and equal amount of the right-of-use assets had no impact on the opening balance of retained earnings.

Upon the transition, the Krka Group did not reassess whether the contract contains a lease component, but instead applied a practical expedient and applied the standard to contracts previously classified as leases based on *IAS 17 – Leases* and *IFRIC 4 – Determining Whether an Arrangement Contains a Lease*.

The effect of adopting *IFRS 16* as at 1 January 2019 is presented in the following table:

€ thousand	Impact on the statement of financial position as at 1 January 2019
Right-of-use assets	15,522
Current liabilities	2,550
Non-current liabilities	12,973
Impact on equity	0

The Krka Group has concluded lease agreements for various assets such as cars, parking spaces and offices, apartments, warehouses, equipment and the building right. Before the adoption of *IFRS 16*, the Krka Group classified its leases as operating leases and did not report any financial leases. Krka recognised the right-of-use assets and lease liabilities for leases previously classified as operating leases.

The right-of-use assets are recognised based on the carrying amount of lease payments as if the standard had always been applied, discounted using the incremental borrowing rate at the date of initial application. The lease liabilities are measured and recognised based on the carrying amount of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

On first application of *IFRS 16*, the Krka Group applied a single measurement and recognition approach for all leases, except for short-term leases and leases of low-value assets (refer to Accounting policies – Leases). The Krka Group elected to use the transition practical expedient available by the *IFRS 16* and applied:

- a single discount rate to its rental portfolio with reasonably similar characteristics;
- accounted for leases with lease term of less than 12 months from the initial adoption date as short-term leases;
- excluded the initial direct costs from the measurement of the right-of-use assets at the date of initial application; and
- used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

Reconciliation of lease liabilities as at 1 January 2019 to the operating lease commitments in accordance with *IAS 17* at 31 December 2018:

€ thousand	Reconciliation of liabilities at 1 January 2019
Operating lease commitments as at 31 December 2018	10,324
– Decrease in short-term lease commitments	-184
– Decrease in lease commitments not recognised under <i>IFRS 16</i>	-276
Operating lease commitments under <i>IFRS 16</i> as at 31 December 2018	9,864
Weighted average borrowing rate as at 1 January 2019	2.83%
Discounted operating lease commitments as at 1 January 2019	8,582
– Increase in lease liabilities not included in operating lease commitments as at 31 December 2018	2,658
– Increase in lease payments on account of lease extensions not included in operating lease commitments as at 31 December 2018	4,282
Lease liabilities as at 1 January 2019	15,522

Amendments to IFRS 9 – Prepayment Features with Negative Consideration

The Amendments allow financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be a 'negative compensation'), to be measured at amortised cost or at fair value through OCI. These Amendments have no impact on the consolidated financial statements of the Krka Group.

Amendments to IAS 28 – Investments in Associates and Joint Ventures

The Amendments address the issue of whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by *IFRS 9, IAS 28* or a combination of both. The Amendments clarify that an entity applies *IFRS 9 – Financial Instruments*, before it applies *IAS 28*, to such long-term interests for which the equity method is not applied. In applying *IFRS 9*, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying *IAS 28*. The management has assessed the impact of the Amendments and believes they had no impact on the consolidated financial statements of the Krka Group.

IFRIC Interpretation 23 – Uncertainty over Income Tax Treatments

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of *IAS 12*. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The management has assessed the impact of the Interpretations and believes they will have no significant impact on the consolidated financial statements of the Krka Group.

Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement

The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. The management has assessed the impact of the Amendments and believes they had no impact on the consolidated financial statements of the Krka Group.

Annual improvements to standards and interpretations – 2015–2017 cycle

The International Accounting Standards Board (IASB) has issued the Annual Improvements to *IFRSs 2015–2017 Cycle*, which is a collection of amendments to *IFRSs*. The management has assessed the impact of the Amendments and believes they had no impact on the consolidated financial statements of the Krka Group.

Amendments to IFRS 3 – Business Combinations and IFRS 11 – Joint Arrangements

The Amendments to *IFRS 3* clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The Amendments to *IFRS 11* clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

Amendments to IAS 12 – Income Tax

The Amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits have been recognised.

Amendments to IAS 23 – Borrowing Costs

The Amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

Basis for consolidation

Subsidiaries

Subsidiaries are entities controlled by the controlling 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 of the Krka Group. 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 the Krka 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 exchange differences are recognised in profit or loss, except for differences arising on the translation of equity instruments, which are recognised directly in other comprehensive income. Non-cash items measured at historical cost in foreign currency are translated to 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 to the euro at exchange rates prevailing at the reporting date. The income and expenses of foreign operations are translated to the euro 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, investments held for sale, interest paid on borrowings, profit or loss from the sale of financial assets at fair value through other comprehensive income, and foreign exchange gains or losses from the translation of all monetary assets and liabilities in foreign currency.

Financial instruments

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial assets' contractual cash flow characteristics and the Krka Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Krka Group has applied the practical expedient, the Krka Group initially measures a financial asset at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Krka Group has applied the practical expedient are measured at the transaction price determined under *IFRS 15*. Refer to the accounting policies in '*Revenue from contracts with customers*'.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Krka Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Krka Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- financial assets at amortised cost (debt instruments);
- financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); and
- financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

According to the SPPI test, loans issued by the Krka Group are classified as financial assets at amortised cost, since the cash flows derived from these assets are solely payments of principal and interest on the principal amount outstanding.

The Krka Group's financial assets at amortised cost also include trade receivables.

After initial recognition, these investments are measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through OCI (debt instruments)

The Krka Group classifies its investments in debt securities as financial assets at fair value through OCI.

Subsequent to initial recognition, they are measured at fair value. Interest income, foreign exchange differences and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Financial assets at fair value through OCI (equity instruments)

The Krka Group classifies its investments in equity securities as financial assets at fair value through OCI. The Krka Group elected to classify irrevocably its listed and non-listed investments in this category.

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 not transferred to profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

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 are presented as a deduction from total equity.

Dividends

Dividends are recognised in the Krka Group's consolidated financial statements in the period in which they are declared by the Annual General Meeting.

Property, plant and equipment

The items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (refer to 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) assessed 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 operating income' or 'other operating expenses' in profit or loss.

As from 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 Krka Group are not earmarked and they 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 six (6) months.

Subsequent expenditure

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the asset if it is probable that the future economic benefits embodied within the part will flow to the Krka 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.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each item of property, plant and equipment or its individual parts. Land and assets being acquired are not depreciated.

The 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

Goodwill

Goodwill, which arose on the acquisition of the subsidiary, represents the excess of the cost of the acquisition over the Krka Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

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 indefinite useful life, determining its assessed recoverable amount at each reporting dates. As from 1 January 2013, the TAD Pharma trademark is recognised as an intangible asset with finite useful life of 50 years. Krka annually verifies the need for impairment of the trademark and goodwill that arose on the takeover of TAD Pharma.

Research and development

All costs referring to research-and-development work within the Krka Group are recognised in profit or loss as incurred.

Other intangible assets

Other intangible assets that are acquired by the Krka Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses (refer to accounting policy 'Impairment').

Subsequent expenditure

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

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 made available for use.

The estimated useful lives of software, licences and other rights range from 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 potential administrative expenses, which are usually connected with sales.

An inventory unit of raw materials and materials, as well as ancillary and packaging materials, is valued at cost including all direct costs of purchase. Inventories of materials are carried at moving average prices. Inventories of finished products and work in progress are carried at standard cost, which in addition to direct cost of material

includes also cost of production, such as: direct labour cost, direct cost of depreciation, direct cost of services, energy, maintenance and quality control. Fixed price variances are determined in accordance with the current valuation of inventories using production costs. A quantity unit of merchandise is valued at cost including cost of purchase, import duties and all costs directly attributable to the acquisition, decreased by discounts. Inventories of merchandise are carried at moving average prices.

Impairments

Financial assets

The Krka Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Krka Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Expected credit losses are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since the initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Krka Group applies a simplified approach in calculating ECLs. Trade receivables that do not contain a significant financing component or for which the Krka Group has applied the practical expedient (contracts agreed for a period of one year or less) are measured at the transaction price determined under *IFRS 15*, less any impairment losses.

Therefore, the Krka Group does not track changes in credit risk, but instead recognises a loss allowance based on a lifetime ECLs at each reporting date. The Krka Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Allowances are recognised using uniform methodology applicable to the Krka Group and in consideration of the probability or assessed probability of receivable settlement by debtors.

Non-financial assets

The carrying amounts of the Krka Group's non-financial assets are reassessed at each reporting date to determine whether there is any indication of impairment. If such indications exist, the asset's recoverable amount is assessed.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment loss is 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, the 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 of the asset. 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 national legislation of the countries where the controlling company and subsidiaries are located, the Krka Group is liable to pay to its employees anniversary bonuses and termination benefits upon retirement. Provisions are set aside for these 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 performed using the projected unit credit method. Employee benefit costs, as well as cost 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 Krka 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 a favourable or unfavourable outcome of a lawsuit 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 anticipated potential amount, if the indemnification claim is not yet disclosed.

Leases

At contract inception, the Krka Group assesses whether a contract is, or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Krka Group determines the lease term as the period during which the lease cannot be terminated, inclusive of:

- a) the period for which the option to extend the lease applies, if it is reasonably certain that the lessee will exercise that option; and
- b) the period for which the option to terminate the lease applies, if it is reasonably certain that the lessee will not exercise that option.

Group as a lessee

The Krka Group applied a single measurement and recognition approach for all leases, except for short-term leases and leases of low-value assets. In respect of those, the Krka Group applies a practical expedient of the standard and recognises lease liabilities as expenses on a straight-line basis over the lease term. The practical expedient applies to leases with a lease term of less than 1 year and leases of assets valued at less than €5,000.

The Krka Group recognises right-of-use assets and lease liabilities at the commencement date of the lease (i.e. the date the underlying asset is available for use).

Right-of-use assets

Right-of use assets are measured at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received, as well as an assessment of costs that will be incurred in dismantling or removing the leased asset, restoring the site to its original condition, or returning the asset to a condition as required in the lease terms.

The right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated lease term or the estimated useful lives of the assets.

Lease liabilities

At the commencement date of the lease, the Krka Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid by the Krka Group under residual value guarantees. The lease payments also include the exercise price of a purchase option, if it is reasonably certain that the Krka Group will exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the Krka Group exercising the option to terminate the lease. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Krka Group uses its incremental borrowing rate based on average bond returns of issuers in relevant regions, while considering their maturity if the interest rate implicit in the lease is not readily determinable.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Group as a lessor

Leases in which the Krka Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Revenue from contracts with customers

The Krka Group is engaged in development, production, marketing and sales of human health products (prescription pharmaceuticals, non-prescription products), animal health products, and health resort and tourist services. Revenue from contracts with customers is recognised when control of the goods and services is transferred to the customer at an amount that reflects the consideration to which the Krka Group expects to be entitled in exchange for those goods or services, while considering specific terms and conditions of an individual contract.

Transfer of control over those goods and services depends on terms and conditions of the contract. In general, control is transferred when goods are accepted by the customer or services have been rendered. The normal credit term is 30 to 120 days.

The Krka Group considers whether the contract includes other promises that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of products, the Krka Group considers the effects of variable consideration and the existence of significant financing components.

Variable consideration

If the consideration in a contract includes a variable amount, the Krka Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of products provide customers with a right of return, bonuses and volume rebates. The rights of return, bonuses and volume rebates give rise to variable consideration.

Rights of return

Certain contracts provide a customer with a right to return the goods within a specified period (past use-by date). The Krka Group uses the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Krka Group will be entitled. The requirements of *IFRS 15* on constraining estimates of variable consideration are also applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, the Krka Group recognises a refund liability. A right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

Bonuses and volume rebates

The Krka Group provides retrospective bonuses and volume rebates to certain customers once the quantity of products or services purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the Krka Group considers the terms and conditions of the contract, including criteria and elements that provide the basis for the recognition of bonuses and volume rebates.

The Krka Group grants volume discounts also to governments, ministries or insurance companies based on bids for public tenders in individual countries. The amount depends on the agreed terms of reference or contractual provisions and the actual sale orders.

Significant financing component

In some cases the Krka Group receives short-term advances from its customers. Using the practical expedient in *IFRS 15.63*, the Krka Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised goods or services to the customer and when the customer pays for those goods or services will be one year or less.

Contract balances

Contract assets

A contract asset is the right to an amount of consideration in exchange for goods or services transferred to the customer. If the Krka Group transfers goods or services to a customer before the customer pays consideration or payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the Krka Group's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of consideration is due). Refer to accounting policies of financial assets in section 'Initial recognition and measurement'.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Krka Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before goods or services are transferred to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Krka Group performs under the contract.

Right of return assets

A right of return assets represents the Krka Group's right to recover the goods expected to be returned by the customer.

The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of returned goods. The Krka Group regularly updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products.

Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer. It is measured at the amount the Krka Group ultimately expects it will have to return to the customer.

The Krka Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period. Refer to accounting policy on variable consideration.

Government grants

Revenue from government grants is initially recognised when there is reasonable assurance that the grant will be received and that the Krka Group will comply with the associated conditions. Revenue that compensates the expenses incurred is recognised in profit or loss on a systematic basis in the same periods in which the revenue is recognised. Revenue that compensates an entity for the cost of an asset is 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 financial assets, changes in the fair value of financial assets at fair value through profit or loss, 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 enacted at the reporting date, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the balance sheet liability approach 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 manner 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 deferred tax asset 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 Krka by the weighted average number of ordinary shares outstanding during the period. Diluted EPS equals the basic EPS, as all shares of the Krka belong to the same class of ordinary no-par value shares.

Segment reporting

An operating segment is a distinguishable component of the Krka Group 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 Group's segment reporting is based on the Krka Group's internal reporting system applied by the controlling company's management in the decision-making process.

The segments include: the European Union (all member states), South-Eastern Europe (Serbia, Bosnia and Herzegovina, the Republic of North Macedonia, Montenegro, Kosovo, and Albania), and Eastern Europe (the Russian Federation and other former Soviet Union countries excluding the Baltic States), as well as other countries outside the regions mentioned above..

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 issued but not yet effective

The following new and amended standards have not come into effect by the financial statements' date and will be applied in future periods. The Krka Group will apply the new and revised standards and interpretations when they become effective. The Krka Group did not apply any amended standards or interpretations prior to their effective date.

Amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The *Amendments* address an acknowledged inconsistency between the requirements in *IFRS 10* and those in *IAS 28*, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the *Amendments* is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015, the IASB postponed the effective date of this standard indefinitely pending the outcome of its research project on the equity method of accounting. The *Amendments* have not been endorsed by the EU so far.

The management has assessed the impact of the *Amendments* on the financial statements of the Krka Group and will apply them when they come into force.

Conceptual Framework in IFRS Standards

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The IASB also issued a separate accompanying document, the *Amendments to References to the Conceptual Framework in IFRS Standards*, which sets out the amendments to affected standards in order to update references to the revised *Conceptual Framework*. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no *IFRS* standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

Amendments to IFRS 3 – Business Combinations

The IASB issued amendments in definition of a Business (*Amendments to IFRS 3*) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The *Amendments* are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Early adoption is permitted. The *Amendments* have not been endorsed by the EU so far. The management has assessed the impact of the *Amendments* on the financial statements of the Krka Group and will apply them when they come into force.

Amendments to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors: Definition of ‘material’

The *Amendments* are effective for annual periods beginning on or after 1 January 2020. Early adoption is permitted. The *Amendments* clarify the definition of material and how it should be applied. The new definition states that, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. In addition, the explanations accompanying the definition have been improved. The *Amendments* also ensure that the definition of material is consistent across all *IFRS* standards. The management has assessed the impact of the *Amendments* and believes they will have no significant impact on the consolidated financial statements of the Krka Group.

Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform

The *Amendments* are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Early adoption is permitted. In September 2019, the IASB issued amendments to *IFRS 9*, *IAS 39* and *IFRS 7* at the end of phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate. The *Amendments* deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in *IFRS 9 – Financial Instruments* and *IAS 39 – Financial Instruments: Recognition and Measurement*, which require forward-looking analysis. The *Amendments* provide temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. The *Amendments to IFRS 7 – Financial Instruments: Disclosures* address additional disclosures in terms of uncertainties arising from the interest rate benchmark reform. The management has assessed the impact of the *Amendments* and believes they will have no significant impact on the consolidated financial statements of the Krka Group.

Amendments to IAS 1 – Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current

The *Amendments* are effective for annual periods beginning on or after 1 January 2022. Early adoption is permitted. The *Amendments* aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The *Amendments* affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the *Amendments* clarify the classification requirements for debt which may be settled by an entity issuing own equity instruments. The *Amendments* have not been endorsed by the EU so far. The management has assessed the impact of the amendments on the financial statements of the Krka Group and will apply them when they come into force.

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 disclosed 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 an estimate of discounted future value of royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of other intangible assets is determined as the present value of assessed future cash flows expected to be derived from the use and potential sale of the assets.

Investments in equity securities

The fair value of financial assets at fair value through profit or loss and at fair value through OCI is determined by reference to their quoted closing bid price.

Trade and other receivables

Fair value of trade and other receivables is estimated at the present value of future cash flows discounted at the market rate of interest effective at the reporting date.

Financial liabilities

Fair value is determined based on the present value of future principal and interest payments discounted at the market rate of interest prevailing at the reporting date.

4. Segment reporting

The Krka Group reports in terms of certain geographical segments. Revenues generated by individual segments are presented in terms of customers' geographical location.

Segment reporting

€ thousand	European Union		South-Eastern Europe		Eastern Europe		Other		Eliminations		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Revenues from external customers	878,603	795,646	77,339	71,942	481,272	413,797	56,195	50,473	0	0	1,493,409	1,331,858
– Revenue from contracts with customers	875,646	792,489	77,339	71,801	481,170	412,955	55,935	49,945	0	0	1,490,090	1,327,190
– Other revenues	2,957	3,157	0	141	102	842	260	528	0	0	3,319	4,668
Sales between group companies	246,624	203,309	42,959	39,672	283,405	234,195	39	20	-573,027	-477,196	0	0
Other operating income	10,883	8,863	21	28	2,805	3,892	0	8	0	0	13,709	12,791
Operating costs	-742,963	-692,558	-54,562	-51,089	-396,251	-335,454	-39,147	-32,862	0	0	-1,232,923	-1,111,963
Operating expenses to Group companies	-397,439	-354,818	-48,942	-44,872	-536,229	-470,332	-5,616	-765	988,226	870,787	0	0
Operating profit	146,523	111,951	22,798	20,881	87,826	82,235	17,048	17,619	0	0	274,195	232,686
Interest income	861	201	1	1	387	263	5	5	0	0	1,254	470
Interest income from Group companies	490	267	0	0	4	1	0	0	-494	-268	0	0
Interest expense	-254	-51	-17	0	-200	-597	-8	0	0	0	-479	-648
Interest expense to Group companies	-320	-312	0	0	-67	-63	0	0	387	375	0	0
Net financial result	-2,445	-2,971	-192	-367	12,074	-27,079	736	304	0	0	10,173	-30,113
Income tax	-22,546	-13,013	-3,047	-2,159	-12,621	-11,959	-1,882	-1,434	0	0	-40,096	-28,565
Net profit	121,532	95,967	19,559	18,355	87,279	43,197	15,902	16,489	0	0	244,272	174,008
Investments	98,116	90,153	253	377	10,425	5,381	3,774	382	0	0	112,568	96,293
Depreciation of property, plant and equipment	70,740	73,170	1,929	2,223	27,834	27,187	915	693	0	0	101,418	103,273
Depreciation of the right-of-use assets	1,943	-	96	-	668	-	35	-	0	-	2,742	-
Amortisation of intangible assets	4,340	4,563	297	318	2,246	2,232	199	208	0	0	7,082	7,321
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Total assets	1,664,009	1,552,922	47,494	48,132	451,371	367,867	21,744	16,148	0	0	2,184,618	1,985,069
Goodwill	42,644	42,644	0	0	0	0	0	0	0	0	42,644	42,644
Trademark	36,659	37,530	0	0	0	0	0	0	0	0	36,659	37,530
Total liabilities	361,975	325,099	13,685	10,877	116,143	84,514	25,299	24,309	0	0	517,102	444,799

5. Revenue from contracts with customers

Breakdown of revenue from contracts with customers

€ thousand	2019	2018
Revenue from contracts with customers (products)	1,449,606	1,289,155
Revenue from contracts with customers (health resort and tourist services)	39,474	37,592
Revenue from contracts with customers (materials)	1,010	443
Total revenue from contracts with customers	1,490,090	1,327,190

Revenue from contracts with customers by region

€ thousand	2019	2018
Slovenia	52,901	51,280
South-East Europe	191,320	176,206
East Europe	481,155	412,945
Central Europe	339,574	318,259
West Europe	336,098	287,076
Overseas Markets	48,558	43,389
Total	1,449,606	1,289,155

Revenue from contracts with customers by product groups

€ thousand	2019	2018
Prescription pharmaceuticals	1,247,250	1,102,802
Non-prescription products	133,262	123,184
Animal health products	69,094	63,169
Total	1,449,606	1,289,155

Contract balances

Trade receivables are described in Note 18 and liabilities from contracts with customers are explained in Note 25. Contract assets are reported in the consolidated statement of financial position.

Rights of return assets and liabilities

The Krka Group recognised right of return liabilities in contracts that include the right of return on account of past use-by date, and accrued bonuses and volume discounts on products sold to other customers.

Performance obligations

The Krka Group is engaged in development, production, marketing and sale of human health products (prescription pharmaceuticals, non-prescription products), animal health products, and health-resort and tourist services. Revenue from contracts with customers is recognised when control of the goods and services is transferred to the customer at an amount that reflects the consideration to which the Krka Group expects to be entitled in exchange for those goods or services, while considering specific terms and conditions of an individual contract.

Transfers of risks and rewards depend on terms and conditions of an individual contract. Generally, a transfer occurs when the customer accepts the goods in accordance with INCOTERMS 2010 or when the relevant services are performed. Payment terms vary from region to region (distribution channels), while the normal credit term is 30 to 120 days.

At the year-end, the Krka Group incurred no costs on acquisition or fulfilment of contracts with customers.

6. Other operating income

€ thousand	2019	2018
Reversal of non-current provisions	1,183	2,180
Deferred revenue reversal	1,401	1,441
Gains on sale of property, plant and equipment and intangible assets	1,335	2,152
Other operating income	9,790	7,018
Total other operating income	13,709	12,791

Detailed information on non-current provisions reversal is included in Note 22.

7. Costs by nature

€ thousand	2019	2018
Cost of goods and materials	399,600	329,301
Cost of services	257,850	249,490
Employee benefits	428,248	379,151
Amortisation and depreciation	111,242	110,594
Inventory write-offs and allowances	27,894	28,016
Receivable impairments and write-offs (net)	-333	223
Formation of provisions for lawsuits	0	2,145
Other operating expenses	48,627	39,271
Total costs	1,273,128	1,138,191
Change in the value of inventories of products and work in progress	-40,205	-26,228
Total	1,232,923	1,111,963

8. Employee benefits

€ thousand	2019	2018
Gross wages and salaries and continued pay	331,108	295,977
Social security contributions	24,724	23,199
Pension insurance contributions	44,806	39,948
Payroll tax	970	1,050
Post-employment benefits and other non-current employee benefits	7,593	4,680
Other costs of labour	19,047	14,297
Total employee benefits	428,248	379,151

Post-employment benefits and other non-current employee benefits are explained in detail in Note 22. Other employee benefits include primarily the vacation bonus and commuting allowances.

9. Other operating expenses

€ thousand	2019	2018
Grants and assistance for humanitarian and other purposes	1,944	1,833
Environmental protection expenditures	4,451	3,891
Other taxes and levies	26,940	28,392
Loss on sale of property, plant and equipment and intangible assets	9,922	1,070
Other operating expenses	5,370	4,085
Total other operating expenses	48,627	39,271

Other taxes and levies included €23,338 thousand (2018: €24,292 thousand) of various taxes and levies paid on pharmaceuticals and fees paid for associates in individual foreign countries for pursuing promotional activities.

10. Financial income and expense

€ thousand	2019	2018
Net foreign exchange differences	23,353	0
Interest income	1,254	470
Derivatives income	0	5,339
– Realised revenue	0	3,255
– Fair value change	0	2,084
Income from dividends and other shares of the profit	358	17
Other financial income	22	109
Total financial income	24,987	5,935
Net foreign exchange differences	0	-30,758
Interest expense	-479	-648
– Interest paid	-93	–
– Interest expense on lease liabilities	-386	–
Derivatives expenses	-11,921	-2,737
– Incurred expenses	-7,540	-2,737
– Fair value change	-4,381	0
Other financial expenses	-2,414	-1,905
Total financial expenses	-14,814	-36,048
Net financial result	10,173	-30,113

11. Income tax

Adjustment to effective tax rate

€ thousand	2019	2018
Income tax	47,299	30,625
Deferred tax	-7,203	-2,060
Total income tax	40,096	28,565
Profit before tax	284,368	202,573
Income tax calculated at the rate of 19-percent (the same as in 2018)	54,030	38,489
Income tax from adjustment of expenses to tax deductible level	-2,720	-1,215
Income tax from non-deductible expenses	-789	4,300
Income tax from incentives	-19,208	-15,990
Income tax from adjustment of revenue decreasing tax base	-545	-300
Income tax from adjustment of revenue increasing the tax base	1,291	746
Effect of different tax rates	469	-81
Other	7,568	2,616
Total income tax	40,096	28,565
Effective tax rate	14.1%	14.1%

Major share of tax incentives represent investments in R&D and investment relief.

12. Property, plant and equipment

€ thousand	31 Dec 2019	31 Dec 2018
Land	39,796	39,996
Buildings	402,275	390,638
Equipment	361,743	352,931
Property, plant and equipment being acquired	43,113	52,359
Advances for property, plant and equipment	3,082	3,524
Right-of-use assets	12,839	-
Total property, plant and equipment	862,848	839,448

Krka's largest investment in 2019, in the amount of €20,477 thousand, referred to the construction of a multipurpose warehouse (2018: €9,455 thousand). Investments in additional packing facilities at the Notol 2 plant amounted to €18,001 thousand (2018: €5,706 thousand); €4,621 thousand was spent on the construction of offices in Ljubljana (2018: €5,639 thousand); €4,002 thousand was invested in a new granulation line at the OTO plant (2018: €281 thousand), and €2,579 thousand was spent on the construction of a warehouse at Krško (2018: €193 thousand). A total of €3,932 thousand was spent on various information technology and telecommunication projects (2018: €3,581 thousand).

Major investments in subsidiaries included investment in the Krka-Rus subsidiary in the Russian Federation amounting to €5,914 thousand (2018: €3,001 thousand). An additional €1,866 thousand was invested in the Terme Krka subsidiary (2018: €3,350 thousand); €641 thousand was invested in the Krka-Farma Zagreb subsidiary (2018: €1,767 thousand); €558 thousand was invested in the Krka - Polska subsidiary (this is a new project and thus no comparable data is available); and €472 thousand was invested in the TAD Pharma subsidiary (2018: €341 thousand).

On transition to the new standard *IFRS 16 – Leases* as at 1 January 2019, the Krka Group recognised the right-of-use assets. Refer to New standards and interpretations effective from 1 January 2019.

The majority of the right-of-use assets relates to the right-of-use buildings in the amount of €10,415 thousand.

Movement of property, plant and equipment (PP&E)

€ thousand	Land	Buildings	Equipment	PP&E being acquired	Advances for PP&E	Right-of-use assets	Total
Cost							
At 1 Jan 2018	38,863	808,436	1,091,994	36,650	4,532	-	1,980,475
Additions	0	0	0	90,562	-1,022	-	89,540
Capitalisation – transfer from PP&E under construction	1,294	16,318	56,456	-74,068	0	-	0
Disposals, deficit, surplus	-56	-607	-15,200	0	0	-	-15,863
Translation reserve	-105	-9,380	-8,557	-770	0	-	-18,812
Transfers, reclassification	0	-688	210	-15	14	-	-479
At 31 Dec 2018	39,996	814,079	1,124,903	52,359	3,524	-	2,034,861
At 1 Jan 2019	39,996	814,079	1,124,903	52,359	3,524	15,522	2,050,383
Additions	0	0	0	106,941	-494	0	106,447
Capitalisation – transfer from PP&E under construction	103	34,073	79,476	-113,652	0	0	0
Capitalisation - IFRS 16 - Leases	0	0	0	0	0	962	962
Disposals, impairment, deficit, surplus	-31	-59	-21,595	-3,503	0	-1,260	-26,448
Translation reserve	-272	3,921	8,801	968	64	317	13,799
Transfers, reclassification	0	-19	296	0	-12	0	265
At 31 Dec 2019	39,796	851,995	1,191,881	43,113	3,082	15,541	2,145,408
Accumulated depreciation							
At 1 Jan 2018	0	-398,754	-716,879	0	0	-	-1,115,633
Depreciation	0	-27,719	-75,554	0	0	-	-103,273
Disposals, deficit, surplus	0	115	15,149	0	0	-	15,264
Transfers, reclassification	0	555	-86	0	0	-	469
Translation reserve	0	2,362	5,398	0	0	-	7,760
At 31 Dec 2018	0	-423,441	-771,972	0	0	-	-1,195,413
At 1 Jan 2019	0	-423,441	-771,972	0	0	0	-1,195,413
Depreciation	0	-27,613	-73,805	0	0	-2,742	-104,160
Disposals, deficit, surplus	0	38	21,262	0	0	58	21,358
Transfers, reclassification	0	18	-269	0	0	0	-251
Translation reserve	0	1,278	-5,354	0	0	-18	-4,094
At 31 Dec 2019	0	-449,720	-830,138	0	0	-2,702	-1,282,560
Carrying amount							
At 1 Jan 2018	38,863	409,682	375,115	36,650	4,532	-	864,842
At 31 Dec 2018	39,996	390,638	352,931	52,359	3,524	-	839,448
At 1 Jan 2019	39,996	390,638	352,931	52,359	3,524	15,522	854,970
At 31 Dec 2019	39,796	402,275	361,743	43,113	3,082	12,839	862,848

No borrowing costs referred to the items of property, plant and equipment in 2019.

The carrying amount of the items of property, plant and equipment, which are temporarily not used, amounted to €1,933 thousand at 31 December 2019 (2018 year-end: €1,443 thousand).

Of total property, plant and equipment in use as at 31 December 2019, 31% was fully depreciated, the same as in 2018. The share of fully depreciated property, plant and equipment was calculated in consideration of their cost. Land was excluded from the calculation.

The movements and lease liabilities recognised in profit or loss are presented in Notes 28 and 31.

13. Intangible assets

€ thousand	31 Dec 2019	31 Dec 2018
Goodwill	42,644	42,644
Trademark	36,659	37,530
Concessions, trademarks and licences	25,683	26,345
Intangible assets being acquired	4,096	3,810
Total	109,082	110,329

Goodwill arose on the acquisition of subsidiaries TAD Pharma in Germany (€42,277 thousand) and Krka Pharma in Austria (€367 thousand) and the item of trademark relates to TAD Pharma.

Movement of intangible assets (IA)

€ thousand	Goodwill	Trademark	Concessions, trademarks and licences	IA being acquired	Total
Cost					
At 1 Jan 2018	42,644	42,403	120,790	3,541	209,378
Additions	0	0	0	6,980	6,980
Transfers from IA being acquired	0	226	6,470	-6,696	0
Disposals, deficit, surplus	0	0	-438	0	-438
Transfers, reclassification	0	0	21	-15	6
Translation reserve	0	0	-510	0	-510
At 31 Dec 2018	42,644	42,629	126,333	3,810	215,416
At 1 Jan 2019	42,644	42,629	126,333	3,810	215,416
Additions	0	0	0	6,121	6,121
Transfers from IA being acquired	0	0	5,792	-5,792	0
Disposals, deficit, surplus	0	0	-723	0	-723
Transfers, reclassification	0	0	-233	-45	-278
Translation reserve	0	0	471	2	473
At 31 Dec 2019	42,644	42,629	131,640	4,096	221,009
Accumulated amortisation					
At 1 Jan 2018	0	-4,240	-94,146	0	-98,386
Amortisation	0	-859	-6,462	0	-7,321
Disposals, deficit, surplus	0	0	223	0	223
Transfers, reclassification	0	0	-3	0	-3
Translation reserve	0	0	400	0	400
At 31 Dec 2018	0	-5,099	-99,988	0	-105,087
At 1 Jan 2019	0	-5,099	-99,988	0	-105,087
Amortisation	0	-871	-6,211	0	-7,082
Disposals, deficit, surplus	0	0	357	0	357
Transfers, reclassification	0	0	275	0	275
Translation reserve	0	0	-390	0	-390
At 31 Dec 2019	0	-5,970	-105,957	0	-111,927
Carrying amount					
At 1 Jan 2018	42,644	38,163	26,644	3,541	110,992
At 31 Dec 2018	42,644	37,530	26,345	3,810	110,329
At 1 Jan 2019	42,644	37,530	26,345	3,810	110,329
At 31 Dec 2019	42,644	36,659	25,683	4,096	109,082

Of total intangible assets in use as at 31 December 2019, 65% was fully amortised (64% as at 31 December 2018). The share of fully amortised intangible assets was 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 company Krka at the end of 2007. In addition, Krka made an impairment test of its capital investment in the subsidiary TAD Pharma.

The recoverable amount is the higher of an asset's or a cash-generating unit's fair value less costs to sell, or its value in use. The recoverable amount of goodwill that arose on the acquisition of the stake in TAD Pharma was determined based on its value in use using the cash flow projection method based on a five-year financial plans of the two cash generating units to which goodwill was allocated. Both, Krka and TAD Pharma were considered cash-generating units. A discount rate of 7.8% was applied in the projection for the TAD Pharma cash generating unit (8.7% in 2018) and 8.7% for Krka (8.4% in 2018). Cash flows over five (5) years were extrapolated using the

average annual growth of 2.0% for both cash generating units, the same as in 2018. Other significant assumptions used and set in the business strategy, included sales growth and profitability rates, as well as the planned launch of the new products on the German market.

In the opinion of the management, a reasonable change in the discount rate or growth rate would not result in goodwill impairment.

Considering the above assumptions, the total assessed value of Krka and TAD Pharma (taking into account the value of the trademark and goodwill) exceeds their carrying amount and therefore no goodwill impairment is required.

The controlling company found no indications of goodwill impairment. The carrying amount of goodwill of €42,277 thousand has not changed compared to the previous year. Krka also made an impairment test of the TAD Pharma trademark and found that the carrying amount of the trademark stood at €36,467 thousand as at 31 December 2019 (2018 year-end: €37,315 thousand).

14. Loans

€ thousand	31 Dec 2019	31 Dec 2018
Non-current loans	10,908	10,810
– Loans to others	10,908	10,810
Current loans	31,832	21,491
– Portion of non-current loans maturing next year	1,669	1,468
– Loans to others	30,163	20,023
Total loans	42,740	32,301

Non-current loans are mostly housing loans extended by the controlling company and some subsidiaries to their employees in accordance with the internal rules. Loans of the controlling company bear the annual interest rate that equals the contractually agreed rate set by the Minister of Finance in accordance with the Corporate Income Tax Act that defines the interest rate for related parties. The actual interest rate fluctuated between 0.396% and 0.702% in 2019 (2018: between 0.589% and 0.667%). The maximum repayment period is 15 years.

Current loans to others include bank deposits of total €29,998 thousand maturing in more than 90 days (2018: €20,000 thousand).

15. Investments

€ thousand	31 Dec 2019	31 Dec 2018
Non-current investments	9,681	9,389
– Financial assets at fair value through OCI (equity instruments)	9,681	9,389
Current investments including derivatives	2,174	4,720
– Financial assets at fair value through profit or loss	2,174	2,920
– Derivatives	0	1,800
Total investments	11,855	14,109

Financial assets at fair value through other comprehensive income (OCI) amounting to €850 thousand were investments in shares and interests in companies in Slovenia (2018 year-end: €773 thousand), and €8,831 thousand of investments in shares of companies located abroad (2018 year-end: €8,616 thousand).

Movement of financial assets at fair value through OCI

€ thousand	Financial assets at fair value through OCI
At 1 Jan 2018	8,815
Addition	6
Adjustment to market value	568
At 31 Dec 2018	9,389
At 1 Jan 2019	9,389
Adjustment to market value	292
At 31 Dec 2019	9,681

Adjustments of non-current investments (financial assets at fair value through OCI) to the market value or fair value were recognised in other comprehensive income in the amount of €292 thousand in 2019 (2018: €568 thousand).

16. Deferred tax assets and liabilities

€ thousand	Assets		Liabilities	
	2019	2018	2019	2018
Investments, property, plant and equipment and intangible assets	401	360	12,839	12,650
Financial assets at fair value through OCI (equity instruments)	1,727	1,727	1,291	1,236
Inventories	30,259	23,876	139	191
Receivables/liabilities	5,626	4,111	0	0
Dividends	95	0	0	0
Provisions for post-employment benefits and other non-current employee benefits	12,382	10,687	0	0
Transfer of tax loss	1,012	1,421	0	0
Total	51,502	42,182	14,269	14,077
Offsetting	-2,677	-1,806	-2,677	-1,806
Net	48,825	40,376	11,592	12,271

€ thousand	At 1 Jan 2018	Recognised in profit or loss	Translation reserve	Recognised in OCI	At 31 Dec 2018	Recognised in profit or loss	Translation reserve	Recognised in OCI	At 31 Dec 2019
Investments, property, plant and equipment and intangible assets	-12,152	-120	-18	0	-12,290	-128	-20	0	-12,438
Financial assets at fair value through OCI (equity instruments)	599	0	0	-108	491	0	0	-55	436
Inventories	21,295	2,410	-20	0	23,685	6,382	53	0	30,120
Receivables/liabilities	3,682	456	-27	0	4,111	1,268	247	0	5,626
Dividends	182	-182	0	0	0	95	0	0	95
Provisions for post-employment benefits and other non-current employee benefits	11,071	-281	-179	76	10,687	-6	2	1,699	12,382
Transfer of tax loss	1,644	-223	0	0	1,421	-409	0	0	1,012
Total	26,321	2,060	-244	-32	28,105	7,202	282	1,644	37,233

Unrecognised deferred tax on account of tax losses of subsidiaries amounted to €1,594 thousand at the end of 2019 (2018 year-end: €1,435 thousand).

17. Inventories

€ thousand	31 Dec 2019	31 Dec 2018
Material	188,018	152,087
Work in progress	97,371	94,964
Products	122,206	99,835
Merchandise	9,640	8,203
Advances for inventories	4,343	10,060
Total inventories	421,578	365,149

The write-down and write-off of inventories to net realisable value amounted to €27,894 thousand in 2019 (2018: €28,016 thousand).

18. Trade and other receivables

€ thousand	31 Dec 2019	31 Dec 2018
Current trade receivables	434,695	438,291
– Trade receivables	434,991	438,291
– Deferred revenue from contracts with customers	-296	0
Other current receivables	31,924	26,370
Total receivables	466,619	464,661

Allowances for and write-off of receivables recorded within operating expenses amounted to -€333 thousand in 2019 (2018: €223 thousand).

Current trade receivables

€ thousand	Gross value	Receivable allowances	Net value at 31 Dec 2019	Net value at 31 Dec 2018
Domestic customers	13,056	60	12,996	11,735
Foreign customers	447,442	25,447	421,995	426,556
Deferred revenue from contracts with foreign customers	-296	0	-296	0
Total current trade receivables	460,202	25,507	434,695	438,291

Of the total amount, 71% of trade receivables was insured with the Coface PKZ, d. d. insurance company (2018 year-end: 70%).

Other current receivables

Other current receivables referred mostly to receivables due by the State. Income tax credits amounted to €1,118 thousand in 2019 (2018: €1,835 thousand), while the remaining €25,635 thousand related to other receivables due by the State (2018: €19,162 thousand).

Advances for services reached €3,969 thousand (€3,828 thousand as at 31 December 2018).

19. Cash and cash equivalents

€ thousand	31 Dec 2019	31 Dec 2018
Cash in hand	56	75
Bank balances	218,611	117,726
Total cash and cash equivalents	218,667	117,801

The Krka Group concluded contracts with two banks on the authorised overdraft limit on bank accounts in the total amount of €5,451 thousand (in 2018, contracts worth in total €5,867 thousand were concluded with three banks). No negative balances were recorded on these bank accounts as at 31 December 2019 as no overdraft facilities were used.

Cash and cash equivalents included €8,426 thousand of bank deposits with maturity up to 90 days (2018: €9,739 thousand).

20. Equity

Share capital

Krka reduced its share capital by withdrawal 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 of 3 July 2014. After the withdrawal of treasury shares, the share capital of Krka in the amount of €54,732 thousand was represented by 32,793,448 ordinary no-par value shares. There is only one class of shares, and the first and only issue of shares was carried out in 1995. The share capital was fully paid in.

Treasury shares

At the 23rd Annual General Meeting on 6 July 2017, the Management Board was granted authorisation for the purchase of treasury shares. However, total amount of treasury shares should not exceed 10% of the Krka's share capital, i.e. 3,279,344 shares, whereby the total amount is inclusive of shares already held by the Krka as at the date.

Based on this authorisation, Krka is allowed to acquire treasury shares on the regulated market at respective market prices. Krka may acquire treasury shares also outside the regulated market. When purchasing treasury shares on the regulated 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 exceed 25-fold the earnings per share held by the majority stakeholders as stated in the last published audited financial statements of the Krka Group.

Treasury shares acquired on the basis of this authorisation may be disposed of in the following way:

- to be exchanged for equity-stakes in other companies, based on its M&A strategy;
- to be sold to a strategic partner.

On disposal of treasury shares, pre-emptive right of existing shareholders is eliminated in full.

Repurchase of treasury shares in 2019

	Number of shares	Weighted average share price (€)	Value of treasury shares (€ thousand)
At 31 Dec 2018	893,447		52,076
Repurchases in 2019	340,805	63.67	21,698
At 31 Dec 2019	1,234,252		73,774

The repurchases of treasury shares in 2019 referred to repurchases that were recorded in books of accounts in 2019. Subscription fee was included in the weighted average price of shares.

The 2019 repurchase of treasury shares in terms by days is illustrated within Enclosure 1 to the Financial Statements of the Krka Group and Krka, d. d., Novo mesto.

Reserves

The Krka Group 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 €73,774 thousand as at the reporting date and increased by €21,698 thousand based on their formation as a result of 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 2019 and consisted of the general equity revaluation adjustment of €90,659 thousand that was included in 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 reduction in the share capital due to the withdrawal of treasury shares. The amount may be used solely for the purpose of increasing share capital. In 2019, 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 2019 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 by the Krka Group up to the amount of €30,000 thousand. Statutory reserves can be used for loss coverage, formation of reserves for treasury shares, for decreasing share capital by share withdrawal, and for regulating the dividend policy.

The *fair value reserve* includes the cumulative change in the fair value of financial assets and post-employment benefits. Compared to the previous period, the fair value reserve decreased by €15,007 thousand and amounted to -€26,925 thousand as at 31 December 2019. The cumulative change is due to: a €292 thousand increase in the fair value of financial assets through OCI (equity instruments); a €16,293 thousand decrease due to the restatement of post-employment benefits; a €1,644 thousand increase of the impact of deferred taxes; and a €650 thousand decrease due to the reconciliation of the fair value reserve.

Compared to the previous period, *translation reserves* increased by €19,118 thousand and amounted to -€67,865 thousand as at 31 December 2019. 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 grew based on the majority shareholder's profit of €245,545 thousand. The decrease, on the other hand, is a result of allocation of accumulated profit to dividend payment (€101,659 thousand), in accordance with the resolution adopted by the 25th General Annual Meeting of 5 July 2019, and of an additional formation of €21,698 thousand of reserves for treasury shares on account of the repurchase of shares by the controlling company in 2019.

The amount of the dividend payout reported 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 dividend payout of €9 thousand paid in respect of prior periods (2018: €13 thousand).

Dividends per share

In 2019, the declared gross dividend per share was €3.20 (2018: €2.90).

Non-controlling interests

€ thousand	Non-controlling interests		Equity attributable to non-controlling interest		Net profit for the year attributable to the non-controlling interest	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Interest held by minority shareholders in Golf Grad Otočec	0.0%	28.9%	0	846	0	-35
Interest held by minority shareholders in Farma GRS, d. o. o. *	0.3%	0.3%	109	100	9	10
Interest held by minority shareholder in Ningbo Krka Menovo Pharmaceutical Ltd.**	40.0%	40.0%	3,089	1,789	-1,282	-552
Total			3,198	2,735	-1,273	-577

* Krka has a 99.7-percent holding in Farma GRS, d. o. o., while Metronik d. o. o., Iskra Pio d. o. o. and Gospodarska zbornica Dolenjske in Bele krajine each has a 0.1% holding.

** Krka has a 60-percent holding in Ningbo Krka Menovo Pharmaceutical Ltd., while Ningbo Menovo Pharmaceutical Co., Ltd has a 40-percent holding.

21. Earnings per share

Basic earnings per share amounted to €7.73 in 2019 and increased by 42% on the year before, when it stood at €5.46. The calculation of earnings per share took into account the profit for the period attributable to the controlling interests in the amount of €245,545 thousand (2018: €174,585 thousand). The weighted average number of shares was accounted for in the calculation for both years, i.e. 31,756,443 shares for 2019 and 32,002,066 shares for 2018. Treasury shares were eliminated from the calculation.

All shares issued by the controlling company are ordinary shares, hence the diluted earnings per share ratio equals the basic earnings per share.

22. Provisions

€ thousand	At 31 Dec 2018	Formation	Utilisation	Reversal	Translation reserve	At 31 Dec 2019
Provisions for lawsuits	4,217	0	-1,386	-717	0	2,114
Provisions for post-employment benefits and other non-current employee benefits	94,794	26,565	-5,477	-3	10	115,889
Other provisions	1,978	1,200	-315	-463	0	2,400
Total provisions	100,989	27,765	-7,178	-1,183	10	120,403

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 for defining 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 thirteen (13) lawsuits referring to intellectual property were filed against Krka and its subsidiaries, of which nine (9) were resolved in 2019, as well as thirty (30) lawsuits referring to other areas (labour legislation, civil lawsuits, administrative disputes, etc.). The amount of claims referring to intellectual property stands at €4,600 thousand, while claims of total €946 thousand refer to other areas. The Krka Group set aside €2,100 thousand of provisions for intellectual property disputes.

Provisions for obligations to employees arising from post-employment and other non-current benefits are based on actuarial calculation using the following assumptions:

- the discount rate depends on the average duration of a liability per company. The controlling company selected discounted interest rate of 1.34-percent annually, which equals the return on 15-year corporate bonds with high credit rating in the euro zone at the end of December 2019 (2018: 2.31-percent). Discount rates applied to subsidiaries ranged from 0.69-percent to 3.60-percent (2018: from 0.80-percent to 4.00-percent);
- currently applicable amounts of retirement benefits and anniversary bonuses as defined by internal rules;
- staff turnover depending in particular upon the employees' age;
- mortality rates calculated on the basis of last mortality tables available;
- increase in salaries by 2.00%, the same as in 2018.

Post-employment benefits

€ thousand	2019	2018
At 1 Jan	78,860	76,308
Employee benefit costs (CSC)	3,727	3,416
Interest expense (IC)	1,838	1,573
Post-employment benefits paid	-3,971	-2,957
Actuarial surplus/deficit, of that:	17,034	520
– change in financial assumptions	10,909	-2,347
– experience	6,125	2,867
At 31 Dec	97,488	78,860

Sensitivity analysis

	Discount rate		Salary increase	
Change in	Percentage point		Percentage point	
Change by	0.5	-0.5	0.5	-0.5
Impact on liabilities € thousand	-6,045	6,724	6,642	-6,035

23. Deferred revenue

€ thousand	At 31 Dec 2018	New deferred revenue received	Deferred revenue reversal	At 31 Dec 2019
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	1,850	0	-266	1,584
Grants received from the budget for the Dolenjske and Šmarješke Toplice health resorts and Golf Grad Otočec	3,645	0	-128	3,517
Grants from the European Regional Development Fund for development of new technologies (FBD project)	151	0	-94	57
Grants from the European Regional Development Fund for setting up information and technology solutions system GEN-I	6	0	-5	1
Grants from the European Regional Development Fund for the Slovene economy development centres	4,121	0	-589	3,532
Subsidy for acquisition of electric drive vehicles	6	0	-1	5
Property, plant and equipment received for free	18	8	-13	13
Emission coupons	1	19	-20	0
Other deferred revenue	0	285	-285	0
Total deferred revenue	9,798	312	-1,401	8,709

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 potentials 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 amounts of deferred revenue are decreased by the proportionate share of depreciation of assets to which the grants refer and by any other types of expenses incurred.

24. Trade payables

€ thousand	31 Dec 2019	31 Dec 2018
Non-current trade payables	10,000	0
Current trade payables	128,574	136,806
Payables to domestic suppliers	45,633	45,805
Payables to foreign suppliers	82,941	91,001
Total trade payables	138,574	136,806

In 2014, the Commission of the European Union ruled that Krka infringed the provision of Article 101 of the Treaty on the Functioning of the European Union, which resulted in a distortion of competition on the perindopril market of the European Union. Thus, it imposed on Krka a fine of €10,000 thousand. Krka paid the penalty imposed within the deadline set by the Commission and filed a lawsuit against the Commission's decision before the General Court of the European Union because it considered that its conduct did not violate the competition law rules. In December 2018, the Court ruled in favour of Krka.

The decision of the General Court is not final, as the Commission lodged an appeal against the decision of the General Court, which will be decided by the European Court of Justice. Although the Commission did indeed pay back a fine of €10,000 thousand in early 2019, based on the assessment of legal experts Krka deferred the revenue and recognised non-current trade liabilities in that same amount until the final decision of the Court is issued.

25. Current contract liabilities

€ thousand	31 Dec 2019	31 Dec 2018
Refund liabilities	117,456	106,166
– Bonuses and volume rebates	114,411	106,070
– Rights of return	3,045	96
Contract liabilities	5,856	4,059
– Contract liabilities – advances from other customers	5,856	4,059
Total current contract liabilities	123,312	110,225

Accrued bonuses and volume discounts 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 the sale.

26. Other current liabilities

€ thousand	31 Dec 2019	31 Dec 2018
Payables to employees – gross wages, other receipts and charges	59,150	47,725
Derivatives	2,582	0
Other	20,953	23,143
Total other current liabilities	82,685	70,868

The item 'Other' also includes current liabilities to the State on account of VAT payable in the amount of €3,143 thousand (2018: €5,661 thousand) and other current liabilities to the State of total €8,855 thousand (2018: €8,777 thousand).

27. Contingent liabilities and commitments

€ thousand	31 Dec 2019	31 Dec 2018
Guarantees issued	15,934	18,893
Other	620	620
Total contingent liabilities	16,554	19,513

Major items of guarantees issued include a contract bond of €6,000 thousand for supply of products by Krka Faramaceutici, which had been awarded tender sales in Italy, and a counter guarantee for due payment of potential liabilities from issued customs guarantee of €4,500 thousand in Belarus. The item 'Other' includes the affected property in Serbia in the amount of €620 thousand.

Based on the contracts that had been signed in connection with the on-going investments, at the end of 2019 the Krka Group accounted for €19,304 thousand of commitments for acquisition of property, plant and equipment (2018 year-end: €55,655 thousand).

28. Leases

The Krka Group has concluded lease agreements for various assets such as land, cars, parking spaces and offices, apartments, warehouses and equipment.

The Krka Group assesses the lease term according to the type of lease:

- offices, parking spaces and warehouses up to 10 year,;
- land 30 years;
- apartments maximum 3 years;
- cars maximum 5 years;
- equipment up to 10 years

The Krka Group does not sub-lease the leased assets.

The Krka Group has concluded lease contracts for various production and non-production equipment, temporary offices and parking spaces, with lease term of less than one year. In respect of those leases, the Krka Group applied a practical expedient provided by the standard.

The carrying amounts of lease liabilities included under interest-bearing loans and borrowings and the movements during the period

€ thousand	The carrying amounts of lease liabilities under interest-bearing loans and borrowings and movements during the period
At 1 Jan 2019	15,522
Additions/decrease	-142
Accretion of interest	386
Payments	-2,766
At 31 Dec 2019	13,000
Current	2,799
Non-current	10,201

The maturity analysis of lease liabilities is disclosed in Note 30 Financial instruments and financial risks.

Amounts recognised in profit or loss

€ thousand	Amounts recognised in profit or loss
Depreciation of right-of-use assets	2,742
Interest expenses on lease liabilities	386
Expense relating to short-term leases	1,686
Expenses relating to leases of low-value assets	14
Total amount recognised in profit or loss	4,829

29. Financial liabilities

Movement of financial liabilities in 2019

€ thousand	At 31 Dec 2018	Monetary changes	Non-monetary changes	At 31 Dec 2019
Dividends	1,353	-101,668	101,659	1,344
Treasury shares	0	-21,698	21,698	0
Total	1,353	-123,366	123,357	1,344

Movement of financial liabilities in 2018

€ thousand	At 31 Dec 2017	Monetary changes	Non-monetary changes	At 31 Dec 2018
Dividends	1,366	-92,811	92,798	1,353
Treasury shares	0	-11,488	11,488	0
Total	1,366	-104,299	104,286	1,353

30. Financial instruments and financial risks**Credit risk**

The key credit risk the Krka Group is exposed to derives from trade receivables. Credit risk is the risk that customers will fail to settle their obligations on maturity.

A centralised credit control process, which has been in use at the Krka Group level since 2004, includes the credit rating of customers, who on an annual basis purchase products from Krka worth more than €100,000. At the end of 2019, over 400 customers were included in the credit control, accounting for more than 90% of trade receivables due from Krka customers.

The credit risk management process is implemented in two stages. The first stage involves assessment of customers credit risk, determination of collateral instruments and granting of a credit limit. In addition to assessing credit rating of each new customer, these assessments are revised twice a year. A large number of different financial and non-financial indicators, which are divided into four (4) sets each with different attribute in the final assessment, are used to assess credit risk of each customer.

Considering the credit score and the expected dynamics of the dispatch of goods and payments, each individual customer is granted an individual credit limit.

The second stage involves regular and dynamic monitoring of individual customer's payment discipline. Control of the available limit and outstanding receivables, which is integrated in the information systems of all the Krka Group companies engaged in trade, is performed upon every dispatch of products to customers. Shipment is automatically stopped to customers who are late with payments or whose receivables, combined with a new dispatch exceed the approved credit limit, while the sales staff initiates receivable recovery process or secures relevant collateral.

The credit control procedure and the powers to assign credit limits to customers are defined in internal documents. The system of regular reporting on trade receivables and customers' payment discipline is an integral part of the credit control. The established reporting system allows for timely identification of high risk customers, while ensuring efficient credit risk management.

The credit control process is based on uniform rules applicable to all customers of the Krka Group, however, due to the specifics of individual sales markets, additional local controls have been introduced in individual subsidiaries. Credit control processes are regularly adjusted to the changes on sales markets.

In addition, credit control ensures continuous quality control of the trade receivable portfolio. As a result of the credit control, percentage of receivable write-off and impairments is relatively low considering the volume of the Krka Group sales.

Relatively low percentage of receivable write-off and impairment is also due to a wide dispersion of receivables among numerous customers and sales markets and to the fact that majority of receivables are due from loyal customers of Krka.

Despite 12-percent growth in sales, at the end of 2019, the total value of euro-denominated trade receivables decreased by 1% compared to the balance at the beginning of the year. In addition, the turnover of trade receivables improved further in 2019.

The credit risk management again proved to be efficient as net amount of the receivable write-off and impairment accounted for only 0.02% of the Krka Group annual sales. The amount of additional receivable allowances was below the receivable impairment reversal, and thus the impact of net impairments and write-off on the Krka Group final result in 2019 was positive.

Since 2009, the Krka Group has insured a portion of trade receivables with a credit insurer. This applies in particular to trade receivables from countries with perceived increased credit risk. To a lesser extent, the Krka Group also uses bank guarantees and letters of credit as means of trade receivable insurance.

Credit risk exposure

The carrying amount of financial assets represents the largest exposure to credit risk as illustrated below.

€ thousand	Notes	31 Dec 2019	31 Dec 2018
Loans	14	42,740	32,301
Investments	15	11,855	14,109
Trade receivables	18	434,695	438,291
Cash and cash equivalents	19	218,667	117,801
Total		707,957	602,502

As for the financial assets exposed to credit risk, the loans and trade receivables are presented separately.

Loans by region

€ thousand	31 Dec 2019	31 Dec 2018
Slovenia	42,243	31,808
South-East Europe	60	80
East Europe	160	98
Central Europe	261	257
West Europe	16	58
Overseas Markets	0	0
Total	42,740	32,301

Trade receivables by region

€ thousand	31 Dec 2019	31 Dec 2018
Slovenia	12,996	11,738
South-East Europe	71,725	74,015
East Europe	186,030	164,610
Central Europe	74,076	72,932
West Europe	86,365	111,259
Overseas Markets	3,503	3,737
Total	434,695	438,291

Of the total amount, 71% of trade receivables was insured with the Coface PKZ, d. d. insurance company (2018 year-end: 70%).

Maturity analysis of loans as at reporting date

€ thousand	Gross 2019	Allowance 2019	Gross 2018	Allowance 2018
Not-past due	42,735	0	32,296	0
Past due up to 20 days	0	0	0	0
Past due from 21 to 50 days	1	0	1	0
Past due from 51 to 180 days	1	0	2	0
Past due more than 180 days	14	11	13	11
Total	42,751	11	32,312	11

Maturity structure of trade receivables as at reporting date

€ thousand	Gross 2019	Allowance 2019	Gross 2018	Allowance 2018
Not-past due	420,532	888	422,073	947
Past due up to 20 days	11,504	96	13,703	159
Past due from 21 to 50 days	867	45	732	10
Past due from 51 to 180 days	1,377	162	3,456	244
Past due more than 180 days	25,921	24,315	23,765	24,078
Total	460,201	25,506	463,729	25,438

The Krka Group agrees extended terms with some customers. If the Krka Group did not extend payment terms to some of its customers, receivable maturity structure would be as follows at the reporting date: not past due €419,645 thousand (2018: €392,727 thousand); past due up to 20 days €11,408 thousand (2018: €30,215 thousand); past due between 21 and 50 days €822 thousand (2018: €8,527 thousand); past due between 51 and 180 days €1,214 thousand (2018: €6,661 thousand); and past due more than 180 days €1,606 thousand (2018: -€250 thousand).

Movement of allowances for loans

€ thousand	2019	2018
At 1 Jan	11	11
At 31 Dec	11	11

Movement of receivable allowances less receivables due by the State and advances

€ thousand	2019	2018
At 1 Jan	25,438	26,044
Formation of allowance	927	761
Write-off of receivables	-200	-141
Impairment reversal	-508	-600
Collected written-off receivables	-537	-216
Effect of exchange rate differences	386	-410
At 31 Dec	25,506	25,438

Liquidity risk

Stable performance with no major fluctuations or deviations, low indebtedness, and stable cash flows from operations continued to ensure the Krka Group's strong financial standing. In 2019, we did not raise any borrowings, but placed some of the surplus cash as deposits in banks. Furthermore, all the liabilities were settled regularly and within the agreed terms. In 2019, liquidity risk of the Krka Group was assessed as low.

Liquidity risk management of the Krka Group is centralised in the controlling company. Subsidiaries are funded internally by the controlling company and place any surplus cash with the controlling company.

In line with the announced Brexit, most of Krka accounts at the Citibank were transferred from London to Amsterdam (except for the USD and GBP accounts) at the beginning of the year. By the end of 2019, we transferred the cash pooling system in which nine of Krka subsidiaries are included onto a new account. The cash pooling system ensures optimised money management and provides an enhanced overview of the Krka Group liquidity, which results in greater security of money transactions.

Maturity of financial liabilities

Financial liabilities in terms of maturity are outlined in the tables below.

Maturity of financial liabilities as at 31 Dec 2019

€ 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	From 5 to 10 years
Financial liabilities							
Current borrowings from banks	3	3	3	0	0	0	0
Lease liabilities	13,000	13,000	1,437	1,362	2,303	5,369	2,529
Payables to suppliers excluding advances	128,560	128,560	128,560	0	0	0	0
Contract liabilities excluding advances	114,411	114,411	114,411	0	0	0	0
Other liabilities excluding amounts owed to the State, to employees, and advances	14,421	14,421	14,421	0	0	0	0
Total financial liabilities	270,395	270,395	258,832	1,362	2,303	5,369	2,529
Derivatives	2,582	2,582	2,582	0	0	0	0
Total derivative financial liabilities	2,582	2,582	2,582	0	0	0	0
Total	272,977	272,977	261,414	1,362	2,303	5,369	2,529

Maturity of financial liabilities as at 31 Dec 2018

€ 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
Financial liabilities						
Payables to suppliers excluding advances	136,551	136,551	136,551	0	0	0
Contract liabilities excluding advances	106,070	106,070	106,070	0	0	0
Other liabilities excluding amounts owed to the State, to employees, and advances	11,574	11,574	11,574	0	0	0
Total financial liabilities	254,195	254,195	254,195	0	0	0
Total	254,195	254,195	254,195	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 certain markets where it operates.

Currency risk is derived from the excess of assets over liabilities in foreign currency as reported in the statement of financial position of the Krka Group and from mismatch between operating revenue and expenses denominated in individual currencies.

The key accounting categories that affect long currency position include trade receivables and trade payables, as well as the controlling company's financing of subsidiaries.

The Russian rouble accounts for the major share (44%) in the currency position of the Krka Group. This is due to trade receivables on Krka's major market, and partly also due to the financing of the production capacities held by the controlling company in the Russian Federation.

The importance of the Russian retail market, the amount of currency exposure and the volatile Russian rouble are the reasons why we pay special attention to efficient management of the risk stemming from the Russian rouble.

Exposure to the US dollar accounts for 19% in the Krka Group's total currency position and derives mainly from the acquisition of products and production materials on Asian markets. The volume of purchases made in the US dollar is gradually increasing and for this reason we have actively managed the exposure since 2019 by means of derivatives. Unlike other currencies, Krka reports an excess of liabilities over assets denominated in the US dollar, i.e. a short currency position.

The Krka Group's exposure to Romanian leu accounts for 10% of the currency position, mostly on account of trade receivables due to prolonged payment terms that are typical for the Romanian market. Krka's exposure to the Polish zloty of total 10% of the currency position is again on account of trade receivables and the financing of the Krka Group's production capacities located in Poland. All other currencies, including the Croatian kuna, British pound, Swedish krona, Hungarian forint, Czech koruna, Ukrainian hryvnia, Serbian dinar, Macedonian denar and Kazakhstani tenge, account for 17% of the Krka Group currency position.

Foreign exchange rates fluctuation was rather intense in 2019.

The overall result of the fluctuation of the Russian rouble in 2019 was beneficial for Krka. In the first quarter, the Russian rouble gained in value, which completely neutralised the fall at the end of 2018. Over the course of the year, the Russian rouble was rather stable and maintained its trend of gradual strengthening. Thus, the Russian rouble gained 14% in value in 2019, and its average value was 2.2% above the one recorded in 2018.

The value of the Russian rouble in 2019 was affected mostly by a reduction in the risk of economic sanctions being imposed against Russian legal and natural persons, the expansionary monetary policy of the major global central banks and related favourable conditions in the global currency and capital markets, as well as the measures implemented by the Russian monetary authorities in combination with a rapid decline in the Russian inflation. The geopolitical risks associated with the changing price of oil on global markets continue to pose a risk to the Russian rouble in the future.

The value of the Polish zloty continued to fluctuate between 4.2 and 4.4 zloty per euro in 2019. The average value of the Polish zloty expressed in the euro was 0.8% lower in 2019 than in 2018. Relative stability of the Polish currency is due to good macroeconomic conditions in the country and harmonisation of the monetary policies of the Polish central bank with that of the ECB.

The Romanian leu was less stable due to macroeconomic inconsistencies and political instability in 2019 and its value expressed in the euro fell by 2.5% from the beginning to the end of the year.

The value of the Croatian kuna continued to remain stable in 2019. High volatility of the British pound continued into 2019, reflecting uncertainties associated with the Brexit. In the second half of the year, the British pound strengthened in value and became stable by the end of the year. Although the Krka Group reports long currency position in the Croatian kuna and the British pound, the volatility of these two currencies has no significant impact on the Krka Group net financial result.

The volatility of the US dollar was the result of a revised monetary policy of the US Central Bank, which in contrast to the expectations reduced the key interest rate three times over the course of 2019, as well as due to rather slow resolution of the trade conflict with China.

The value of the US dollar expressed in the euro increased by 1.9% from the beginning to the end of 2019, and its average value expressed in the euro was 5.5% higher than in 2018.

Improved political stability and favourable macroeconomic developments in the country resulted in the Ukrainian hryvnia increasing its value by 18% from the beginning to the end of 2019, and the average value of the Ukrainian hryvnia expressed in the euro was 11% higher than in 2018.

The Krka Group mitigates currency risks by basic risk mitigating methods, in particular by increasing the purchases (and thus liabilities) in those currencies in which the sales are invoiced. When this proves impossible, we apply derivatives as hedging instruments or leave the risks unhedged. The usual hedging instruments applied by the Group and Krka include futures.

In 2019, we continued to partly hedge the risk of the Russian rouble fluctuation. Less than 50% of the exposure in Russian roubles was hedged with futures. Due to strengthening of the Russian rouble and the cost of hedging, Krka recorded negative financial result from futures.

On the other hand, Krka recorded net exchange gains of €24,243 thousand from its long currency position in the Russian rouble.

Due to rising exposure in the US dollar, we hedged part of the exposure with futures.

The Krka Group generated net exchange rate losses from its exposure to other currencies amounting to just less than €1 million in total. No hedging instruments were used in respect of other currencies. The experience of several years of monitoring the exchange rate fluctuations and the hedging cost of the Romanian leu, Polish zloty, Czech krona, Hungarian forint and Croatian kuna shows that the total hedging of these currencies is ineffective, as exchange rate fluctuation of these currencies against the euro is predominately low.

No hedging instruments are available for Ukrainian hryvnia, Kazakhstani tenge, Serbian dinar and some other currencies, all of which are less significant in the currency exposure structure of the Krka Group.

In total, the result of foreign currency risk management in 2019 is positive amounting to €11,432 thousand. Compared to the financial year 2018, the net financial result of the Krka Group improved by €40,286 thousand to €10,173 thousand in 2019.

Exposure to the risk of foreign exchange rate fluctuations

	31 Dec 2019				
€ thousand	EUR*	PLN	HRK	RUB	RON
Loans	42,336	232	0	67	20
Trade receivables	129,763	55,180	13,287	142,299	44,815
Cash and cash equivalents	184,502	4,909	1,106	12,107	1,094
Trade payables	-97,563	-2,065	-457	-10,889	-370
Financial position exposure (net)	259,039	58,256	13,936	143,584	45,558

* EUR is the functional currency and does not represent exposure to foreign currency risk.

31 Dec 2018					
€ thousand	EUR*	PLN	HRK	RUB	RON
Loans	31,928	216	0	55	47
Trade receivables	139,356	56,810	13,365	133,857	49,145
Cash and cash equivalents	62,084	9,088	3,741	15,373	9,222
Trade payables	-109,265	-1,977	-625	-5,279	-693
Financial position exposure (net)	124,102	64,137	16,482	144,005	57,721

* EUR is the functional currency and does not represent exposure to foreign currency risk.

Significant foreign exchange rates

	Average exchange rate*		Final exchange rate*	
	2019	2018	2019	2018
PLN	4.30	4.26	4.26	4.30
HRK	7.42	7.42	7.44	7.41
RUB	72.46	74.04	69.96	79.72
RON	4.75	4.65	4.78	4.66

* Number of national currency units for one euro

The above-stated exchange rates were used for the calculation of items in the financial statements as at 31 December and equal the reference exchange rates of the ECB effective on 31 December.

Sensitivity analysis

A 1% percent increase/decrease of the euro exchange rate in respect of currencies stated as at 31 December 2019 or 31 December 2018 would increase or decrease the profit by the amounts stated below. The analysis, prepared in the same manner for both years, assumes that all other remaining variables, in particular interest rates, remain unchanged. The calculation of the above-stated exchange rate volatility impact took into account the balance of receivables, liabilities, loans and borrowings denominated in the national currencies.

€ thousand	Effect on profit or loss before tax			
	2019		2018	
Currency fluctuation	+1%	-1%	+1%	-1%
RUB	1,436	-1,436	1,440	-1,440
PLN	583	-583	641	-641
HRK	139	-139	165	-165
RON	456	-456	577	-577

Any additional 1% increase/decrease of the euro exchange rate in respect of currencies stated above, would increase or decrease the profit or loss before tax in the above-stated amounts.

Interest rate risk

The risk of changes in interest rates is the risk that the Krka Group would suffer an increase in financing costs on non-current financial resources or a decrease in income from non-current investments due to changed reference market interest rates.

The risk of fluctuating interest rates on current financial resources and current investments is managed in the context of liquidity risks.

In 2019, the Krka Group reported no non-current borrowings. As non-current investments are not linked to the reference market interest rates, the Krka Group was not exposed to the risk of changes in reference interest rates.

Exposure to interest rate risk

€ thousand	2019	2018
Financial instruments at fixed rate of interest	42,740	32,301
Financial assets	42,740	32,301
Financial liabilities	0	0
Financial instruments at variable rate of interest	0	0
Financial assets	0	0
Financial liabilities	0	0

Analysis of the cash flow's sensitivity by applying the variable interest rate

The Krka Group reported no financial assets or financial liabilities at variable interest rate at 31 December 2019, and thus the increase or decrease in variable interest rates would have no impact on its operating result.

Capital management

Krka reduced its share capital by withdrawal 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 of 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, and the first and only issue of shares was carried out in 1995. The share capital was fully paid in.

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 a maximum value for its shareholders.

The Krka Group follows the changes in the economic environment by managing and adjusting its equity structure. Dividends are paid out on an annual basis in line with the strategic policy of dividend increase. The Krka Group has no specific goals as regards the ownership share held by employees or share options plans.

There were no changes in Krka's approach to capital management in 2019 or 2018.

The Krka Group monitors capital using 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.

€ thousand	31 Dec 2019	31 Dec 2018
Borrowings	3	0
Trade payables and other current liabilities	344,571	317,899
Cash and cash equivalents	218,667	117,801
Net indebtedness	125,907	200,098
Equity	1,667,516	1,540,270
Equity and net indebtedness	1,793,423	1,740,368
Gearing (debt/equity) ratio	7.0%	11.5%

Fair value

€ thousand	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current loans	10,908	10,908	10,810	10,810
Financial assets at fair value through OCI (equity instruments)	9,681	9,681	9,389	9,389
Current loans	31,832	31,832	21,491	21,491
Current investments	2,174	2,174	4,720	4,720
– Financial assets at fair value through profit or loss	2,174	2,174	2,920	2,920
– Derivatives	0	0	1,800	1,800
Trade receivables	434,695	434,695	438,291	438,291
Cash and cash equivalents	218,667	218,667	117,801	117,801
Current borrowings	-3	-3	0	0
Non-current trade payables	-10,000	-10,000	0	0
Lease liabilities	-13,000	-13,000	0	0
Current supplier payables excluding advances	-128,560	-128,560	-136,551	-136,551
Current contract liabilities excluding advances	-114,411	-114,411	-106,070	-106,070
Other current liabilities excluding amounts owed to the State, to employees, and advances	-14,421	-14,421	-11,574	-11,574
Other current liabilities	-2,582	-2,582	0	0
– Derivatives	-2,582	-2,582	0	0
Total	424,980	424,980	348,307	348,307

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
- Level 3 – assets the value of which cannot be determined using observable market data.

Assets at fair value

€ thousand	31 Dec 2019				31 Dec 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at fair value								
Financial assets at fair value through OCI (equity instruments)	8,294	0	1,387	9,681	8,002	0	1,387	9,389
Financial assets at fair value through profit or loss	2,174	0	0	2,174	2,920	0	0	2,920
Derivatives	0	0	0	0	0	0	1,800	1,800
Total assets at fair value	10,468	0	1,387	11,855	10,922	0	3,187	14,109
Assets for which fair value is disclosed								
Non-current loans	0	0	10,908	10,908	0	0	10,810	10,810
Current loans	0	0	31,832	31,832	0	0	21,491	21,491
Trade receivables	0	0	434,695	434,695	0	0	438,291	438,291
Cash and cash equivalents	0	0	218,667	218,667	0	0	117,801	117,801
Total assets for which fair value is disclosed	0	0	696,102	696,102	0	0	588,393	588,393
Total	10,468	0	697,489	707,957	10,922	0	591,580	602,502

Liabilities at fair value

€ thousand	31 Dec 2019				31 Dec 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities at fair value								
Derivatives	0	0	2,582	2,582	0	0	0	0
Total liabilities at fair value	0	0	2,582	2,582	0	0	0	0
Liabilities for which fair value is disclosed				0				
Current borrowings	0	0	3	3	0	0	0	0
Non-current trade payables	0	0	10,000	10,000	0	0	0	0
Lease liabilities	0	0	13,000	13,000				0
Current supplier payables excluding advances	0	0	128,560	128,560	0	0	136,551	136,551
Current contract liabilities excluding advances	0	0	114,411	114,411	0	0	106,070	106,070
Other current liabilities excluding amounts owed to the State, to employees, and advances	0	0	14,421	14,421	0	0	11,574	11,574
Total liabilities for which fair value is disclosed	0	0	280,395	280,395	0	0	254,195	254,195
Total	0	0	282,977	282,977	0	0	254,195	254,195

The fair value of securities held for trading is computed on the basis of the stock exchange quotation of the respective securities as at reporting date, and it is not decreased by any costs that may arise upon the sale or purchase of securities.

31. 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 0.1174% of voting rights, whereas Members of the Supervisory Board of the controlling company held 2,747 shares i.e. 0.0084% of total equity or 0.0087% of voting rights, and the Managing Directors of subsidiaries held 3,198 shares, i.e. 0.0098% of the total equity or 0.0101% of voting rights.

Equity stakes held by members of the Management and the Supervisory Boards of the controlling company and their shares of voting rights

	31 Dec 2019			31 Dec 2018		
	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	0.0686	0.0713	22,500	0.0686	0.0705
Aleš Rotar	13,915	0.0424	0.0441	13,915	0.0424	0.0436
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	0.1174	37,040	0.1129	0.1161
Members of the Supervisory Board (shareholder representatives)						
Jože Mermal	0	0.0000	0.0000	0	0.0000	0.0000
Borut Jamnik	0	0.0000	0.0000	0	0.0000	0.0000
Julijana Kristl	230	0.0007	0.0007	230	0.0007	0.0007
Mojca Osolnik Videmšek	617	0.0019	0.0020	452	0.0014	0.0014
Andrej Slapar	0	0.0000	0.0000	0	0.0000	0.0000
Boris Žnidarič	0	0.0000	0.0000	0	0.0000	0.0000
Members of the Supervisory Board (employee representatives)		0.0000	0.0000			
Tomaž Sever	500	0.0015	0.0016	500	0.0015	0.0016
Franc Šašek	1,400	0.0043	0.0044	1,400	0.0043	0.0044
Mateja Vrečer	0	0.0000	0.0000	0	0.0000	0.0000
Total Members of the Supervisory Board	2,747	0.0084	0.0087	2,582	0.0079	0.0081
Total	39,787	0.1213	0.1261	39,622	0.1208	0.1242

Treasury shares were eliminated from the calculation of voting rights (1,234,252 treasury shares as at 31 December 2019 and 893,447 as at 31 December 2018).

Remuneration paid to groups of persons (gross)

€ thousand	2019	2018
Members of the Management Board in the controlling company	3,561	3,198
Managers of subsidiaries	2,507	2,613
Members of the Supervisory Board in the controlling company	202	209
Members of the Supervisory and Management Boards in subsidiaries	1	1
Total gross remuneration paid to groups of persons	6,271	6,021

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, include also solely earnings for exercising the function within the Supervisory and Management Boards.

Gross earnings paid to persons employed under individual employment contracts in 2019 amounted to €12,732 thousand (2018: €11,568 thousand).

Remuneration paid to Members of the Management Board in the controlling company in 2019

€ thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Net
Jože Colarič	424	173	8	718	280	1,142	461
Aleš Rotar	337	138	11	481	188	818	337
Vinko Zupančič	288	117	14	400	156	688	287
David Bratož	276	117	9	393	154	669	280
Milena Kastelic	166	77	5	78	31	244	113
Total Members of the Management Board	1,491	622	47	2,070	809	3,561	1,478

€ thousand	Net fringe benefits and other earnings						Total
	Executive health insurance	Supplementary pension insurance	Other benefits	Refund of work-related costs	Pay for annual leave		
Jože Colarič	0.83	2.82	2.92	0.06	1.17	7.80	
Aleš Rotar	0.00	2.82	5.57	0.95	1.19	10.53	
Vinko Zupančič	1.87	2.82	7.45	0.86	1.20	14.20	
David Bratož	0.00	2.82	4.45	0.96	1.20	9.43	
Milena Kastelic	0.00	2.82	0.12	1.05	1.25	5.24	
Total Members of the Management Board	2.70	14.10	20.51	3.88	6.01	47.20	

Remuneration paid to Members of the Management Board in the controlling company in 2018

€ thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Net
Jože Colarič	408	166	8	624	244	1,032	418
Aleš Rotar	321	133	8	411	161	732	302
Vinko Zupančič	268	114	8	342	134	610	256
David Bratož	266	111	11	336	131	602	253
Milena Kastelic	159	75	5	63	25	222	105
Total Members of the Management Board	1,422	599	40	1,776	695	3,198	1,334

€ thousand	Net fringe benefits and other earnings					Total
	Executive health insurance	Supplementary pension insurance	Other benefits	Refund of work-related costs	Pay for annual leave	
Jože Colarič	0.83	2.82	3.58	0.04	0.63	7.90
Aleš Rotar	0	2.82	3.70	0.98	0.64	8.14
Vinko Zupančič	1.87	2.82	1.63	0.82	0.65	7.79
David Bratož	0	2.82	6.13	0.94	0.65	10.54
Milena Kastelic	0	2.82	0.56	1.06	0.70	5.14
Total Members of the Management Board	2.70	14.10	15.60	3.84	3.27	39.51

The item 'Other benefits' includes the use of a company car for private purposes as well as any other similar bonuses. 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 in the Management and Supervisory Boards in subsidiaries.

Remuneration paid to Members of the Supervisory Board in the controlling company in 2019

€ 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 (shareholder representatives)								
Jože Mermal	23.25	16.91	1.10	0.80	0.00	0.00	24.35	17.71
Borut Jamnik	21.31	15.50	2.75	2.00	0.00	0.00	24.06	17.50
Julijana Kristl	19.38	14.09	2.53	1.84	0.37	0.27	22.28	16.20
Mojca Osolnik Videmšek*	9.21	6.70	1.27	0.92	0.09	0.07	10.57	7.69
Andrej Slapar	22.86	16.63	2.53	1.84	0.00	0.00	25.39	18.47
Boris Žnidarič	19.38	14.09	2.75	2.00	0.29	0.21	22.42	16.30
Hans-Helmut Fabry**	2.89	2.24	0.00	0.00	1.76	1.37	4.65	3.61
Members of the Supervisory Board (employee representatives)								
Franc Šašek	20.93	15.22	2.75	2.00	0.00	0.00	23.68	17.22
Tomaž Sever	19.38	14.09	2.53	1.84	0.36	0.26	22.27	16.19
Mateja Vrečer	19.38	14.09	2.53	1.84	0.00	0.00	21.91	15.93
Total remuneration paid to Members of the Supervisory Board	177.97	129.56	20.74	15.08	2.87	2.18	201.58	146.82

* Member of the Supervisory Board from 5 July 2019

** Member of the Supervisory Board until 13 March 2019

In accordance with a resolution adopted at the 16th Annual General Meeting of 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. Members of the Supervisory Board Commission receive an attendance fee for their participation in sessions, which for each individual Commission 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 the actual payouts on an annual level.

In addition to attendance fees, members of the Company's Supervisory Board receive on an annual basis also a basic pay for exercising the function in the amount of €15,500 gross each. The President of the Supervisory Board is further entitled to an extra fee in the amount of 50% of the basic pay for exercising the function of a Member of the Supervisory Board, whereas the Deputy President of the Supervisory Board is entitled to an extra 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 extra 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. President of the Commission is further entitled to a bonus corresponding to 50% of the extra fee for exercising the function of a member of the Supervisory Board Commission.

Members of the Krka Supervisory Board and members of the Supervisory Board Commission receive a basic pay and an extra fee for exercising the function, in 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 every financial year entitled – regardless of the above-mentioned 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 the actual payouts on an annual level.

Loans to groups of persons

€ thousand	Balance		Repayments	
	31 Dec 2019	31 Dec 2018	2019	2018
Members of the Management Board in the controlling company	0	0	0	0.45
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	0	0	0	0.45

Loans granted to staff employed under individual employment contracts stood at €177 thousand at 31 December 2019 (€147 thousand as at 31 December 2018). Repayments of loans by staff employed under individual employment contracts in 2019 reached €20 thousand (2018: €17 thousand).

31. Profile of the Group

Transactions between Group companies were implemented on the basis of sale and purchase contracts, whereby intercompany transactions were based on market prices of products and services.

	Ownership share	Share capital value at 31 Dec 2019	Currency	Headcount at 31 Dec 2019	Headcount at 31 Dec 2018
Controlling company					
Krka, d. d., Novo mesto, Slovenia	100%	54,732,265	EUR	5,907	5,496
Subsidiaries					
TERME KRKA, d. o. o., Novo mesto*, Slovenia	100%	14,753,239	EUR	578	580
Farma GRS, d. o. o., Novo mesto**, Slovenia	99.7%	1,003,000	EUR	33	36
KRKA-FARMA d. o. o., Zagreb, Croatia	100%	143,027,200	HRK	204	181
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	37,000	RON	158	185
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	64,648	RSD	78	78
KRKA-FARMA DOOEL, Skopje, Republic of North Macedonia	100%	49,020,600	MKD	40	41
KRKA Bulgaria EOOD, Sofia, Bulgaria	100%	19,550	BGN	78	67
KRKA FARMA, d.o.o., Sarajevo, Bosnia and Herzegovina	100%	20,000	BAM	1	1
KRKA-RUS LLC, Istra, Russian Federation	100%	5,361,374,765	RUB	505	447
KRKA FARMA LLC, Istra, Russian Federation	100%	753,874,800	RUB	1,719	1,860
KRKA UKRAINE LLC, Kiev, Ukraine	100%	100,000	UAH	383	380
LLC 'KRKA Kazakhstan', Almaty, Kazakhstan	100%	13,500	USD	108	112
KRKA - POLSKA Sp. z o.o., Warsaw, Poland	100%	17,490,000	PLN	754	778
KRKA ČR, s. r. o., Prague, Czech Republic	100%	100,000	CZK	192	206
KRKA Magyarország Kft., Budapest, Hungary	100%	44,880,000	HUF	190	187
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10,000	EUR	130	131
UAB KRKA Lietuva, Vilnius, Lithuania	100%	9,847	EUR	64	66
SIA KRKA Latvia, Riga, Latvia	100%	9,954	EUR	46	47
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650,000	EUR	239	235
KRKA Sverige AB, Stockholm, Sweden	100%	150,000	SEK	6	5
KRKA Pharma GmbH, Vienna, Austria	100%	36,500	EUR	22	24
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10,000	EUR	41	36
KRKA FARMACÉUTICA, S.L., Madrid, Spain	100%	10,000	EUR	54	51
KRKA Farmaceutici Milano, S.R.L., Milan, Italy	100%	10,000	EUR	73	71
KRKA France Eurl, Paris, France	100%	10,000	EUR	26	25
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1,000	EUR	9	8
KRKA Belgium, SA, Brussels, Belgium	95%	300,000	EUR	19	21
KRKA Finland Oy, Espoo, Finland	100%	2,500	EUR	15	15
KRKA UK Ltd, London, United Kingdom	100%	1,000	GBP	12	12
KRKA HELLAS SINGLE MEMBER LTD., Athens, Greece	100%	10,000	EUR	0	0
KRKA USA LLC, Wilmington, USA	100%	10,000	USD	0	0
Ningbo Krka Menovo Pharmaceutical Co. Ltd., Ningbo, China	60%	96,023,322	CNY	12	8
Total				11,696	11,390

The Terme Krka subsidiary held a 100-percent interest in Golf Grad Otočec, d. o. o. at 31 December 2019; Farma GRS held a 100-percent 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 Krka France Eurl subsidiary held a 100-percent interest in the HCS bvba subsidiary in Belgium and a 5-percent interest in the KRKA Belgium, SA subsidiary.

32. Educational structure of the Krka Group employees

	2019		2018	
	Average headcount	Share (%)	Average headcount	Share (%)
PhD	192	1.7	182	1.6
MSc	384	3.3	376	3.4
University education	5,523	48.1	5,517	49.6
Higher professional education	1,658	14.4	1,560	14.0
Vocational college education	284	2.5	275	2.5
Secondary school education	2,337	20.4	2,086	18.7
Skilled workers	893	7.8	892	8.0
Unskilled workers	213	1.8	241	2.2
Total (average for the period)	11,484	100.0	11,129	100.0

33. Transactions with audit firms

The annual fee for auditing of the Krka Group financial statements in 2019 amounted to €480 thousand (2018: €460 thousand). In addition, the auditing firms provided various consultation services to the Krka Group in 2019 charging a fee of €33 thousand (2018: 27 thousand).

34. Subsequent events

Below is presentation of events that have taken place since the end of 2019.

Between 14 and 24 January 2020, media were reporting the information on the Romanian web portal and in the Libertatea newspaper, claiming they had managed to obtain information on irregularities allegedly committed by the staff at the Krka's subsidiary Krka Romania S.R.L, Bucharest (hereinafter referred to as Krka Romania). We informed the public on 17 January 2020 that a special task group had been appointed who examined in detail the operations of Krka's subsidiary in relation to the aforementioned allegations. Internal investigation findings show that allegations of corruption in Romania alleging that Krka Romania has acted illegally and marketed medicines by bribing doctors (as allegedly instructed by the parent company), were unfounded. The investigation showed that the company in Romania holds relevant instructions issued by the parent company. However, it cannot be completely ruled out that in the past, an individual in the subsidiary could have violated Krka's internal instructions and contractual obligations under the employment relationship. In view of these findings, Krka is introducing measures that will further improve business transparency and business compliance in all areas. The Supervisory Board took note of the report of the Management Board and supports the measures taken in this regard.

COVID-19 is the infectious disease caused by the most recently discovered coronavirus, SARS-CoV-2. In March 2020, the WHO labelled COVID-19 a pandemic.

Krka has adopted measures to curb the spread of infection in order to protect the health of our employees and ensure business continuity. This is the primary goal of every pharmaceutical company and only way to ensure an unbroken supply chain and sufficient supply of medicines on global markets.

We immediately took steps to mitigate sanitary and health risks. These steps are guided by the experiences and measures adopted by our Chinese partners and Italian companies. We promptly set up a team of experts composed of healthcare providers and microbiologists to assist the Health and Safety at Work department at Krka. We adjusted our processes to guarantee social distancing and the availability of personal protective equipment. We eliminated any significant risk factors from the company's premises, limited access to common areas, closed elevators, adapted food catering arrangements, and on 25 February 2020 cancelled the first and later all following group visits, events, social gatherings, and training courses, and replaced them with e-events whenever possible. We set down and implemented disinfection procedures applicable to all employees, rooms, materials, vehicles, and workplaces. All employees entering the company's premises must have their body temperature taken at the entrances and, if necessary, also during shifts. Face masks are compulsory for all. Our relevant departments have issued a series of instructions and recommendations for performing work processes and responsible behaviour at work and home.

In order to further reduce risks, we ordered approximately 50% of our workforce in Slovenia to stay at home on standby for the period from 16 March 2020 to 14 April 2020, including parents of children up to 10 years of age and pregnant women. We obtained an opinion from occupational medicine professionals, on foot of which we asked our employees with chronic diseases belonging to the most vulnerable population group to be on standby at home. In the meantime, only employees directly involved in the production and supply of medicines and vital support processes reported for work at Krka's premises. Employees who were not at their usual workplaces at the company's premises were granted access to IT systems and services. Employees on standby were asked to work remotely from their homes, be on call as needed, and discharge their work duties insofar as possible. Our manufacturing plants abroad functioned normally and carried on marketing and sales activities in compliance with the measures applied in their respective countries.

There was no major impact on average daily production volume of finished products at the Krka Group. During the pandemic, raw and production material purchasing continued with minimal disruption. Quality assurance and quality management went uninterrupted.

The demand for our products increased on most markets. Due to social distancing, we had to change our product promotion approach and our departments adapted their workflow to the current situation and made greater use of e-technologies.

No insurmountable problems arose with logistics, but land transport shipping times have increased, containers have been in short supply for maritime transport, while air transport has been limited.

We have full control over our receivables and have tightened credit control due to the current situation. Krka Group liquidity is centralised, so Krka the controlling company settles all current and non-current financial liabilities as requested by the subsidiaries and absorbs their cash surpluses (i.e. the cash-pooling system).

The Management Board closely monitors the situation in countries where the Krka Group operates. Our business model of vertical integration encompasses development, quality control, a well-organised supply chain, the many production plants that we own, marketing-and-sales activities, and support and cover a wide array of processes and actions on the global level. There is no way to foresee the pace with which the disease will spread, how the situation will develop, what the aftermath will be, and what measures affected nations will take. In the first quarter of 2020 and until approval of the annual report, the Krka Group did not record any negative impact on the supply chain, with demand for our products increasing while maintaining continuity of supply.

The dividend policy and, in line with the AGM authorisation, the treasury share repurchase programme remain unchanged.

Krka acquired 64,220 treasury shares over the period from 1 January 2020 to 16 April 2020. Thus, at the end of the period, Krka held 1,298,472 treasury shares (3.960% 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., Novo mesto

Opinion

We have audited the consolidated financial statements of the company Krka, d. d., Novo mesto (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, 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 consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated 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) and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014 of the European Parliament and the Council"). 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 EUR 79.3 million as at 31 December 2019 and represent 3.6% of total consolidated assets. The management prepared 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 to its complexity, 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 of 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 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 Intangible assets of the consolidated financial statements and their compliance with International Financial Reporting Standards as adopted by the European Union.

Recoverability of receivables

Trade receivable balances are significant to the Group as they represent 19.9% of total consolidated assets as at 31 December 2019. The Group is exposed to credit and performance risk arising from the Group's global marketing operations. The process of collection of trade receivables is a key element of the Group'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 receivables. 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 sample of trade receivable confirmations to the customers. We assessed the management's estimates and assumptions used to calculate the trade receivables impairment amount, notably through analyses of ageing of receivables and review of sample of disputable trade receivables. We reviewed the extent to which receivables to third parties had been secured through insurance companies and 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 receivables and the related risks such as credit risk and the aging of trade receivables in Note 30 Financial instruments and financial risks – credit risk of the consolidated financial statements and their compliance with International Financial Reporting Standards as adopted by the European Union.



Revenue recognition - Rebates and discounts

Revenue is measured taking account of discounts, incentives and rebates earned by customers on the Group's sales. Due to the multitude and variety of contractual terms across the Group's markets, the estimation of discounts, incentives and rebates recognized based on sales made during the year, revenue recognition is considered to be complex. Revenue is recognised at the point in time when control of the asset is transferred to the customer.

We determined revenue recognition as a key audit matter, because revenue is one of the key performance indicators followed by the Group which could create an incentive for revenue to be recognised before the point in time when control of the asset is transferred to the customer.

Our audit procedures included considering the appropriateness of the Group's revenue recognition accounting policies including those relating to discounts and rebates and assessing compliance with the policies in terms of International Financial Reporting Standards as adopted by the European Union. We tested the effectiveness of the Group's controls over calculation of discounts and rebates and correct timing of revenue recognition. We tested a sample of sales transactions taking place at either side of the balance sheet date as well as credit notes issued after the balance sheet date to assess whether that revenue was recognised in the correct period and whether accruals for bonuses and discounts as at 31 December 2019 are fully recognized.

We also considered the adequacy of the Group's disclosures in Note 5 Revenue from contracts with customers in respect of revenue and Note 25 Current contract liabilities in respect of accrued bonuses and discounts and their compliance with International Financial Reporting Standards as adopted by the European Union.

Other information

Other information comprises the information included in the consolidated 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.



**Building a better
working world**

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. The supervisory board is responsible to approve the audited consolidated Annual Report.

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.

Report on other legal and regulatory requirements

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

Appointment and Approval of Auditor

We were appointed as auditors of the Group at the general meeting of shareholders on 4 July 2019, the president of the supervisory board has signed the audit agreement on 28 August 2019. The agreement was signed for the period of three years.

Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 8 years.

Janez Uranič and Mihael Rot are certified auditors, responsible for the audit in the name of Ernst & Young d.o.o..

Consistence with Additional Report to Audit Committee

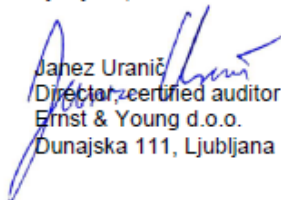
Our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the audit committee of the Company, which we issued on 18 March 2020.

Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Group and we remain independent from the Group in conducting the audit.

In addition to statutory audit services and services disclosed in the consolidated Annual Report and in the consolidated financial statements, no other services which were provided by us to the Company and its controlled undertakings.

Ljubljana, 25 March 2020


Janez Uranič
Director, certified auditor
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1


Mihael Rot
Certified auditor

FINANCIAL STATEMENTS OF KRKA, D. D., NOVO MESTO

Statement of Financial Position

€ thousand	Notes	31 Dec 2019	31 Dec 2018
Assets			
Property, plant and equipment	12	613,210	604,923
Intangible assets	13	28,410	28,842
Investments in subsidiaries	14	329,335	325,502
Trade receivables from subsidiaries	15	39,491	38,885
Loans	16	36,223	19,238
Investments	17	9,680	9,388
Deferred tax assets	18	13,187	11,780
Other non-current assets		80	58
Total non-current assets		1,069,616	1,038,616
Assets held for sale		41	41
Inventories	19	367,007	317,499
Contract assets		565	1,464
Trade receivables	20	443,840	390,948
Other receivables	20	18,011	15,404
Loans	16	35,644	51,819
Investments	17	0	1,800
Cash and cash equivalents	21	195,236	98,474
Total current assets		1,060,344	877,449
Total assets		2,129,960	1,916,065
Equity			
Share capital	22	54,732	54,732
Treasury shares	22	-73,774	-52,076
Reserves	22	201,057	192,788
Retained earnings	22	1,482,163	1,356,856
Total equity		1,664,178	1,552,300
Liabilities			
Provisions	25	105,677	87,882
Deferred revenue	26	1,659	2,030
Trade payables	27	10,000	0
Lease liabilities		2,453	0
Total non-current liabilities		119,789	89,912
Trade payables	27	182,423	170,354
Borrowings	24	73,033	40,435
Lease liabilities		640	–
Income tax payable		16,668	1,570
Contract liabilities	28	14,609	17,340
Other current liabilities	29	58,620	44,154
Total current liabilities		345,993	273,853
Total liabilities		465,782	363,765
Total equity and liabilities		2,129,960	1,916,065

The accounting policies and notes are an integral part of the financial statements and should be read in conjunction with them.

Income Statement

€ thousand	Notes	2019	2018
Revenue		1,390,248	1,231,784
– Revenue from contracts with customers	5	1,383,855	1,223,763
– Other revenue		6,393	8,021
Cost of goods sold		-597,369	-532,668
Gross profit		792,879	699,116
Other operating income	6	3,780	3,765
Selling and distribution expenses		-308,050	-305,066
– Of that net impairment and write-down of receivables		300	-311
R&D expenses		-155,495	-135,145
General and administrative expenses		-69,262	-63,365
Operating profit		263,852	199,305
Financial income	10	34,410	17,382
Financial expenses	10	-14,751	-33,891
Net financial result		19,659	-16,509
Profit before tax		283,511	182,796
Income tax	11	-34,100	-19,467
Net profit		249,411	163,329
Basic earnings per share (€)	23	7.85	5.10
Diluted earnings per share (€)	23	7.85	5.10

The accounting policies and notes are an integral part of the financial statements and should be read in conjunction with them.

Statement of Other Comprehensive Income

€ thousand	Notes	2019	2018
Net profit		249,411	163,329
Other comprehensive income for the year			
Other comprehensive income that will not be reclassified to profit or loss at a future date			
Change in fair value of financial assets		292	568
Restatement of post-employment benefits	25	-15,926	-583
Deferred tax effect		1,458	-53
Net other comprehensive income that will not be reclassified to profit or loss at a future date		-14,176	-68
Total other comprehensive income (net of tax)		-14,176	-68
Total comprehensive income (net of tax)		235,235	163,261

The accounting policies and notes are an integral part of the financial statements and should be read in conjunction with them.

Statement of Changes in Equity

€ 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	Net profit	
At 1 Jan 2019	54,732	-52,076	52,076	105,897	14,990	30,000	-10,175	1,167,388	37,627	151,841	1,552,300
Net profit	0	0	0	0	0	0	0	0	0	249,411	249,411
Total other comprehensive income (net of tax)	0	0	0	0	0	0	-13,429	0	-747	0	-14,176
Total comprehensive income (net of tax)	0	0	0	0	0	0	-13,429	0	-747	249,411	235,235
Transactions with owners, recognised in equity											
Formation of other profit reserves under the resolution of the Annual General Meeting	0	0	0	0	0	0	0	43,904	-43,904	0	0
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0	0	0	151,841	-151,841	0
Repurchase of treasury shares	0	-21,698	0	0	0	0	0	0	0	0	-21,698
Formation of reserves for treasury shares	0	0	21,698	0	0	0	0	0	0	-21,698	0
Dividends paid	0	0	0	0	0	0	0	0	-101,659	0	-101,659
Total transactions with owners, recognised in equity	0	-21,698	21,698	0	0	0	0	43,904	6,278	-173,539	-123,357
At 31 Dec 2019	54,732	-73,774	73,774	105,897	14,990	30,000	-23,604	1,211,292	43,158	227,713	1,664,178

The accounting policies and notes are an integral part of the financial statements and should be read in conjunction with them.

€ 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	Net profit	
At 1 Jan 2018	54,732	-40,588	40,588	105,897	14,990	30,000	-10,696	1,129,172	26,398	142,832	1,493,325
Net profit	0	0		0	0	0	0	0	0	163,329	163,329
Total other comprehensive income (net of tax)	0	0	0	0	0	0	521	0	-589	0	-68
Total comprehensive income (net of tax)	0	0	0	0	0	0	521	0	-589	163,329	163,261
Transactions with owners, recognised in equity											
Formation of other profit reserves under the resolution of the Annual General Meeting	0	0	0	0	0	0	0	38,216	-38,216	0	0
Transfer of previous period's profits to retained earnings	0	0	0	0	0	0	0	0	142,832	-142,832	0
Repurchase of treasury shares	0	-11,488	0	0	0	0	0	0	0	0	-11,488
Formation of reserves for treasury shares	0	0	11,488	0	0	0	0	0	0	-11,488	0
Dividends paid	0	0	0	0	0	0	0	0	-92,798	0	-92,798
Total transactions with owners, recognised in equity	0	-11,488	11,488	0	0	0	0	38,216	11,818	-154,320	-104,286
At 31 Dec 2018	54,732	-52,076	52,076	105,897	14,990	30,000	-10,175	1,167,388	37,627	151,841	1,552,300

The accounting policies and notes are an integral part of the financial statements and should be read in conjunction with them.

Statement of Cash Flows

€ thousand	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		249,411	163,329
Adjustments for:		122,935	91,193
– Amortisation/depreciation	12, 13	82,077	83,188
– Foreign exchange differences		-758	1,172
– Investment income		-11,359	-17,769
– Investment expenses		16,047	3,178
– Interest expense and other financial expenses		2,828	1,957
– Income tax	11	34,100	19,467
Operating profit before changes in net current assets		372,346	254,522
Change in trade receivables		-54,708	62,626
Change in inventories		-49,508	-53,325
Change in trade payables		31,353	9,242
Change in provisions		-135	254
Change in deferred revenue		-371	-378
Change in other current liabilities		-3,029	4,899
Income tax paid		-18,952	-32,514
Net cash from operating activities		276,996	245,326
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,215	566
Dividends received		358	975
Proportionate profit of subsidiaries		8,692	11,427
Proceeds from sale of property, plant and equipment		733	658
Purchase of property, plant and equipment	12	-82,141	-67,242
Purchase of intangible assets	13	-5,435	-6,331
Acquisition of subsidiaries and a share of minority interests net of financial assets acquired		-3,834	-3,603
Non-current loans		-4,177	-8,600
Proceeds from repayment of non-current loans		10,182	1,351
Acquisition of non-current investments		-43	-24
Proceeds from sale of non-current investments		21	26
Payments for/Proceeds from current investments and loans		-6,571	-17,958
Payments for derivative financial instruments		-7,540	-2,737
Proceeds from derivative financial instruments		0	3,255
Net cash from investing activities		-88,540	-88,237
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		-742	-433
Proceeds from current borrowings		32,564	12,931
Lease liabilities paid		-718	0
Dividends and other profit shares paid	22	-101,668	-92,811
Repurchase of treasury shares	22	-21,698	-11,488
Net cash from financing activities		-92,262	-91,801
Net increase in cash and cash equivalents		96,194	65,288
Cash and cash equivalents at beginning of year		98,474	34,117
Effect of foreign exchange rate fluctuations on cash held		568	-931
Closing balance of cash and cash equivalents		195,236	98,474

The accounting policies and notes are an integral part of the financial statements and should be read in conjunction with them.

Notes to the financial statements

Krka, d. d., Novo mesto is the controlling company in the Krka Group with its registered office at Šmarješka cesta 6, 8501 Novo mesto, Slovenia. The financial statements of Krka relate to the year ended 31 December 2019.

Krka is engaged in development, production, marketing and sales 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), 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 the Krka's Management Board on 24 March 2020.

Basis of measurement

The financial statements have been prepared on the historical cost basis, with the exception of derivative financial instruments, financial instruments at fair value through profit or loss and financial instruments at fair value through OCI for which fair value was used. Methods applied in the measurement of fair value are presented in Note 3.

Functional and reporting currency

The financial statements are presented in the euro, which is the functional currency of Krka. All financial information presented in the euro has been rounded to the nearest thousand.

The use of estimates and judgements

The preparation of financial statements requires the management board of the controlling company to make judgements, estimates and assumptions that affect the carrying amounts of assets and liabilities of Krka as well as the reported income and expenses for the period.

These include, among other: determination of the useful life and residual value of property, plant and equipment, as well as intangible assets; allowances for inventories and receivables; investment impairment; financial instruments; assumptions material to the actuarial calculation of defined employee benefits; and assumptions used in the calculation of potential provisions for disputes. Regardless of the fact that the management board duly considers all factors that may impact the preparation of these assumptions, the actual consequences of business events may differ from those estimates. In the process of making accounting estimates, the 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 that are 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 5 Revenue from contracts with customers*

Revenue from contracts with customers is recognised when control of the goods and services is transferred to the customer at an amount that reflects the consideration to which Krka expects to be entitled in exchange for those goods or services, while considering specific terms and conditions of an individual contract. In assessing the amount of variable consideration, Krka specifically addresses returns, while considering specific terms and conditions of an individual contracts for the sales of products and services to customers, statutory provisions and business practices in a given environment. When assessing the variable consideration, Krka must use either the expected value method or the most likely amount method, whichever better predicts the amount of the consideration to which it will be entitled.

Given the large number of contracts with customers, Krka determined the expected value method as the most appropriate for estimating the variable consideration for the sales of products with a right to return. To estimate the variable consideration for expected future volume rebates on the quantity of products purchased, Krka identified combination of the most likely amount method and the expected value method as the most appropriate. The method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract, legal provisions, and business practices in various environments. The most likely amount method is best suited for contracts with a single-volume threshold, and the expected value method for contracts with more than one volume threshold.

Prior to including any variable consideration in the transaction price, Krka assesses whether there is a constraint on the variable consideration. Based on past experience, business forecasts and current economic conditions, Krka has determined that there are no constraints on the variable consideration.

Krka sells products that are subject to payment terms in excess one year in some markets. Krka recognises financial income and expenses on these sales using the appropriate discount rate.

- *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 is determined as the present value of future cash flows based on an estimate of expected cash flows from the cash-generating unit and on determination of the appropriate discount rate. Krka has found no need for impairment of investments in subsidiaries as at 31 December 2019.

- *Note 20 Impairment testing of receivables*

On the financial statement preparation (quarterly and annually), Krka recognises allowances (impairment) of those receivables for which it is assumed that will not be settled in full or not at all. Allowances are recognised using uniform methodology applicable to the Krka Group and in consideration of the probability or assessed probability of receivable settlement by the debtors. The methodology includes quantitative and qualitative criteria, grouped into the following four sets: an analysis of the existing business dealings with the customer, an analysis of the customer's financial statements, a qualitative assessment of the customer by the sales staff, and assessment of the customer's country risk. Thus, allowances of receivables due from individual customer are calculated by means of an algorithm that includes all the above criteria.

- *Note 25 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 using assumptions and estimates

effective at the time of the calculation, and which may, as a result of future changes, differ from actual assumptions applicable at that future time. This applies primarily to determination of a discount rate, assessment of employee turnover, mortality assumption, as well as assessment of an 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 25 Provisions for lawsuits and contingent liabilities*

Several lawsuits and claims have been brought against Krka for alleged breaches of intellectual property (patent rights or competition law) and those referring to other areas. A provision is recognised when Krka 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 Krka. The management board continually assesses 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 28 Other current liabilities*

Krka accrues contractually agreed discounts in its financial statements when, based on the annual sales, individual customers gain 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 at the time of the financial statement preparation, past experience in trading with individual customers, and other relevant facts.

- *Notes 31 Leases*

Krka recognises leases based on measurement of lease liabilities and thus its determination of the lease term, its incremental borrowing rate if the implicit interest rate is not readily determinable, and its assessment at contract inception whether a contract is, or contains, a lease.

At contract inception, Krka assesses whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee, Krka determines the lease term as the period during which the lease cannot be terminated, inclusive of:

- a) the period for which the option to extend the lease applies, if it is reasonably certain that the lessee will exercise that option; and
- b) the period for which the option to terminate the lease applies, if it is reasonably certain that the lessee will not exercise that option.

Krka considers all relevant facts, circumstances and past practices that provide an economic incentive for Krka not to exercise the option of contract extension or termination.

Krka reassesses the lease term upon occurrence of any significant event or a material change in the circumstances it controls that affect its decision to exercise the option of contract extension or termination.

Krka uses its incremental borrowing rate when the implicit interest rate in the lease cannot be determined. The assessed borrowing rate is based on the average bond yield of issuers in the relevant region and the contract maturity.

2. Significant accounting policies

Krka 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, except for application of newly adopted standards and interpretations as noted below and which have been applied if relevant events occurred in Krka in the reporting period.

New standards and interpretations effective from 1 January 2019

IFRS 16 – Leases

The final version of *IFRS 16 standard – Leases* replaces *IAS 17 – Leases*, *IFRIC 4 – Determining Whether an Arrangement Contains a Lease*, *SIC 15 – Operating Leases – Incentives*, *SIC 27 – Evaluating the Substance of Transactions in the Legal form of a Lease*. *IFRS 16* sets out new requirements for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single lessee accounting model as at the reporting date.

Krka applied the *IFRS 16* on the date the standard came into effect, i.e. 1 January 2019. The transition was based on a simplified method. Upon transition, it recognised a cumulative effect of transition to the new standard with no retrospective restatement of the comparable data. Recognition of lease liabilities and equal amount of the right-of-use assets had no impact on the opening balance of retained earnings.

Upon the transition, Krka did not reassess whether the contract contains a lease component, but instead applied a practical expedient and applied the standard to contracts previously classified as leases based on *IAS 17 – Leases* and *IFRIC 4 – Determining Whether an Arrangement Contains a Lease*.

The effect of adopting *IFRS 16* as at 1 January 2019 is presented in the following table:

€ thousand	Impact on the statement of financial position as at 1 January 2019
Right-of-use assets	3,953
Current liabilities	654
Non-current liabilities	3,299
Impact on equity	0

Krka has concluded lease agreements for various assets such as parking spaces and offices, apartments, warehouses, equipment and the building right. Before the adoption of *IFRS 16*, Krka classified its leases as operating leases and did not report any financial leases. Krka recognised the right-of-use assets and lease liabilities for leases previously classified as operating leases.

The right-of-use assets are recognised based on the carrying amount of lease payments as if the standard had always been applied, discounted using the incremental borrowing rate at the date of initial application. The lease liabilities are measured and recognised based on the carrying amount of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

On first application of *IFRS 16*, Krka applied a single measurement and recognition approach for all leases, except for short-term leases and leases and leases of low-value assets (refer to Accounting policies – Leases). Krka elected to use the transition practical expedient available by the *IFRS 16* and applied:

- a single discount rate to its rental portfolio with reasonably similar characteristics;
- accounted for leases with lease term of less than 12 months from the initial adoption date as short-term leases;
- excluded the initial direct costs from the measurement of the right-of-use assets at the date of initial application; and

- used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

Reconciliation of lease liabilities as at 1 January 2019 to the operating lease commitments in accordance with IAS 17 at 31 December 2018:

€ thousand	Reconciliation of liabilities at 1 January 2019
Operating lease commitments at 31 December 2018	3,218
– Decrease in short-term lease commitments	-184
– Decrease in lease commitments not recognised under <i>IFRS 16</i>	-241
Operating lease commitments under <i>IFRS 16</i> as at 31 December 2018	2,793
Weighted average borrowing rate as at 1 January 2019	1.67%
Discounted operating lease commitments as at 1 January 2019	2,570
– Increase in lease liabilities not included in operating lease commitments as at 31 December 2018	319
– Increase in lease payments on account of lease extensions not included in operating lease commitments as at 31 December 2018	1,064
Lease liabilities as at 31 January 2019	3,953

Amendments to IFRS 9 – Prepayment Features with Negative Consideration

The *Amendments* allow financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be a 'negative compensation'), to be measured at amortised cost or at fair value through OCI. These *Amendments* have no impact on the financial statements of Krka.

Amendments to IAS 28 – Investments in Associates and Joint Ventures

The *Amendments* address the issue of whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The *Amendments* clarify that an entity applies *IFRS 9 – Financial Instruments*, before it applies *IAS 28*, to such long-term interests for which the equity method is not applied. In applying *IFRS 9*, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying *IAS 28*. The management has assessed the impact of the *Amendments* and believes they had no impact on the financial statements of Krka.

IFRIC Interpretation 23 – Uncertainty over Income Tax Treatments

The *Interpretation* addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of *IAS 12*. The *Interpretation* provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The management has assessed the impact of the *Interpretations* and believes they have no significant impact on the financial statements of Krka.

Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement

The *Amendments* require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The *Amendments* also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. The management has assessed the impact of the *Amendments* and believes they had no impact on the financial statements of Krka.

Annual improvements to standards and interpretations - 2015–2017 cycle

The IASB has issued the *Annual Improvements to IFRSs 2015–2017 Cycle*, which is a collection of amendments to IFRSs. The management has assessed the impact of the *Amendments* and believes they had no impact on the financial statements of Krka.

Amendments to IFRS 3 – Business Combinations and IFRS 11 – Joint Arrangements

The *Amendments* to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The *Amendments* to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

Amendments to IAS 12 – Income Tax

The *Amendments* clarify that the income tax consequences of payments on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits have been recognised.

Amendments to IAS 23 – Borrowing Costs

The *Amendments* clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

Foreign currencies

Foreign currency transactions

Transactions and balances in foreign currencies are translated to the euro (the functional currency of Krka) 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 are translated to the euro at the exchange rate applicable on the reporting date. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are retranslated to the euro at the exchange rate at the date that the fair value was determined. Foreign exchange differences are recognised in profit or loss, except for differences arising on the translation of equity instruments, which are recognised directly in other comprehensive income. Non-cash items measured at historical cost in foreign currency are translated to the functional currency by applying the exchange rate valid at the date of the transaction.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial assets' contractual cash flow characteristics and the Krka's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which Krka has applied the practical expedient, Krka initially measures a financial asset at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which Krka has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section "Revenue from contracts with customers."

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Krka's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that Krka commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); and
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

According to the SSPI test, loans issued by Krka are classified as financial assets at amortised cost, since the cash flows derived from these assets are solely payments of principal and interest on the principal amount outstanding.

Krka's financial assets at amortised cost also include trade receivables.

After initial recognition, these investments are measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through OCI (debt instruments)

Krka classifies its investments in debt securities as financial assets at fair value through OCI.

Subsequent to initial recognition, they are measured at fair value. Interest income, foreign exchange differences and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Financial assets at fair value through OCI (equity instruments)

Krka classifies its investments in equity securities as financial assets at fair value through OCI. Krka elected to classify irrevocably its listed and non-listed investments in this category.

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 not transferred to profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Investments in subsidiaries

Non-current investments made in 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 subsidiary's loss, the amount of loss due to impairment is measured as a 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 are presented as a deduction from total equity.

Dividends

Dividends are recognised in the Krka's financial statements in the period in which they are declared by the Annual General Meeting.

Property, plant and equipment

The items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (refer to 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) assessed 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 operating income' or 'other operating expenses' in profit or loss.

As from 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. If borrowings raised by Krka are not earmarked and they cannot be attributed directly to the acquisition of an asset under construction, the pro-rata amount of costs is capitalised only when borrowing costs 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 six (6) months.

Subsequent expenditure

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 Krka 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.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each item of property, plant and equipment or its individual parts. Land and assets being acquired are not depreciated.

The 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 Krka are recognised in profit or loss as incurred.

Other intangible assets

Other intangible assets that are acquired by Krka, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses (refer to accounting policy 'Impairment').

Subsequent expenditure

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

Amortisation is recognised 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 range from 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 potential administrative expenses, which are usually connected with sales.

An inventory unit of raw materials and materials, as well as ancillary and packaging materials is valued at cost including all direct costs of purchase. Inventories of materials are carried at moving average prices. Inventories of finished products and work in progress are carried at standard cost, which in addition to direct cost of material includes also 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. A quantity unit of merchandise is valued at cost including cost of purchase, import duties and all costs directly attributable to the acquisition, decreased by discounts. Inventories of merchandise are carried at moving average prices.

Impairments

Financial assets

Krka recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that Krka expects to receive, discounted at an approximation of the original

effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Expected credit losses are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since the initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, Krka applies a simplified approach in calculating expected credit losses (ECLs). Trade receivables that do not contain a significant financing component or for which Krka has applied the practical expedient (contracts agreed for a period of one year or less) are measured at the transaction price determined under *IFRS 15*, less any impairment losses.

Therefore, Krka does not track changes in credit risk, but instead recognises a loss allowance based on a lifetime ECLs at each reporting date. Krka has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Allowances are recognised using uniform methodology applicable to Krka and in consideration of the probability or assessed probability of receivable settlement by debtors.

Non-financial assets

The carrying amounts of Krka's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indications exist, the asset's recoverable amount is assessed.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment loss is 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, the 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 national legislation, Krka is liable to pay to its employees anniversary bonuses and termination benefits upon retirement. Krka 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 performed using the projected unit credit method. Employee benefit costs, as well as cost 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, Krka 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

Krka discloses provisions for lawsuits referring to alleged patent infringements. The eligibility of provisions formed in terms of a favourable or unfavourable outcome of a lawsuit 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 anticipated potential amount, if the indemnification claim is not yet disclosed.

Leases

At contract inception, Krka assesses whether a contract is, or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Krka determines the lease term as the period during which the lease cannot be terminated, inclusive of:

- a) the period for which the option to extend the lease applies, if it is reasonably certain that the lessee will exercise that option; and
- b) the period for which the option to terminate the lease applies, if it is reasonably certain that the lessee will not exercise that option.

Company as a lessee

Krka applied a single measurement and recognition approach for all leases, except for short-term leases and leases of low-value assets. In respect of those, the Company applies a practical expedient of the standard and recognises lease liabilities as expenses on a straight-line basis over the lease term. The practical expedient applies to leases with a lease term of less than 1 year and leases of assets valued at less than €5,000.

Krka recognises right-of-use assets and lease liabilities at the commencement date of the lease (i.e. the date the underlying asset is available for use).

Right-of-use assets

Right-of use assets are measured at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received, as well as an assessment of costs that will be incurred in dismantling or removing the leased asset, restoring the site to its original condition, or returning the asset to a condition as required in the lease terms.

The right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated lease term or the estimated useful lives of the assets.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid by the Company under residual value guarantees. The lease payments also include the exercise price of a purchase option, if it is reasonably certain that Krka will exercise that option, and payments of penalties for terminating the lease, if the lease term reflects Krka exercising the option to terminate the lease. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, Krka uses its incremental borrowing rate based on average bond returns of issuers in relevant regions, while considering their maturity if the interest rate implicit in the lease is not readily determinable.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Company as a lessor

Leases in which Krka does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Revenue from contracts with customers

Krka is engaged in development, production, marketing and sales of human health products (prescription pharmaceuticals, non-prescription products), animal health products, and material. Revenue from contracts with customers is recognised when control of the goods and services is transferred to the customer at an amount that reflects the consideration to which Krka expects to be entitled in exchange for those goods or services, while considering specific terms and conditions of an individual contract.

Transfer of control over those goods and services depends on terms and conditions of the contract. In general, control is transferred when goods are accepted by the customer or services have been rendered. The normal credit term is 30 to 120 days.

Krka considers whether the contract includes other promises that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sales of products, Krka considers the effects of variable consideration and the existence of significant financing components.

Variable consideration

If the consideration in a contract includes a variable amount, Krka estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of products provide customers with a right of return, bonuses and volume rebates. The rights of return, bonuses and volume rebates give rise to variable consideration.

Rights of return

Certain contracts provide a customer with a right to return the goods within a specified period (past use-by date). Krka uses the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which Krka will be entitled. The requirements of *IFRS 15* on constraining estimates of variable consideration are also applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, Krka recognises a refund liability. A right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

Bonuses and volume rebates

Krka provides retrospective bonuses and volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. Krka estimates the variable consideration for the expected future bonuses and volume rebates based on terms and conditions of the contract, including criteria and elements that provide the basis for the recognition of those bonuses and volume rebates.

Significant financing component

In some cases Krka receives short-term advances from its customers. Using the practical expedient in *IFRS 15.63*, Krka does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised goods or services to the customer and when the customer pays for those goods or services will be one year or less.

For sales to the Krka-Rus subsidiary in the Russian Federation, Krka has agreed payment terms in excess of one year. In order to take into account a significant financing component, the transaction price under these contracts is discounted using a discount rate that reflects Krka's separate financial transactions.

Contract balances

Contract assets

A contract asset is the right to an amount of consideration in exchange for goods or services transferred to the customer. If Krka performs by transferring goods or services to a customer before the customer pays consideration or payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents Krka's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of consideration is due). Refer to accounting policies of financial assets in section 'Initial recognition and measurement'.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before Krka transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Company performs under the contract.

Right of return assets

A right of return assets represents Krka's right to recover the goods expected to be returned by the customer.

The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of returned goods. The Company regularly updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products.

Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer. It is measured at the amount Krka ultimately expects it will have to return to the customer.

Krka updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period. Refer to above accounting policy on variable consideration.

Government grants

Revenue referring to government grants is initially recognised when there is reasonable assurance that it will be received and that Krka will comply with the conditions associated with the grants. Revenue that compensates the expenses incurred is recognised in profit or loss on a systematic basis in the same periods in which the revenue is recognised. Revenue that compensates an entity for the cost of an asset is 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 financial assets, changes in the fair value of financial assets at fair value through profit or loss, 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 Krka'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 enacted at the reporting date, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the balance sheet liability approach 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 manner 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 deferred tax asset 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

Krka presents basic earnings per share (EPS) data. EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of Krka by the weighted average number of ordinary shares outstanding during the period. Diluted EPS equals the basic EPS, as all shares of Krka belong to the same class of ordinary no-par value shares.

Segment reporting

An operating segment is a distinguishable component of Krka that is engaged in providing products or services within a particular geographically defined economic environment. Segments are different in terms of risks and returns. Krka's segment reporting is based on Krka's internal reporting system applied by the management in the decision-making process.

The segments include: the European Union (all member states), South-Eastern Europe (Serbia, Bosnia and Herzegovina, the Republic of North Macedonia, Montenegro, Kosovo, and Albania), Eastern Europe (the Russian Federation, and other former Soviet Union countries excluding the Baltic States), as well as other countries outside the regions mentioned above.

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 issued but not yet effective

The following new and amended standards have not come into effect by the financial statements' date and will be applied in future periods. Krka will apply the new and revised standards and interpretations when they become effective. Krka did not apply any revised standards or interpretations prior to their effective date.

Amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The *Amendments* address an acknowledged inconsistency between the requirements in *IFRS 10* and those in *IAS 28*, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the *Amendments* is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015, the IASB postponed the effective date of this standard indefinitely pending the outcome of its research project on the equity method of accounting. The *Amendments* have not been endorsed by the EU so far. The management has assessed the impact of the *Amendments* on the financial statements of Krka and will apply them when they come into force.

Conceptual Framework in IFRS Standards

The IASB issued the revised *Conceptual Framework for Financial Reporting* on 29 March 2018. The *Conceptual Framework* sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The IASB also issued a separate accompanying document, the *Amendments to References to the Conceptual Framework in IFRS Standards*, which sets out the amendments to affected standards in order to update references to the revised *Conceptual Framework*. Its objective is to support transition to the revised *Conceptual Framework* for companies that develop accounting policies using the *Conceptual Framework* when no IFRS standard applies to a particular transaction. For preparers who develop accounting policies based on the *Conceptual Framework*, it is effective for annual periods beginning on or after 1 January 2020.

Amendments to IFRS 3 – Business Combinations

The IASB issued amendments in definition of a Business (*Amendments to IFRS 3*) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The *Amendments*

are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Early adoption is permitted. The *Amendments* have not been endorsed by the EU so far. The management has assessed the impact of the *Amendments* on the financial statements of Krka and will apply them when they come into force.

Amendments to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors: Definition of ‘material’

The *Amendments* are effective for annual periods beginning on or after 1 January 2020. Early adoption is permitted. The *Amendments* clarify the definition of material and how it should be applied. The new definition states that, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. In addition, the explanations accompanying the definition have been improved. The *Amendments* also ensure that the definition of material is consistent across all IFRS standards. The management has assessed the impact of the *Amendments* and believes they will have no significant impact on the financial statements of Krka.

Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform

The *Amendments* are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Early adoption is permitted. In September 2019, the IASB issued amendments to *IFRS 9, IAS 39* and *IFRS 7*, at the end of phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate. The *Amendments* deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in *IFRS 9 – Financial Instruments* and *IAS 39 – Financial Instruments: Recognition and Measurement*, which require forward-looking analysis. The *Amendments* provide temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. The *Amendments to IFRS 7 – Financial Instruments: Disclosures* address additional disclosures around uncertainty arising from the interest rate benchmark reform. The management has assessed the impact of the *Amendments* and believes they will have no significant impact on the financial statements of Krka.

Amendments to IAS 1 – Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current

The *Amendments* are effective for annual periods beginning on or after 1 January 2022. Early adoption is permitted. The *Amendments* aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The *Amendments* affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the *Amendments* clarify the classification requirements for debt which may be settled by an entity issuing own equity instruments. The *Amendments* have not been endorsed by the EU so far. The management has assessed the impact of the *Amendments* on the financial statements of Krka and will apply them when they come into force.

3. Determination of fair value

A number of Krka 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 of Krka.

Investments in equity securities

The fair value of financial assets at fair value through profit or loss and at fair value through OCI is determined by reference to their quoted closing bid price.

Trade and other receivables

Fair value of trade and other receivables is estimated at the present value of future cash flows discounted at the market rate of interest effective at the reporting date.

Financial liabilities

Fair value is determined based on the present value of future principal and interest payments discounted at the market rate of interest prevailing at the reporting date.

4. Segment reporting

The Company reports in terms of certain geographical segments. Revenue generated by individual segments is presented in terms of customers' geographical location.

Segment reporting

€ thousand	European Union		South-Eastern Europe		Eastern Europe		Other		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Revenue	799,564	724,425	73,796	69,323	466,406	391,905	50,482	46,131	1,390,248	1,231,784
– Revenue from contracts with customers	793,464	718,954	73,796	68,942	466,373	390,416	50,222	45,451	1,383,855	1,223,763
– Other revenue	6,100	5,471	0	381	33	1,489	260	680	6,393	8,021
Other operating income	3,660	3,765	0	0	120	0	0	0	3,780	3,765
Operating costs	-673,751	-627,177	-52,989	-49,468	-367,517	-328,153	-35,919	-31,446	-1,130,176	-1,036,244
Operating profit	129,473	101,013	20,807	19,855	99,009	63,752	14,563	14,685	263,852	199,305
Interest income	1,120	492	0	0	66	63	0	0	1,186	555
Interest expense	-612	-316	-3	0	-13	0	-7	0	-635	-316
Net financial result	7,059	8,453	448	668	11,481	-25,888	671	258	19,659	-16,509
Income tax	-16,733	-9,867	-2,689	-1,939	-12,796	-6,227	-1,882	-1,434	-34,100	-19,467
Net profit	119,799	99,599	18,566	18,584	97,694	31,637	13,352	13,509	249,411	163,329
Investments	90,481	77,982	0	0	0	0	0	0	90,481	77,982
Depreciation of property, plant and equipment	54,850	56,872	1,632	1,948	18,703	18,111	746	684	75,931	77,615
Depreciation of the right-of-use assets	461	-	13	-	162	-	6	-	642	-
Amortisation of intangible assets	3,165	3,278	292	313	1,847	1,773	200	209	5,504	5,573
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Total assets	1,534,422	1,399,815	46,681	48,990	527,175	449,542	21,682	17,718	2,129,960	1,916,065
Total liabilities	311,480	235,848	13,564	11,254	117,280	92,743	23,458	23,920	465,782	363,765

5. Revenue from contracts with customers

Breakdown of revenue from contracts with customers

€ thousand	2019	2018
Revenue from contracts with customers (products)	1,195,677	1,077,644
Revenue from contracts with customers of (materials)	188,178	146,119
Total revenue from contracts with customers	1,383,855	1,223,763

Revenue from contracts with customers by region

€ thousand	2019	2018
Slovenia	52,902	51,280
South-East Europe	187,068	171,120
East Europe	298,053	263,611
Central Europe	323,501	304,209
West Europe	290,401	247,580
Overseas Markets	43,752	39,844
Total	1,195,677	1,077,644

Revenue from contracts with customers by product groups

€ thousand	2019	2018
Prescription pharmaceuticals	1,008,125	904,025
Non-prescription products	122,309	110,629
Animal health products	65,243	62,990
Total	1,195,677	1,077,644

Contract balances

Trade receivable data are explained in Note 20, and trade liabilities in Note 28. Krka did not recognise any contract assets. Contract assets are reported in the consolidated statement of financial position.

Right of return assets and liabilities

Krka recognised right of return liabilities as accrued bonuses and volume rebates and discounts on products sold to other customers.

Performance obligations

Krka is engaged in development, production, marketing and sale of human health products (prescription pharmaceuticals, non-prescription products), animal health products, and material. Revenue from contracts with customers is recognised when control of the goods and services is transferred to the customer at an amount that reflects the consideration to which Krka expects to be entitled in exchange for those goods or services, while considering specific terms and conditions of an individual contract.

Transfers of risks and rewards depend on terms and conditions of an individual contract. Generally, the transfer occurs when the customer accepts the goods in accordance with INCOTERMS 2010 or when the relevant services are performed. Payment terms vary from region to region (distribution channels), while the normal credit term is 30 to 120 days.

At the year-end, Krka incurred no costs on acquisition or fulfilment of contracts with customers.

6. Other operating income

€ thousand	2019	2018
Reversal of non-current provisions	614	2,000
Deferred revenue reversal	398	400
Gains on sale of property, plant and equipment and intangible assets	563	413
Revaluation operating revenue – leases	3	0
Other operating income	2,202	952
Total other operating income	3,780	3,765

7. Costs by nature

€ thousand	2019	2018
Cost of goods and materials	395,559	350,197
Cost of services	357,975	350,103
Employee benefits	280,429	236,593
Amortisation and depreciation	82,077	83,188
Inventory write-offs and allowances	14,825	15,552
Receivable impairments and write-offs (net)	-300	311
Formation of provisions for lawsuits	0	2,100
Other operating expenses	30,532	24,934
Total costs	1,161,097	1,062,978
Change in the value of inventories of products and work in progress	-30,921	-26,734
Total	1,130,176	1,036,244

8. Employee benefits

€ thousand	2019	2018
Gross wages and salaries and continued pay	216,722	185,160
Social security contributions	15,539	13,468
Pension insurance contributions	27,770	24,244
Post-employment benefits and other non-current employee benefits	6,678	4,072
Other costs of labour	13,720	9,649
Total employee benefits	280,429	236,593

Post-employment benefits and other non-current obligations are explained in detail in Note 25. Other employee benefits include primarily the vacation bonus and commuting allowances.

Compulsory pension and disability insurance (comprising both the employee's and the employer's contribution) payable in 2019 amounted to €52,852 thousand (2018: €44,915 thousand). Additional pension insurance contributions amounted to €7,721 thousand (2018: €6,808 thousand).

9. Other operating expenses

€ thousand	2019	2018
Grants and assistance for humanitarian and other purposes	1,564	1,431
Environmental protection expenditures	2,859	2,566
Other taxes and levies	18,677	18,124
Loss on sale of property, plant and equipment and intangible assets	4,613	441
Other operating expenses	2,819	2,372
Total other operating expenses	30,532	24,934

Other levies included €16,806 thousand (2018: €16,335 thousand) of various taxes and levies paid on pharmaceuticals and fees paid for associates in individual foreign countries for pursuing promotional activities.

10. Financial income and expense

€ thousand	2019	2018
Net foreign exchange differences	23,615	0
Interest income	1,186	555
Derivatives income	0	5,339
– Realised revenue	0	3,255
– Fair value change	0	2,084
Income from dividends and other shares of the profit	9,609	11,463
– Dividends	358	17
– Profits of subsidiaries	9,251	11,446
Other financial income	0	25
Total financial income	34,410	17,382
Net foreign exchange differences	0	-29,197
Interest expense	-635	-316
– Interest paid	-575	-
– Interest expense on lease liabilities	-60	-
Derivatives expenses	-11,921	-2,737
– Incurred expenses	-7,540	-2,737
– Fair value change	-4,381	0
Other financial expenses	-2,195	-1,641
Total financial expenses	-14,751	-33,891
Net financial result	19,659	-16,509

11. Income tax

Adjustment to effective tax rate

€ thousand	2019	2018
Income tax	34,050	18,958
Deferred tax	50	509
Total income tax	34,100	19,467
Profit before tax	283,511	182,796
Income tax calculated at the rate of 19-percent (the same as in 2018)	53,867	34,731
Income tax from increased expenses	-1,513	-55
Income tax from non-exempt expenses	2,513	2,317
Income tax from tax incentives	-18,784	-15,351
Revenue decreasing the tax base	-1,983	-2,175
Total income tax	34,100	19,467
Effective tax rate	12.0%	10.6%

The amount of current tax for the financial year 2019 is reduced by €181 thousand of double taxation relief under the EU Arbitration Convention referring to the year 2013.

Major share of tax incentives represent investments in R&D and investment relief.

12. Property, plant and equipment

€ thousand	31 Dec 2019	31 Dec 2018
Land	27,074	26,984
Buildings	265,858	255,758
Equipment	284,938	276,268
Property, plant and equipment being acquired	31,473	42,773
Advances for property, plant and equipment	769	3,140
Right-of-use assets	3,098	0
Total property, plant and equipment	613,210	604,923

Krka's largest investment in 2019, in the amount of €20,477 thousand referred to the construction of a multipurpose warehouse (2018: €9,455 thousand). Investments in additional packing facilities at the Notol 2 plant amounted to €18,001 thousand (2018: €5,706 thousand); €4,621 thousand was spent on the construction of offices in Ljubljana (2018: €5,639 thousand); €4,002 thousand was invested in a new granulation line at the OTO plant (2018: €281 thousand), and €2,579 thousand was spent on the construction of a warehouse at Krško (2018: €193 thousand).

A total of €3,932 thousand was spent on various information technology and telecommunication projects (2018: €3,581 thousand).

On transition to the new standard *IFRS 16 – Leases* as at 1 January 2019, Krka recognised the right-of-use assets. Refer to New standards and interpretations effective from 1 January 2019.

The majority of the right-of-use assets relates to the right-of-use buildings in the amount of €3,072 thousand..

Movement of property, plant and equipment (PP&E)

€ thousand	Land	Buildings	Equipment	PP&E being acquired	Advances for PP&E	Right-of-use assets	Total
Cost							
At 1 Jan 2018	25,771	555,393	891,026	29,149	4,104	-	1,505,443
Additions	0	0	0	72,624	-964	-	71,660
Capitalisation – transfer from PP&E under construction	1,213	11,194	46,593	-59,000	0	-	0
Disposals, deficit, surplus	0	-184	-8,337	0	0	-	-8,521
Transfers, reclassification	0	-531	525	0	0	-	-6
At 31 Dec 2018	26,984	565,872	929,807	42,773	3,140	-	1,568,576
At 1 Jan 2019	26,984	565,872	929,807	42,773	3,140	3,953	1,572,529
Additions	0	0	0	87,417	-2,371	0	85,046
Capitalisation – transfer from PP&E under construction	103	30,110	65,001	-95,214	0	0	0
Capitalisation - IFRS 16 – Leases	0	0	0	0	0	134	134
Disposals, impairment, deficit, surplus	-13	-51	-12,932	-3,503	0	-368	-16,867
Transfers, reclassification	0	-19	296	0	0	0	277
At 31 Dec 2019	27,074	595,912	982,172	31,473	769	3,719	1,641,119
Accumulated depreciation							
At 1 Jan 2018	0	-290,366	-603,736	0	0	-	-894,102
Depreciation	0	-20,246	-57,369	0	0	-	-77,615
Disposals, deficit, surplus	0	103	7,964	0	0	-	8,067
Transfers, reclassification	0	395	-398	0	0	-	-3
At 31 Dec 2018	0	-310,114	-653,539	0	0	-	-963,653
At 1 Jan 2019	0	-310,114	-653,539	0	0	0	-963,653
Depreciation	0	-19,993	-55,938	0	0	-642	-76,573
Disposals, deficit, surplus	0	34	12,539	0	0	21	12,594
Transfers, reclassification	0	19	-296	0	0	0	-277
At 31 Dec 2019	0	-330,054	-697,234	0	0	-621	-1,027,909
Carrying amount							
At 1 Jan 2018	25,771	265,027	287,290	29,149	4,104	-	611,341
At 31 Dec 2018	26,984	255,758	276,268	42,773	3,140	-	604,923
At 1 Jan 2019	26,984	255,758	276,268	42,773	3,140	3,953	608,876
At 31 Dec 2019	27,074	265,858	284,938	31,473	769	3,098	613,210

No borrowing costs referred to the items of property, plant and equipment in 2019.

The carrying amount of the items of property, plant and equipment, which are temporarily not used amounted to €1,205 thousand at 31 December 2019 (2018 year-end: €698 thousand).

Of total property, plant and equipment in use as at 31 December 2019, 34% was fully depreciated, the same as in 2018. The share of fully depreciated property, plant and equipment was calculated in consideration of their cost. Land was excluded from the calculation.

The movements and lease liabilities recognised in profit or loss are presented in Notes 31 and 34.

13. Intangible assets

€ thousand	31 Dec 2019	31 Dec 2018
Concessions, trademarks and licences	24,348	25,262
Intangible assets being acquired	4,062	3,580
Total	28,410	28,842

Intangible assets refer to software and registration documentation for new pharmaceuticals.

Movement of intangible assets (IA)

€ thousand	Concessions, trademarks and licences	IA being acquired	Total
Cost			
At 1 Jan 2018	97,389	3,488	100,877
Additions	0	6,322	6,322
Transfers from IA being acquired	6,230	-6,230	0
Disposals, deficit, surplus	-420	0	-420
Transfers, reclassification	6	0	6
At 31 Dec 2018	103,205	3,580	106,785
At 1 Jan 2019	103,205	3,580	106,785
Additions	0	5,435	5,435
Transfers from IA being acquired	4,953	-4,953	0
Disposals, deficit, surplus	-406	0	-406
Transfers, reclassification	-277	0	-277
At 31 Dec 2019	107,475	4,062	111,537
Accumulated amortisation			
At 1 Jan 2018	-72,578	0	-72,578
Amortisation	-5,573	0	-5,573
Disposals, deficit, surplus	205	0	205
Transfers, reclassification	3	0	3
At 31 Dec 2018	-77,943	0	-77,943
At 1 Jan 2019	-77,943	0	-77,943
Amortisation	-5,504	0	-5,504
Disposals, deficit, surplus	42	0	42
Transfers, reclassification	278	0	278
At 31 Dec 2019	-83,127	0	-83,127
Carrying amount			
At 1 Jan 2018	24,811	3,488	28,299
At 31 Dec 2018	25,262	3,580	28,842
At 1 Jan 2019	25,262	3,580	28,842
At 31 Dec 2019	24,348	4,062	28,410

Of total intangible assets in use as at 31 December 2019, 54% was fully amortised (53% as at 31 December 2018). The share of fully amortised intangible assets was calculated in consideration of their cost.

14. Investments in subsidiaries

Movement of investments in subsidiaries

€ thousand	Investments in subsidiaries
At 1 Jan 2018	330,889
Establishment of new companies	3,515
Subsequent payments	89
At 31 Dec 2018	334,493
At 1 Jan 2019	334,493
Establishment of new companies	10
Subsequent payments	3,823
At 31 Dec 2019	338,326
Impairment	
At 1 Jan 2018	-8,991
At 31 Dec 2018	-8,991
At 1 Jan 2019	-8,991
At 31 Dec 2019	-8,991
Carrying amount	
At 1 Jan 2018	321,898
At 31 Dec 2018	325,502
At 1 Jan 2019	325,502
At 31 Dec 2019	329,335

Krka 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 with application of methods that are most appropriate in terms of an individual investment. The most recent impairment review was carried out in November 2019.

Investments in subsidiaries

€ thousand	Ownership share	Share capital		Value of share in subsidiaries
	31 Dec 2019	31 Dec 2019	31 Dec 2019	31 Dec 2018
KRKA-RUS LLC, Istra, Russian Federation	100%	76,639	118,916	118,916
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650	97,000	97,000
TERME KRKA, d. o. o., Novo mesto, Slovenia	100%	14,753	36,416	36,416
KRKA-FARMA d.o.o., Zagreb, Croatia	100%	19,225	19,738	19,738
KRKA - POLSKA Sp. z o.o., Warsaw, Poland	100%	4,109	18,697	18,697
KRKA-FARMA LLC, Istra, Russian Federation	100%	10,776	15,170	15,170
Ningbo Krka Menovo Pharmaceutical Co. Ltd., Ningbo, China	60%	12,278	7,338	3,515
KRKA France Eurl, Paris, France	100%	10	4,662	4,662
KRKA Pharma GmbH, Vienna, Austria	100%	37	2,344	2,344
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10	2,266	2,266
KRKA Farmaceutici Milano S.R.L., Milan, Italy	100%	10	1,350	1,350
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	1	1,042	1,042
KRKA Finland Oy, Espoo, Finland	100%	3	1,003	1,003
KRKA FARMACÉUTICA, S.L., Madrid, Spain	100%	10	1,002	1,002
Farma GRS, d. o. o., Novo mesto, Slovenia	99.7%	1,003	1,000	1,000
KRKA-FARMA DOOEL, Skopje, Republic of North Macedonia	100%	798	802	802
KRKA Belgium, SA, Brussels, Belgium	95%	300	285	285
KRKA Magyarország Kft., Budapest, Hungary	100%	136	184	184
KRKA Sverige AB, Stockholm, Sweden	100%	14	16	16
LLC 'KRKA Kazakhstan', Almaty, Kazakhstan	100%	12	11	11
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10	10	10
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 HELLAS SINGLE MEMBER LTD, Athens, Greece	100%	10	10	0
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	3	3
KRKA UK Ltd, London, United Kingdom	100%	1	2	2
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1	1	1
Total			329,335	325,502

The Terme Krka subsidiary held a 100-percent interest in Golf Grad Otočec, d. o. o. at 31 December 2019; Farma GRS held a 100-percent 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 Krka France Eurl subsidiary held a 100-percent interest in the HCS bvba subsidiary in Belgium and a 5-percent interest in the KRKA Belgium, SA subsidiary.

15. Trade receivables from subsidiaries

Total amount of trade receivables from subsidiaries of €39,491 thousand relates to non-current receivables due from Krka-Rusin the Russian Federation (2018 year-end: €38,885 thousand). These are non-interest-bearing receivables that mature within a period of one year.

16. Loans

€ thousand	31 Dec 2019	31 Dec 2018
Non-current loans	36,223	19,238
– loans to subsidiaries	25,600	8,685
– loans to others	10,623	10,553
Current loans	35,644	51,819
– portion of non-current loans maturing next year	5,031	2,755
– loans to subsidiaries	462	29,008
– loans to others	30,137	20,014
– current interest receivable	14	42
Total loans	71,867	71,057

Non-current loans to other entities comprise non-current loans that are extended by Krka to its employees in accordance with the internal rules. These loans are used for the purchase or renovation of housing facilities. Loans bear the annual interest rate that equals the contractually agreed rate set by the Minister of Finance in accordance with the *Corporate Income Tax Act* that defines the interest rate for related parties. The actual interest rate fluctuated between 0.396% and 0.702% in 2019 (2018: between 0.589% and 0.667%). The maximum repayment period is 15 years.

Current loans to others include bank deposits of total €29,998 thousand maturing in more than 90 days (2018: €20,000 thousand).

Loans granted to subsidiaries including related current interest receivable

€ thousand	31 Dec 2019	31 Dec 2018
Non-current loans to subsidiaries	25,600	8,685
TERME KRKA, d. o. o., Novo mesto	22,000	0
KRKA Farmaceutici Milano, S.R.L., Milan, Italy	2,000	2,000
KRKA Belgium, SA, Brussels, Belgium	700	1,170
KRKA UKRAINE LLC, Kiev, Ukraine	600	300
KRKA Bulgaria EOOD, Sofia, Bulgaria	300	400
LLC 'KRKA Kazakhstan', Almaty, Kazakhstan	0	700
KRKA-RUS LLC, Istra, Russian Federation	0	4,115
Current loans to subsidiaries	3,954	30,478
TERME KRKA, d. o. o., Novo mesto	2,871	28,327
KRKA UKRAINE LLC, Kiev, Ukraine	636	1,173
LLC 'KRKA Kazakhstan', Almaty, Kazakhstan	350	0
KRKA HELLAS SINGLE MEMBER LTD, Athens, Greece	45	0
HCS BVBA, Edegem, Belgium	33	33
KRKA Finland Oy, Espoo, Finland	13	347
TAD Pharma GmbH, Cuxhaven, Germany	2	1
KRKA FARMACÉUTICA, S.L., Madrid, Spain	2	3
KRKA UK Ltd, London, United Kingdom	2	0
SIA KRKA Latvia, Riga, Latvia	0	301
KRKA-RUS LLC, Istra, Russian Federation	0	8
KRKA France Eurl, Paris, France	0	213
KRKA Belgium, SA, Brussels, Belgium	0	71
KRKA Sverige AB, Stockholm, Sweden	0	1
Total loans to subsidiaries	29,554	39,163

* Subsidiary Krka France Eurl holds a 100% stake in HCS bvba.

The maximum repayment period on non-current loans to subsidiaries as at 31 December 2019 was five (5) years.

17. Investments

€ thousand	31 Dec 2019	31 Dec 2018
Non-current investments	9,680	9,388
– Financial assets at fair value through OCI (equity instruments)	9,680	9,388
Current investments including derivatives	0	1,800
– Derivatives	0	1,800
Total investments	9,680	11,188

Financial assets at fair value through other comprehensive income (OCI) amounting to €849 thousand are investments in shares and interests in companies in Slovenia (2018 year-end: €772 thousand), and €8,831 thousand of investments in shares of companies located abroad (2018 year-end: €8,616 thousand).

Movement of financial assets at fair value through OCI

€ thousand	Financial assets at fair value through OCI
At 1 Jan 2018	8,814
Addition	6
Adjustment to market value	568
At 31 Dec 2018	9,388
At 1 Jan 2019	9,388
Adjustment to market value	292
At 31 Dec 2019	9,680

Adjustments of non-current investments (financial assets at fair value through OCI) were recognised in other comprehensive income in the amount of €292 thousand in 2019 (2018: €568 thousand).

18. Deferred tax assets and liabilities

€ thousand	Assets		Liabilities	
	2019	2018	2019	2018
Financial assets at fair value through OCI (equity instruments)	1,727	1,727	1,291	1,236
Receivables	1,535	1,690	0	0
Dividends	95	0	0	0
Provisions for post-employment benefits and other non-current employee benefits	11,121	9,599	0	0
Total	14,478	13,016	1,291	1,236
Offsetting	-1,291	-1,236	-1,291	-1,236
Net	13,187	11,780	0	0

€ thousand	At 1 Jan 2018	Recognised in profit or loss	Recognised in OCI	At 31 Dec 2018	Recognised in profit or loss	Recognised in OCI	At 31 Dec 2019
Financial assets at fair value through OCI (equity instruments)	599	0	-108	491	0	-55	436
Receivables	1,806	-116	0	1,690	-155	0	1,535
Dividends	182	-182	0	0	95	0	95
Provisions for post-employment benefits and other non-current employee benefits	9,755	-211	55	9,599	9	1,513	11,121
Total	12,342	-509	-53	11,780	-51	1,458	13,187

The relevant amount of deferred tax assets and liabilities was calculated using the 19-percent income tax rate.

19. Inventories

€ thousand	31 Dec 2019	31 Dec 2018
Material	179,168	144,326
Work in progress	89,492	89,716
Products	83,800	63,317
Merchandise	10,296	10,146
Advances for inventories	4,251	9,994
Total inventories	367,007	317,499

The write-down and write-off of inventories to net realisable value amounted to €14,825 thousand in 2019 (2018: €15,552 thousand).

20. Trade and other receivables

€ thousand	31 Dec 2019	31 Dec 2018
Current trade receivables	443,840	390,948
- current receivables due from subsidiaries	257,674	204,692
- current trade receivables due from customers other than Group companies	186,420	186,256
- deferred revenue from contracts with customers	-254	0
Current receivables relating to dividends – subsidiaries	500	0
Other current receivables	17,511	15,404
Total receivables	461,851	406,352

Current trade receivables

Current receivables due from subsidiaries

€ thousand	31 Dec 2019	31 Dec 2018
KRKA-RUS LLC, Istra, Russian Federation	102,882	75,946
KRKA-FARMA LLC, Istra, Russian Federation	68,660	54,188
KRKA Sverige AB, Stockholm, Sweden	25,875	14,908
KRKA-FARMA DOOEL, Skopje, Republic of North Macedonia	8,958	9,231
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	8,056	8,430
KRKA - POLSKA Sp. z o.o., Warsaw, Poland	7,231	5,411
LLC 'KRKA Kazakhstan', Almaty, Kazakhstan	6,228	6,448
KRKA Farmaceutici Milano, S.R.L., Milan, Italy	6,214	7,771
KRKA Finland Oy, Espoo, Finland	4,482	2,189
KRKA France Eurl, Paris, France	3,689	3,372
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	3,643	2,543
KRKA FARMACÉUTICA, S.L., Madrid, Spain	3,227	7,173
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	2,432	796
KRKA Belgium, SA, Brussels, Belgium	1,742	433
TAD Pharma GmbH, Cuxhaven, Germany	1,166	833
KRKA-FARMA d.o.o., Zagreb, Croatia	959	142
KRKA UK Ltd, London, United Kingdom	943	874
KRKA Pharma GmbH, Vienna, Austria	594	2,991
SIA KRKA Latvia, Riga, Latvia	132	4
Farma GRS, d. o. o., Novo mesto	129	143
KRKA UKRAINE LLC, Kiev, Ukraine	117	29
Ningbo Krka Menovo Pharmaceutical Co. Ltd., Ningbo, China	106	581
Receivables due from other Group companies	209	256
Total current receivables due from subsidiaries	257,674	204,692

Current trade receivables due from customers other than Group companies

€ thousand	Gross value	Receivable allowances	Net value at 31 Dec 2019	Net value at 31 Dec 2018
Current trade receivables due from domestic customers other than Group companies	10,657	26	10,631	9,935
Foreign customers (other than Group companies)	195,318	19,529	175,789	176,321
Deferred revenue from contracts with foreign customers	-254	0	-254	0
Total trade receivables (other than Group companies)	205,721	19,555	186,166	186,256

Net amount of the receivable write-off and impairment disclosed in operating expenses amounted to -€300 thousand in 2019 (2018: €311 thousand).

Of the total amount, 79% of trade receivables was insured with the Coface PKZ, d. d. insurance company (2018 year-end: 82%).

Other current receivables

The major part of other current receivables in total of €17,511 thousand (2018: €15,404 thousand) were constituted by receivables due from the State on account of VAT in the amount of €11,098 thousand (€10,065 thousand as at 31 December 2018).

Advances for services reached €1,045 thousand (818 thousand as at 31 December 2018).

21. Cash and cash equivalents

€ thousand	31 Dec 2019	31 Dec 2018
Cash in hand	0	1
Bank balances	195,236	98,473
Total cash and cash equivalents	195,236	98,474

Krka concluded contracts with two banks on the authorised overdraft limit on bank accounts in the total amount of €5,451 thousand (in 2018, contracts in total of €5,867 thousand were concluded with three banks). No negative balances were recorded on these bank accounts as at 31 December 2019 as no overdraft facilities were used.

Cash and cash equivalents included €8,426 thousand of bank deposits with maturity up to 30 days (2018: €9,739 thousand).

22. Equity

Share capital

Krka reduced its share capital by withdrawal 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 of 3 July 2014. After the withdrawal of treasury shares, the share capital of Krka in the amount of €54,732 thousand was represented by 32,793,448 ordinary no-par value shares. There is only one class of shares, and the first and only issue of shares was carried out in 1995. The share capital was fully paid in.

Treasury shares

At the 23rd Annual General Meeting of 6 July 2017, the Management Board was granted authorisation for the purchase of treasury shares. However, total amount of treasury shares should not exceed 10% of Krka's share capital, i.e. 3,279,344 shares, whereby the total amount is inclusive of shares already held by Krka as at the date.

Based on this authorisation, Krka is allowed to acquire treasury shares on the regulated market at respective market prices. Krka may acquire treasury shares also 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 exceed 25-fold the earnings per share held by the majority stakeholders as stated in the last published audited financial statements of the Krka Group.

Treasury shares acquired on the basis of this authorisation may be disposed of in the following way:

- to be exchanged for equity-stakes in other companies, based on its M&A strategy;
- to be sold to a strategic partner.

On disposal of treasury shares, pre-emptive right of existing shareholders is eliminated in full.

Repurchase of treasury shares in 2019

	Number of shares	Weighted average share price (in €)	Value of treasury shares (€ thousand)
At 31 Dec 2018	893,447		52,076
Repurchased in 2019	340,805	63.67	21,698
At 31 Dec 2019	1,234,252		73,774

The repurchases of treasury shares in 2019 referred to repurchases that were recorded in books of accounts in 2019. Subscription fee was included in the weighted average price of shares.

The 2019 repurchase of treasury shares by days is illustrated within Enclosure 1 to the Financial Statements of the Krka Group and Krka, d. d., Novo mesto.

Reserves

Krka reserves comprise reserves for treasury shares, the share premium, legal and statutory reserves and fair value reserve.

Reserves for treasury shares amounted to €73,774 thousand as at the reporting date and increased by €21,698 thousand based on their formation as a result of 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 2019 and consisted of the general equity revaluation adjustment of €90,659 thousand that was included in 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 reduction in the share capital due to the withdrawal of treasury shares. The amount may be used solely for the purpose of increasing share capital. In 2019, 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 2019 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 by Krka up to the amount of €30,000 thousand. Statutory reserves can be used for loss coverage, formation of reserves for treasury shares, for decreasing share capital by share withdrawal, and for regulating the dividend policy.

The *fair value reserve* includes the cumulative change in the fair value of financial assets and post-employment benefits. Compared to the previous period, the fair value reserve decreased by €13,429 thousand and amounted to -€23,604 thousand as at 31 December 2019. The cumulative change is due to: a €292 thousand increase in the fair value of financial assets through OCI (equity instruments); a €15,179 thousand decrease due to the restatement of post-employment benefits; and a €1,458 thousand increase of the impact of deferred taxes.

Retained earnings

Retained earnings grew based on the majority shareholder's profit of €249,411 thousand. The decrease, on the other hand, is a result of allocation of accumulated profit to dividend payment (€101,659 thousand), in accordance with the resolution adopted at the 25th Annual General Meeting of 4 July 2019, and of an additional formation of €21,698 thousand of reserves for treasury shares.

The amount of the dividend payout reported 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 dividend payout of €9 thousand paid in respect of prior periods (2018: €13 thousand).

Dividends per share

In 2019, the declared gross dividend per share was €3.20 (2018: €2.90).

Identification of distributable profit

The table below is prepared in €, in contrast to all other tables in the Financial Report, which are prepared in € thousand.

€	2019	2018
Compulsory appropriation of profit		
Net profit	249,410,661.45	163,328,985.07
– To cover the loss from previous periods	0.00	0.00
– Allocation to legal reserves	0.00	0.00
– Allocation to reserves for treasury shares	-21,698,411.77	-11,487,966.67
– Allocation to statutory reserves	0.00	0.00
Profit after compulsory appropriation	227,712,249.68	151,841,018.40
– Formation of other profit reserves under the resolution of the Management and Supervisory Boards		0.00
Surplus of profit	227,712,249.68	151,841,018.40
Identification of distributable profit		
– Surplus of profit	227,712,249.68	151,841,018.40
– Retained earnings	43,157,760.41	37,626,338.93
Distributable profit	270,870,010.09	189,467,357.33

23. Earnings per share

Basic earnings per share amounted to €7.85 in 2019, an increase of 54% on the year before, when it amounted to €5.10. The calculation takes into account the net profit of €249,411 thousand (2018: €163,329 thousand). The weighted average number of shares was accounted for in the calculation for both years, i.e. 31,756,443 shares for 2019 and 32,002,066 shares for 2018. Treasury shares were eliminated from the calculation.

All shares issued by Krka are ordinary shares, hence the diluted earnings per share ratio equals the basic earnings per share.

24. Borrowings

€ thousand	31 Dec 2019	31 Dec 2018
Current borrowings	73,033	40,435
– borrowings from subsidiaries	72,961	40,383
– current interest payable	72	52
Total borrowings	73,033	40,435

Borrowings from subsidiaries, including current interest payable

€ thousand	31 Dec 2019	31 Dec 2018
Current borrowings from subsidiaries	73,033	40,435
TAD Pharma GmbH, Cuxhaven, Germany	42,425	19,550
Farma GRS, d. o. o., Novo mesto, Slovenia	21,485	16,197
KRKA Sverige AB, Stockholm, Sweden	4,784	73
KRKA FARMACÉUTICA, S.L., Madrid, Spain	1,713	2,865
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	1,054	926
KRKA Pharma GmbH, Vienna, Austria	885	348
Krka France Eurl, Paris, France	408	0
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	173	127
KRKA Belgium, SA, Brussels, Belgium	104	0
KRKA Finland Oy, Espoo, Finland	1	1
KRKA UK Ltd, London, United Kingdom	1	3
TERME KRKA, d. o. o., Novo mesto, Slovenia	0	345
Total borrowings from subsidiaries	73,033	40,435

Current borrowings are denominated in the euro and were extended for the period of one year. These borrowings were not secured.

25. Provisions

€ thousand	At 31 Dec 2018	Formation	Utilisation	Reversal	At 31 Dec 2019
Provisions for lawsuits	4,100	0	-1,386	-614	2,100
Provisions for post-employment benefits and other non-current employee benefits	83,782	24,609	-4,814	0	103,577
Total provisions	87,882	24,609	-6,200	-614	105,677

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 for defining 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 eight (8) lawsuits referring to intellectual property were filed against Krka, of which six (6) were resolved in 2019, and three (3) lawsuits referred to other areas (labour legislation, administrative, etc.). Total amount of claims referring to intellectual property stands at €4,600 thousand, while claims of total €214 thousand refer to other areas. Krka set aside €2,100 thousand of provisions for these lawsuits.

Provisions for obligations to employees arising from post-employment and other non-current benefits are based on actuarial calculation using the following assumptions:

- the selected discounted interest rate is 1.34-percent annually, which equals the return on 15-year corporate bonds with high credit rating in the eurozone at the end of December 2019 (2018: 2.31-percent); Source: Bloomberg;
- currently applicable amounts of retirement benefits and anniversary bonuses as defined by internal rules;
- staff turnover depending in particular upon the employees' age;
- mortality rates calculated on the basis of last mortality tables available;
- increase in salaries by 2.00%, the same as in 2018.

Post-employment benefits

€ thousand	2019	2018
At 1 Jan	68,443	65,984
Employee benefit costs (CSC)	3,291	3,138
Interest expense (IC)	1,634	1,248
Post-employment benefits paid	-3,308	-2,510
Actuarial surplus/deficit, of that:	15,926	583
– Change in financial assumptions	9,833	-2,389
– Experience	6,093	2,972
At 31 Dec	85,986	68,443

Sensitivity analysis

	Discount rate		Salary increase	
Change in	Percentage point		Percentage point	
Change by	0.5	-0.5	0.5	-0.5
Impact on liabilities € thousand	-5,790	6,443	6,366	-5,782

26. Deferred revenue

€ thousand	At 31 Dec 2018	Deferred revenue received	Deferred revenue reversal	At 31 Dec 2019
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	1,850	0	-266	1,584
Grants from the European Regional Development Fund for development of new technologies (FBD project)	151	0	-94	57
Grants from the European Regional Development Fund for setting up information and technology solutions system GEN-I	6	0	-5	1
Subsidy for acquisition of electric drive vehicles	6	0	-1	5
Property, plant and equipment received for free	16	8	-12	12
Emission coupons	1	19	-20	0
Total deferred revenue	2,030	27	-398	1,659

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 potentials 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 amounts of deferred revenue are decreased by the proportionate share of depreciation of assets to which the grants refer and by any other types of expenses incurred.

27. Trade payables

€ thousand	31 Dec 2019	31 Dec 2018
Non-current trade payables	10,000	0
Current trade payables	182,423	170,354
Payables to subsidiaries	91,030	73,202
Payables to domestic suppliers	40,660	41,624
Payables to foreign suppliers	50,733	55,528
Total trade payables	192,423	170,354

In 2014, the Commission of the European Union ruled that Krka infringed the provision of Article 101 of the Treaty on the Functioning of the European Union, which resulted in a distortion of competition on the perindopril market of the European Union. Thus, it imposed on Krka a fine of €10,000 thousand. Krka paid the penalty imposed within the deadline set by the Commission and filed a lawsuit against the Commission's decision before the General Court of the European Union because it considered that its conduct did not violate the competition law rules. In December 2018, the Court ruled in favour of Krka.

The decision of the General Court is not final, as the Commission lodged an appeal against the decision of the General Court, which will be decided by the European Court of Justice. Although the Commission did indeed pay back a fine of €10,000 thousand in early 2019, based on the assessment of legal experts Krka deferred the revenue and recognised non-current trade liabilities in that same amount until the final decision of the Court is issued.

Payables to subsidiaries

€ thousand	31 Dec 2019	31 Dec 2018
KRKA FARMA LLC, Istra, Russian Federation	46,342	35,754
KRKA-FARMA d.o.o., Zagreb, Croatia	10,862	5,090
KRKA ROMANIA S.R.L., Bucharest, Romania	4,750	4,866
KRKA - POLSKA Sp. z o.o., Warsaw, Poland	3,698	4,537
KRKA Magyarország Kft., Budapest, Hungary	3,224	3,972
Farma GRS, d. o. o., Novo mesto, Slovenia	2,582	2,582
KRKA ČR, s. r. o., Prague, Czech Republic	2,365	2,957
KRKA-RUS LLC, Istra, Russian Federation	2,111	1,650
KRKA UKRAINE LLC, Kiev, Ukraine	1,986	2,138
TAD Pharma GmbH, Cuxhaven, Germany	1,966	1,228
KRKA Slovensko, s.r.o., Bratislava, Slovakia	1,863	1,181
Ningbo Krka Menovo Pharmaceutical Co. Ltd., Ningbo, China	1,763	0
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	1,049	1,070
KRKA FARMACÉUTICA, S.L., Madrid, Spain	943	432
UAB KRKA Lietuva, Vilnius, Lithuania	915	666
KRKA Bulgaria EOOD, Sofia, Bulgaria	654	504
KRKA Farmaceutici Milano, S.R.L., Milan, Italy	639	563
KRKA France Eurl, Paris, France	520	535
LLC 'KRKA Kazakhstan', Almaty, Kazakhstan	515	812
SIA KRKA Latvia, Riga, Latvia	500	485
KRKA-FARMA DOOEL, Skopje, Macedonia	399	543
KRKA Pharma GmbH, Vienna, Austria	335	190
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	298	490
KRKA Belgium, SA, Brussels, Belgium	261	184
KRKA Finland Oy, Espoo, Finland	196	369
KRKA Sverige AB, Stockholm, Sweden	118	121
TERME KRKA, d. o. o., Novo mesto, Slovenia	53	82
HCS bvba, Edegem, Belgium*	43	139
KRKA UK Ltd, London, United Kingdom	35	47
KRKA FARMA, d.o.o., Sarajevo, Bosnia and Herzegovina	28	14
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	16	0
KRKA USA LLC, Wilmington, USA	1	1
Total payables to subsidiaries	91,030	73,202

* The Krka France Eurl subsidiary holds a 100% stake in HCS bvba.

28. Current contract liabilities

€ thousand	31 Dec 2019	31. 12. 2018
Refund liabilities	10,823	14,923
– Bonuses and volume rebates	10,823	14,923
Contract liabilities	3,786	2,417
– Contract liabilities – advances from other customers	3,786	2,417
Total current contract liabilities	14,609	17,340

Accrued bonuses and volume discounts 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 the sale.

29. Other current liabilities

€ thousand	31 Dec 2019	31 Dec 2018
Payables to employees – gross salaries, other receipts and charges	47,546	36,631
Derivatives	2,582	0
Other	8,492	7,523
Total other current liabilities	58,620	44,154

The item 'Other' also includes current liabilities to the State on account of VAT payable in the amount of €6,434 thousand (2018: €6,004 thousand).

30. Contingent liabilities and commitments

€ thousand	31 Dec 2019	31 Dec 2018
Guarantees issued	14,295	16,517
Other	620	620
Total contingent liabilities	14,915	17,137

Major items of guarantees issued include a contract bond of €6,00 thousand issued after Krka was awarded as the best bidder at tender sales in Italy; a counter guarantee for due payment of potential liabilities from issued customs guarantee of €4,500 thousand in Belarus; and a contract bond issued on behalf of subsidiary TAD Pharma in the amount of €3,000 thousand. The item 'Other' includes the affected property in Serbia in the amount of €620 thousand.

Based on the contracts that had been signed in connection with the on-going investments, at the end of 2019 Krka accounted for €14,441 thousand of commitments for acquisition of property, plant and equipment (2018 year-end: €52,111 thousand).

31. Leases

Krka has concluded lease agreements for various assets such as land, parking spaces and offices, apartments, warehouses, and equipment.

Krka assesses the lease term according to the type of lease:

- offices, parking spaces and warehouses up to 10 years;
- land 30 years;
- apartments up to maximum of 2 years;
- equipment up to 10 years.

Krka does not sub-lease the leased assets.

Krka has concluded lease contracts for various production and non-production equipment, temporary offices and parking spaces, with lease term of less than one year. In respect of those leases, Krka applied a practical expedient provided by the standard.

The carrying amounts of lease liabilities included under interest-bearing loans and borrowings and the movements during the period

€ thousand	The carrying amounts of lease liabilities under interest-bearing loans and borrowings and movements during the period
At 1 Jan 2019	3,953
Additions/decrease	-203
Accretion of interest	60
Payments	-717
At 31 Dec 2019	3,093
Current	640
Non-current	2,453

Maturity of lease liabilities is presented in Note 34 Financial instruments and risks.

Amounts recognised in profit or loss

€ thousand	Amounts recognised in profit or loss
Depreciation of right-of-use assets	621
Interest expenses on lease liabilities	60
Expense relating to short-term leases	170
Expenses relating to leases of low-value assets	13
Total amount recognised in profit or loss	864

32. Financial liabilities

Movement of financial liabilities in 2019

€ thousand	At 31 Dec 2018	Monetary changes	Non-monetary changes	
			Addition/disposal	At 31 Dec 2019
Borrowings	40,383	32,578	0	72,961
Accretion of interest	53	-746	765	72
Dividends	1,353	-101,668	101,659	1,344
Treasury shares	0	-21,698	21,698	0
Total	41,789	-91,534	124,122	74,377

Movement of financial liabilities in 2018

€ thousand	At 31 Dec 2017	Monetary changes	Non-monetary changes	
			Addition/disposal	At 31 Dec 2018
Borrowings	27,455	12,928	0	40,383
Accretion of interest	70	-882	864	53
Dividends	1,366	-92,811	92,798	1,353
Treasury shares	0	-11,488	11,488	0
Total	28,891	-92,252	105,150	41,789

33. Financial instruments and financial risks

Credit risk

The key credit risk of Krka derives from trade receivables. Credit risk is the risk that customers will fail to settle their obligations on maturity.

A centralised credit control process, which has been in use at the Krka Group level since 2004, includes the credit rating of customers who on an annual basis purchase products from Krka worth more than €100,000. At the end of 2019, over 400 customers were included in the credit control, accounting for more than 90% of trade receivables due from Krka customers.

The credit risk management process is implemented in two stages. The first stage involves assessment of customers credit risk, determination of collateral instruments and granting of a credit limit. In addition to assessing credit rating of each new customer, these assessments are revised twice a year. A large number of different financial and non-financial indicators, which are divided into four (4) sets each with different attribute in the final assessment, are used to assess credit risk of each customer.

Considering the credit score and the expected dynamics of the dispatch of goods and payments, each individual customer is granted an individual credit limit.

The second stage involves regular and dynamic monitoring of individual customer's payment discipline. Control of the available limit and outstanding receivables, which is integrated in the information systems of all the Krka Group companies engaged in trade, is performed upon every dispatch of products to customers. Shipment is automatically stopped to customers who are late with payments or whose receivables, combined with a new dispatch exceed the approved credit limit, while the sales staff initiates receivable recovery process or secures relevant collateral.

The credit control procedure and the powers to assign credit limits to customers are defined in internal documents. The system of regular reporting on trade receivables and customers' payment discipline is an integral part of the credit control. The established reporting system allows for timely identification of high risk customers, while ensuring efficient credit risk management.

The credit control process is based on uniform rules applicable to all customers of the Krka Group; however, due to the specifics of individual sales markets, additional local controls have been introduced in individual subsidiaries. Credit control processes are regularly adjusted to the changes on sales markets.

In addition, credit control ensures continuous quality control of the trade receivable portfolio. As a result of the credit control, percentage of receivable write-off and impairment is relatively low considering the volume of the Company sales.

Relatively low percentage of receivable write-off and impairment is also due to a wide dispersion of receivable among various customers and sales markets and to the fact that majority of receivables are due from loyal customers of Krka.

Despite 13-percent growth in sales, at the end of 2019, the total value of euro-denominated trade receivables remained at the level recorded at the beginning of the year. In addition, the turnover of trade receivables improved further in 2019.

The credit risk management again proved to be efficient as net amount of receivable write-off and impairment accounted for only 0.02% of Krka annual sales. The amount of additional receivable allowances was below the receivable impairment reversal, and thus the impact of net impairments and write-off on Krka final result in 2019 was positive.

Since 2009, Krka has insured a portion of trade receivables with a credit insurer. This applies in particular to trade receivables from countries with perceived increased credit risk. To a lesser extent, Krka also uses bank guarantees and letters of credit as means of trade receivable insurance.

Credit risk exposure

The carrying amount of financial assets represents the largest exposure to credit risk as illustrated below.

€ thousand	Notes	31 Dec 2019	31 Dec 2018
Trade receivables from subsidiaries		39,491	38,885
Loans	16	71,867	71,057
Investments	17	9,680	11,188
Current trade receivables including those due from subsidiaries	20	444,340	390,948
Cash and cash equivalents	21	195,236	98,474
Total		760,614	610,552

As for the financial assets exposed to credit risk, the loans, trade receivables and receivables due from subsidiaries are presented separately.

Loans by region

€ thousand	31 Dec 2019	31 Dec 2018
Slovenia	67,114	60,135
South-East Europe	304	409
East Europe	1,652	6,336
Central Europe	0	301
West Europe	2,797	3,876
Overseas Markets	0	0
Total	71,867	71,057

Trade receivables from subsidiaries by region

€ thousand	31 Dec 2019	31 Dec 2018
Slovenia	10,837	10,121
South-East Europe	75,082	76,528
East Europe	263,724	219,564
Central Europe	66,881	65,224
West Europe	63,698	54,089
Overseas Markets	3,609	4,307
Total	483,831	429,833

Of the total amount, 79% of trade receivables was insured with the Coface PKZ, d. d. insurance company (2018 year-end: 82%).

Maturity analysis of loans as at reporting date

€ thousand	Gross 2019	Allowance 2019	Gross 2018	Allowance 2018
Not-past due	71,860	0	71,047	0
Past due up to 20 days	1	0	3	0
Past due from 21 to 50 days	2	0	1	0
Past due from 51 to 180 days	1	0	3	0
Past due more than 180 days	14	11	14	11
Total	71,878	11	71,068	11

Maturity structure of trade receivables including group companies as at reporting date

€ thousand	Gross 2019	Allowance 2019	Gross 2018	Allowance 2018
Not-past due	471,822	1,672	405,553	1,479
Past due up to 20 days	6,879	13	10,948	55
Past due from 21 to 50 days	3,263	0	3,610	5
Past due from 51 to 180 days	2,588	11	10,196	4
Past due more than 180 days	20,062	19,087	20,312	19,243
Total	504,614	20,783	450,619	20,786

Krka agrees extended terms with some customers. If Krka did not extend payment terms to some of its customers, receivable maturity structure would be as follows at the reporting date: not past due €483,714 thousand (2018: €403,877 thousand); past due up to 20 days €9,388 thousand (2018: €11,025 thousand); past due between 21 and 50 days €4,627 thousand (2018: €3,605 thousand); past due between 51 and 180 days €2,621 thousand (2018: €10,192 thousand); and past due more than 180 days €992 thousand (2017: €1,134 thousand).

Movement of allowances for loans

€ thousand	2019	2018
At 1 Jan	11	11
At 31 Dec	11	11

Movements of trade receivable allowance including those due from subsidiaries

€ thousand	2019	2018
At 1 Jan	20,786	20,558
Formation of allowance	1,680	1,517
Write-off of receivables	-5	0
Impairment reversal	-1,141	-1,072
Collected written-off receivables	-537	-217
At 31 Dec	20,783	20,786

Liquidity risk

Stable performance with no major fluctuations or deviations, low indebtedness, and stable cash flows from operations continued to ensure Krka's strong financial standing. In 2019, we did not raise any borrowings and instead we placed some of the surplus cash as deposits in banks. Furthermore, all the liabilities were settled regularly and within the agreed terms. In 2019, liquidity risk of Krka 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 2019

€ 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	From 5-10 years
Financial liabilities							
Other current borrowings	73,033	73,033	73,033	0	0	0	0
Lease liabilities	3,093	3,093	337	303	523	1,219	711
Payables to suppliers excluding advances	182,409	182,409	182,409	0	0	0	0
Contract liabilities excluding advances	10,823	10,823	10,823	0	0	0	0
Other liabilities excluding amounts owed to the State, to employees, and advances	2,058	2,058	2,058	0	0	0	0
Total financial liabilities	271,416	271,416	268,660	303	523	1,219	711
Derivatives	2,582	2,582	2,582	0	0	0	0
Total derivative financial liabilities	2,582	2,582	2,582	0	0	0	0
Total	273,998	273,998	271,242	303	523	1,219	711

Maturity of financial liabilities as at 31 Dec 2018

€ 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
Financial liabilities						
Other current borrowings	40,435	40,515	26,330	14,185	0	0
Payables to suppliers excluding advances	170,099	170,099	170,099	0	0	0
Contract liabilities excluding advances	14,923	14,923	14,923	0	0	0
Other liabilities excluding amounts owed to the State, to employees and advances	1,519	1,519	1,519	0	0	0
Total financial liabilities	226,976	227,056	212,871	14,185	0	0
Total	226,976	227,056	212,871	14,185	0	0

Currency risk

Due to its highly diversified international operations, Krka is exposed to the risk of changes in foreign exchange rates on certain markets where it operates.

Currency risk is derived from the excess of assets over liabilities in foreign currency as reported in the statement of financial position of Krka and from mismatch between operating revenue and expenses denominated in individual currencies.

The key accounting categories that affect long currency position include trade receivables and trade payables, as well as the controlling company's financing of subsidiaries.

Foreign exchange rates fluctuation was rather intense in 2019.

The overall result of the fluctuation of the Russian rouble in 2019 was beneficial for Krka. In the first quarter, the Russian rouble gained in value, which completely neutralised the fall at the end of 2018. Over the course of the year, the Russian rouble was rather stable and maintained its trend of gradual strengthening. Thus, the Russian rouble gained 14% in value in 2019, and its average value was 2.2% above the one recorded in 2018.

The value of the Russian rouble in 2019 was affected mostly by a reduction in the risk of economic sanctions being imposed against Russian legal and natural persons, the expansionary monetary policy of the major global central banks and related favourable conditions in the global currency and capital markets, as well as the measures implemented by the Russian monetary authorities in combination with a rapid decline in the Russian inflation. The geopolitical risks associated with the changing price of oil on global markets continue to pose a risk to the Russian rouble in the future.

The value of the Polish zloty continued to fluctuate between 4.2 and 4.4 zloty per euro in 2019. The average value of the Polish zloty expressed in the euro was 0.8% lower in 2019 than in 2018. Relative stability of the Polish currency is due to good macroeconomic conditions in the country and harmonisation of the monetary policies of the Polish central bank with that of the ECB.

The Romanian leu was less stable due to macroeconomic inconsistencies and political instability in 2019, and its value expressed in the euro fell by 2.5% from the beginning to the end of the year.

The value of the Croatian kuna continued to remain stable in 2019. High volatility of the British pound continued into 2019, reflecting uncertainties associated with the Brexit. In the second half of the year, the British pound strengthened in value and became stable by the end of the year. Although Krka reports long currency position in the Croatian kuna and the British pound, the volatility of these two currencies has no significant impact on its net financial result.

The volatility of the US dollar was the result of a revised monetary policy of the US Central Bank, which in contrast to the expectations reduced the key interest rate three times over the course of 2019, as well as due to rather slow resolution of the trade conflict with China.

The value of the US dollar expressed in the euro increased by 1.9% from the beginning to the end of 2019, and its average value expressed in the euro was 5.5% higher than in 2018.

Improved political stability and favourable macroeconomic developments in the country resulted in the Ukrainian hryvnia increasing its value by 18% from the beginning to the end of 2019, and the average value of the Ukrainian hryvnia expressed in the euro was 11% higher than in 2018.

Krka mitigates currency risks by basic risk mitigating methods, in particular by increasing the purchases (and thus liabilities) in those currencies in which the sales are invoiced. When this proves impossible, we apply derivatives as hedging instruments or leave the risks unhedged. The usual hedging instruments applied by the Krka Group and the Company include futures.

In 2019, we continued to partly hedge the risk of the Russian rouble fluctuation. Less than 50% of the exposure in Russian roubles was hedged with futures. Due to strengthening of the Russian rouble and the cost of hedging, Krka recorded negative financial result from futures.

No hedging instruments were used in respect of other currencies. The experience of several years of monitoring the exchange rate fluctuations and the hedging cost of the Romanian leu, Polish zloty, Czech krona, Hungarian forint and Croatian kuna shows that the total hedging of these currencies is ineffective, as exchange rate fluctuation of these currencies against the euro is predominately low.

No hedging instruments are available for Ukrainian hryvnia, Kazakhstani tenge, Serbian dinar and some other currencies, all of which are less significant in the currency exposure structure of Krka.

Exposure to the risk of foreign exchange rate fluctuations

€ thousand	31 Dec 2019				
	EUR*	PLN	HRK	RUB	RON
Non-current trade receivables from subsidiaries	0	0	0	39,491	0
Loans	71,865	0	0	0	0
Trade receivables	98,623	47,768	14,138	218,140	44,815
Cash and cash equivalents	182,487	2,450	999	407	1,019
Borrowings	-73,031	0	0	0	0
Non-current trade payables	-10,000	0	0	0	0
Current trade payables	-123,889	-3,698	-10	-32,719	-4,750
Financial position exposure (net)	146,055	46,520	15,127	225,319	41,084

* EUR is the functional currency and does not represent exposure to foreign currency risk.

€ thousand	31 Dec 2018				
	EUR*	PLN	HRK	RUB	RON
Non-current trade receivables from subsidiaries	0	0	0	38,885	0
Loans	66,896	0	0	4,123	0
Trade receivables	76,934	49,017	12,281	184,336	49,145
Cash and cash equivalents	59,861	6,941	2,937	3,481	9,219
Borrowings	-40,432	0	0	0	0
Current trade payables	-116,185	-4,864	-10	-21,708	-4,862
Financial position exposure (net)	47,074	51,094	15,208	209,117	53,502

* EUR is the functional currency and does not represent exposure to foreign currency risk.

Significant foreign exchange rates

	Average exchange rate*		Final exchange rate*	
	2019	2018	2019	2018
PLN	4.30	4.26	4.26	4.30
HRK	7.42	7.42	7.44	7.41
RUB	72.46	74.04	69.96	79.72
RON	4.75	4.65	4.78	4.66

* Number of national currency units for one euro

The above-stated exchange rates were used for the calculation of items in the financial statements as at 31 December and equal the reference exchange rates of the ECB effective on 31 December.

Sensitivity analysis

A 1% percent increase/decrease of the euro exchange rate in respect of currencies stated as at 31 December 2019 or 31 December 2018 would increase or decrease the profit by the amounts stated below. The analysis, prepared in the same manner for both years, assumes that all other remaining variables, in particular interest rates, remain unchanged. The calculation of the above-stated exchange rates volatility impact took into account the balance of receivables, liabilities and borrowings denominated in the national currencies.

€ thousand	Effect on the profit or loss before tax			
	2019		2018	
Currency fluctuation	+1%	-1%	+1%	-1%
RUB	2,253	-2,253	2,091	-2,091
PLN	465	-465	511	-511
HRK	151	-151	152	-152
RON	411	-411	535	-535

Any additional 1% increase/decrease of the Russian rouble, the Polish zloty, the Croatian kuna or the Romanian leu in respect of the euro value, would result in additional decrease/increase in the profit or loss before tax in the above-stated amounts.

Interest rate risk

The risk of changes in interest rates is the risk that Krka would suffer an increase in financing costs on non-current financial resources or a decrease in income from non-current investments due to changed reference market interest rates.

The risk of fluctuating interest rates on current financial resources and current investments is managed in the context of liquidity risks.

In 2019, Krka raised no non-current borrowings. Non-current investments are not linked to the reference market interest rates, therefore Krka was not exposed to the risk of changes in reference interest rates.

Exposure to interest rate risk

€ thousand	2019	2018
Financial instruments at fixed rate of interest	11,395	25,877
Financial assets	32,837	42,040
Financial liabilities	-21,442	-16,163
Financial instruments at variable rate of interest	-12,503	4,755
Financial assets	39,016	28,975
Financial liabilities	-51,519	-24,220

Analysis of the cash flow sensitivity by applying the variable interest rate

Decrease/increase of the interest rate by 100 basis points would increase/decrease the profit or loss for 2019 by €125 thousand. Decrease/increase of the variable interest rate by 100 basis points would increase/decrease the profit or loss for 2018 by €48 thousand. The analysis, prepared in the same manner for both years, assumes that all other remaining variables, in particular the foreign exchange rate, remain unchanged.

A detailed schedule of current borrowings is presented below.

Current borrowings

€ thousand	31 Dec 2019	31 Dec 2018
Current borrowings inclusive of current portion of non-current borrowings	72,961	40,383
– Other borrowings	72,961	40,383
Current borrowings exclusive of current portion of non-current borrowings	72,961	40,383
Average balance of current borrowings	56,672	33,919
Interest paid in the financial year	491	268
Other cost of raising current borrowings	4	6
Average effective cost of current borrowings	0.87%	0.81%
Currency structure of current borrowings		
– €	100%	100%
Structure of current borrowings in terms of interest rates		
– Fixed	29%	40%
– Variable	71%	60%

Capital management

Krka reduced its share capital by withdrawal 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 of 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, and the first and only issue of shares was carried out in 1995. The share capital was fully paid in.

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 operations and to generate a maximum value for its shareholders.

Krka follows the changes in the economic environment by managing and adjusting its equity structure. Dividends are paid out on an annual basis in line with the strategic policy adopted. 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 2019 or 2018.

Krka monitors capital using 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.

€ thousand	31 Dec 2019	31 Dec 2018
Borrowings	73,033	40,435
Trade and other liabilities	265,652	231,848
Cash and cash equivalents	195,236	98,474
Net indebtedness	143,449	173,809
Equity	1,664,178	1,552,300
Equity and net indebtedness	1,807,627	1,726,109
Gearing (debt/equity) ratio	7.9%	10.1%

Fair value

€ thousand	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade receivables from subsidiaries	39,491	39,491	38,885	38,885
Non-current loans	36,223	36,223	19,238	19,238
Financial assets at fair value through OCI (equity instruments)	9,680	9,680	9,388	9,388
Current loans	35,644	35,644	51,819	51,819
Current investments	0	0	1,800	1,800
– Derivatives	0	0	1,800	1,800
Trade receivables	443,840	443,840	390,948	390,948
Cash and cash equivalents	195,236	195,236	98,474	98,474
Current borrowings	-73,033	-73,033	-40,435	-40,435
Non-current trade payables	-10,000	-10,000	0	0
Lease liabilities	-3,093	-3,093	-	-
Payables to suppliers (excluding advances)	-182,409	-182,409	-170,099	-170,099
Contract liabilities excluding advances	-10,823	-10,823	-14,923	-14,923
Other liabilities excluding amounts owed to the State, to employees, and advances	-2,058	-2,058	-1,519	-1,519
Other current liabilities	-2,582	-2,582	0	0
– Derivatives	-2,582	-2,582	0	0
Total	476,116	476,116	383,576	383,576

In terms of fair value, investments are classified in 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;
- Level 3 – assets the value of which cannot be determined using observable market data.

Assets at fair value

€ thousand	31 Dec 2019				31 Dec 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at fair value								
Financial assets at fair value through OCI (equity instruments)	8,294	0	1,386	9,680	8,002	0	1,386	9,388
Derivatives	0	0	0	0	0	0	1,800	1,800
Total assets at fair value	8,294	0	1,386	9,680	8,002	0	3,186	11,188
Assets for which fair value is disclosed								
Trade receivables from subsidiaries	0	0	39,491	39,491	0	0	38,885	38,885
Non-current loans	0	0	36,223	36,223	0	0	19,238	19,238
Current loans	0	0	35,644	35,644	0	0	51,819	51,819
Trade receivables	0	0	443,840	443,840	0	0	390,948	390,948
Cash and cash equivalents	0	0	195,236	195,236	0	0	98,474	98,474
Total assets for which fair value is disclosed	0	0	750,434	750,434	0	0	599,364	599,364
Total	8,294	0	751,820	760,114	8,002	0	602,550	610,552

Liabilities at fair value

€ thousand	31 Dec 2019				31 Dec 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities at fair value								
Derivatives	0	0	2,582	2,582	0	0	0	0
Total liabilities at fair value	0	0	2,582	2,582	0	0	0	0
Liabilities for which fair value is disclosed								
Current borrowings	0	0	73,033	73,033	0	0	40,435	40,435
Non-current trade payables	0	0	10,000	10,000	0	0	0	0
Lease liabilities	0	0	3,093	3,093	-	-	-	-
Current supplier payables excluding advances	0	0	182,409	182,409	0	0	170,099	170,099
Current contract liabilities excluding advances	0	0	10,823	10,823	0	0	14,923	14,923
Other current liabilities excluding amounts owed to the State, to employees, and advances	0	0	2,058	2,058	0	0	1,519	1,519
Total liabilities for which fair value is disclosed	0	0	281,416	281,416	0	0	226,976	226,976
Total	0	0	283,998	283,998	0	0	226,976	226,976

The fair value of securities held for trading is computed on the basis of the stock exchange quotation of the respective securities as at reporting date, and it is not decreased by any costs that may arise upon the sale or purchase of securities.

34. Related party transactions

Intragroup transactions

Transactions with Group companies in 2019 are presented below.

€ thousand	Sales	Purchases	Borrowings	Loans
TERME KRKA, d. o. o., Novo mesto*, Slovenia	236	879	0	27,255
Farma GRS, d. o. o., Novo mesto**, Slovenia	512	10,329	7,698	0
KRKA-FARMA d.o.o., Zagreb, Croatia	4,183	22,198	0	0
KRKA ROMANIA S.R.L., Bucharest, Romania	108	21,454	0	0
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	23,585	4,011	0	0
KRKA-FARMA DOOEL, Skopje, Macedonia	19,370	1,725	0	0
KRKA FARMA, d.o.o., Sarajevo, Bosnia and Herzegovina	4	399	0	0
KRKA Bulgaria EOOD, Sofia, Bulgaria	45	3,020	0	0
KRKA-RUS LLC, Istra, Russian Federation	169,848	8,152	0	1,920
KRKA FARMA LLC, Istra, Russian Federation	101,238	74,730	0	0
KRKA UKRAINE LLC, Kiev, Ukraine	131	14,367	0	300
LLC 'KRKA Kazakhstan', Almaty, Kazakhstan	12,188	3,224	0	0
KRKA - POLSKA Sp. z o.o., Warsaw, Poland	31,425	34,743	0	0
KRKA ČR, s. r. o., Prague, Czech Republic	84	11,609	0	0
KRKA Magyarország Kft., Budapest, Hungary	56	13,990	0	0
KRKA Slovensko, s.r.o., Bratislava, Slovakia	44	7,711	0	0
UAB KRKA Lietuva, Vilnius, Lithuania	24	4,202	0	0
SIA KRKA Latvia, Riga, Latvia	15	3,238	0	0
KRKA Finland Oy, Espoo, Finland	13,337	1,660	0	100
TAD Pharma GmbH, Cuxhaven, Germany	63,914	11,631	0	0
KRKA Sverige AB, Stockholm, Sweden	51,489	1,483	0	0
KRKA Pharma GmbH, Vienna, Austria	4,048	1,925	0	0
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	12,157	1,844	0	0
KRKA FARMACÉUTICA, S.L., Madrid, Spain	30,206	3,861	0	0
KRKA Farmaceutici Milano, S.R.L., Milan, Italy	14,323	6,584	0	0
KRKA France Eurl, Paris, France***	3,740	3,827	0	0
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	9,344	69	0	0
KRKA UK Ltd, London, Great Britain	1,766	564	0	0
KRKA Belgium, SA, Brussels, Belgium	5,568	1,340	0	0
KRKA HELLAS SINGLE MEMBER LTD, Athens, Greece	0	0	0	45
Ningbo Krka Menovo Pharmaceutical Co. Ltd., Ningbo, China	39	5,556	0	0
KRKA USA LLC, Wilmington, USA	0	7	0	0
Total	573,027	280,329	7,698	29,620

* Including the Golf Grad Otočec, d. o. o. subsidiary

** 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.

*** Including the HCS bvba subsidiary

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 conclusion of loan contracts within the Krka Group companies is the rate of interest set by the Minister of Finance in accordance with the *Corporate Income Tax Act* that defines the interest rate for related parties. In 2019, the interest rate ranged between 0.869% and 2.558%.

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 Group companies is presented in Note 20; and the balance of current operating liabilities to subsidiaries is presented in Note 27.

Data on groups of persons

By the end of the year, members of the Management Board of Krka held 37,040 of Krka shares i.e. 0.1129% of total equity or 0.1174% of voting rights.

By the end of the year, members of the Supervisory Board of Krka held 2,747 of Krka shares i.e. 0.0084% of total equity or 0.0087% of voting rights.

Equity stakes held by members of the Management and the Supervisory Boards of Krka and their shares of voting rights

	31 Dec 2019			31 Dec 2018		
	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	0.0686	0.0713	22,500	0.0686	0.0705
Aleš Rotar	13,915	0.0424	0.0441	13,915	0.0424	0.0436
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	0.1174	37,040	0.1129	0.1161
Members of the Supervisory Board (shareholder representatives)						
Jože Mermal	0	0.0000	0.0000	0	0.0000	0.0000
Borut Jamnik	0	0.0000	0.0000	0	0.0000	0.0000
Julijana Kristl	230	0.0007	0.0007	230	0.0007	0.0007
Mojca Osolnik Videmšek	617	0.0019	0.0020	452	0.0014	0.0014
Andrej Slapar	0	0.0000	0.0000	0	0.0000	0.0000
Boris Žnidarič	0	0.0000	0.0000	0	0.0000	0.0000
Members of the Supervisory Board (employee representatives)		0.0000	0.0000			
Tomaž Sever	500	0.0015	0.0016	500	0.0015	0.0016
Franc Šašek	1,400	0.0043	0.0044	1,400	0.0043	0.0044
Mateja Vrečer	0	0.0000	0.0000	0	0.0000	0.0000
Total Members of the Supervisory Board	2,747	0.0084	0.0087	2,582	0.0079	0.0081
Total	39,787	0.1213	0.1261	39,622	0.1208	0.1242

Treasury shares were eliminated from the calculation of voting rights (1,234,252 treasury shares as at 31 December 2019 and 893,447 as at 31 December 2018).

Remuneration paid to groups of persons (gross)

€ thousand	2019	2018
Members of the Management Board	3,561	3,198
Members of the Supervisory Board	202	209
Total gross remuneration paid to groups of persons	3,763	3,407

Gross earnings paid to persons employed under individual employment contracts in 2019 amounted to €11,473 thousand (2018: €10,404 thousand).

Remuneration paid to Members of the Management Board in 2019

€ thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Net
Jože Colarič	424	173	8	718	280	1,142	461
Aleš Rotar	337	138	11	481	188	818	337
Vinko Zupančič	288	117	14	400	156	688	287
David Bratož	276	117	9	393	154	669	280
Milena Kastelic	166	77	5	78	31	244	113
Total Members of the Management Board	1,491	622	47	2,070	809	3,561	1,478

€ thousand	Net fringe benefits and other earnings						Total
	Executive health insurance	Supplementary pension insurance	Other benefits	Refund of work-related costs	Pay for annual leave		
Jože Colarič	0.83	2.82	2.92	0.06	1.17	7.80	
Aleš Rotar	0.00	2.82	5.57	0.95	1.19	10.53	
Vinko Zupančič	1.87	2.82	7.45	0.86	1.20	14.20	
David Bratož	0.00	2.82	4.45	0.96	1.20	9.43	
Milena Kastelic	0.00	2.82	0.12	1.05	1.25	5.24	
Total Members of the Management Board	2.70	14.10	20.51	3.88	6.01	47.20	

Remuneration paid to Members of the Management Board in 2018

€ thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Net
Jože Colarič	408	166	8	624	244	1,032	418
Aleš Rotar	321	133	8	411	161	732	302
Vinko Zupančič	268	114	8	342	134	610	256
David Bratož	266	111	11	336	131	602	253
Milena Kastelic	159	75	5	63	25	222	105
Total Members of the Management Board	1,422	599	40	1,776	695	3,198	1,334

€ thousand	Net fringe benefits and other earnings					Total
	Executive health insurance	Supplementary pension insurance	Other benefitss	Refund of work-related costs	Pay for annual leave	
Jože Colarič	0.83	2.82	3.58	0.04	0.63	7.90
Aleš Rotar	0	2.82	3.70	0.98	0.64	8.14
Vinko Zupančič	1.87	2.82	1.63	0.82	0.65	7.79
David Bratož	0	2.82	6.13	0.94	0.65	10.54
Milena Kastelic	0	2.82	0.56	1.06	0.70	5.14
Total Members of the Management Board	2.70	14.10	15.60	3.84	3.27	39.51

The item 'Other benefits' includes the use of a company car for private purposes as well as other similar bonuses. 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 in the Management and Supervisory boards in subsidiaries.

Remuneration paid to Members of the Supervisory Board in 2019

€ 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 (shareholder representatives)								
Jože Mermal	23.25	16.91	1.10	0.80	0.00	0.00	24.35	17.71
Borut Jamnik	21.31	15.50	2.75	2.00	0.00	0.00	24.06	17.50
Julijana Kristl	19.38	14.09	2.53	1.84	0.37	0.27	22.28	16.20
Mojca Osolnik Videmšek*	9.21	6.70	1.27	0.92	0.09	0.07	10.57	7.69
Andrej Slapar	22.86	16.63	2.53	1.84	0.00	0.00	25.39	18.47
Boris Žnidarič	19.38	14.09	2.75	2.00	0.29	0.21	22.42	16.30
Hans-Helmut Fabry**	2.89	2.24	0.00	0.00	1.76	1.37	4.65	3.61
Members of the Supervisory Board (employee representatives)								
Franc Šašek	20.93	15.22	2.75	2.00	0.00	0.00	23.68	17.22
Tomaž Sever	19.38	14.09	2.53	1.84	0.36	0.26	22.27	16.19
Mateja Vrečer	19.38	14.09	2.53	1.84	0.00	0.00	21.91	15.93
Total remuneration paid to Members of the Supervisory Board	177.97	129.56	20.74	15.08	2.87	2.18	201.58	146.82

* Member of the Supervisory Board from 5 July 2019

** Member of the Supervisory Board until 13 March 2019

In accordance with a resolution adopted at the 16th Annual General Meeting of 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. Members of the Supervisory Board Commission receive an attendance fee for their participation in sessions, which for each individual Commission 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 the actual payouts on an annual level.

In addition to attendance fees, members of the Company's Supervisory Board receive on an annual basis also a basic pay for exercising the function in the amount of €15,500 gross each. The President of the Supervisory Board is further entitled to an extra fee in the amount of 50% of the basic pay for exercising the function of Member of the Supervisory Board, whereas the Deputy President of the Supervisory Board is entitled to an extra 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 extra 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. President of the Commission is further entitled to a bonus corresponding to 50% of the extra fee for exercising the function of a member of the Supervisory Board Commission.

Members of the Krka Supervisory Board and members of the Supervisory Board Commission receive a basic pay and an extra fee for exercising the function, in 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 every financial year entitled – regardless of the above-mentioned 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 the actual payouts on an annual level.

Loans to groups of persons

€ thousand	Balance		Repayments	
	31 Dec 2019	31 Dec 2018	2019	2018
Members of the Management Board	0	0	0	0.45
Members of the Supervisory Board (employee representatives)	0	0	0	0
Total loans to groups of persons	0	0	0	0.45

Loans granted to staff employed under individual employment contracts stood at €177 thousand at 31 December 2019 (€147 thousand as at 31 December 2018). Repayments of loans by staff employed under individual employment contracts in 2019 reached €20 thousand (2018: €17 thousand). The loans granted to the above-mentioned persons are meant for housing purposes.

35. Educational structure of employees

	2019		2018	
	Average headcount	Share (in%)	Average headcount	Share (in%)
PhD	149	2.7	140	2.7
MSc	262	4.7	261	5.0
University education	1,770	31.5	1,669	31.7
Higher professional education	735	13.1	674	12.8
Vocational college education	229	4.1	217	4.1
Secondary school education	1,601	28.5	1,391	26.4
Skilled workers	732	13.0	740	14.1
Unskilled workers	138	2.4	169	3.2
Total (average for the period)	5,616	100.0	5,261	100.0

36. Transactions with the audit firm

The agreed fee for the audit services performed in 2019 by the audit firm ERNST & YOUNG Revizija, poslovno svetovanje, d. o. o., amounted to €115 thousand (2018: €107 thousand).

37. Subsequent events

Below is presentation of events that have taken place from the end of 2019.

Between 14 and 24 January 2020, media were reporting information on the Romanian web portal and in the Libertatea newspaper, claiming they had managed to obtain information on irregularities allegedly committed by the staff at Krka subsidiary Krka Romania S.R.L, Bucharest (hereinafter referred to as Krka Romania). We informed the public on 17 January 2020 that a special task group had been appointed who examined in detail the operations of the Krka subsidiary in relation to the aforementioned allegations. Internal investigation findings showed that allegations of corruption in Romania alleging that Krka Romania has acted illegally and marketed medicines by bribing doctors (as allegedly instructed by the controlling company) were unfounded. The investigation showed that the company in Romania holds relevant instructions issued by the controlling company. However, it cannot be completely ruled out that in the past, an individual in the subsidiary could have violated Krka internal instructions and contractual obligations under the employment relationship. In view of these findings, Krka is introducing measures that will further improve business transparency and business compliance in all areas. The Supervisory Board took note of the report of the Management Board and supports the measures taken in this regard.

COVID-19 is the infectious disease caused by the most recently discovered coronavirus, SARS-CoV-2. In March 2020, the WHO labelled COVID-19 a pandemic.

Krka has adopted measures to curb the spread of infection in order to protect the health of our employees and ensure business continuity. This is the primary goal of every pharmaceutical company and only way to ensure an unbroken supply chain and sufficient supply of medicines on global markets.

We immediately took steps to mitigate sanitary and health risks. These steps are guided by the experiences and measures adopted by our Chinese partners and Italian companies. We promptly set up a team of experts composed of healthcare providers and microbiologists to assist the Health and Safety at Work department at Krka. We adjusted our processes to guarantee social distancing and the availability of personal protective equipment. We eliminated any significant risk factors from the company's premises, limited access to common areas, closed elevators, adapted food catering arrangements, and on 25 February 2020 cancelled the first and later all following group visits, events, social gatherings, and training courses, and replaced them with e-events whenever possible. We set down and implemented disinfection procedures applicable to all employees, rooms, materials, vehicles, and workplaces. All employees entering the company's premises must have their body temperature taken at the entrances and, if necessary, also during shifts. Face masks are compulsory for all. Our relevant departments have issued a series of instructions and recommendations for performing work processes and responsible behaviour at work and home.

In order to further reduce risks, we ordered approximately 50% of our workforce in Slovenia to stay at home on standby for the period from 16 March 2020 to 14 April 2020, including parents of children up to 10 years of age and pregnant women. We obtained an opinion from occupational medicine professionals, on foot of which we asked our employees with chronic diseases belonging to the most vulnerable population group to be on standby at home. In the meantime, only employees directly involved in the production and supply of medicines and vital support processes reported for work at Krka's premises. Employees who were not at their usual workplaces at the company's premises were granted access to IT systems and services. Employees on standby were asked to work remotely from their homes, be on call as needed, and discharge their work duties insofar as possible. Our manufacturing plants abroad functioned normally and carried on marketing and sales activities in compliance with the measures applied in their respective countries.

There was no major impact on average daily production volume of finished products at the Krka Group. During the pandemic, raw and production material purchasing continued with minimal disruption. Quality assurance and quality management went uninterrupted.

The demand for our products increased on most markets. Due to social distancing, we had to change our product promotion approach and our departments adapted their workflow to the current situation and made greater use of e-technologies.

No insurmountable problems arose with logistics, but land transport shipping times have increased, containers have been in short supply for maritime transport, while air transport has been limited.

We have full control over our receivables and have tightened credit control due to the current situation. Krka Group liquidity is centralised, so Krka the controlling company settles all current and non-current financial liabilities as requested by the subsidiaries and absorbs their cash surpluses (i.e. the cash-pooling system).

The Management Board closely monitors the situation in countries where the Krka Group operates. Our business model of vertical integration encompasses development, quality control, a well-organised supply chain, the many production plants that we own, marketing-and-sales activities, and support and cover a wide array of processes and actions on the global level. There is no way to foresee the pace with which the disease will spread, how the situation will develop, what the aftermath will be, and what measures affected nations will take. In the first quarter of 2020 and until approval of the annual report, the Krka Group did not record any negative impact on the supply chain, with demand for our products increasing while maintaining continuity of supply.

The dividend policy and, in line with the AGM authorisation, the treasury share repurchase programme remain unchanged.

Krka acquired 64,220 treasury shares over the period from 1 January 2020 to 16 April 2020. Thus, at the end of period, Krka held 1,298,472 treasury shares (3.960% 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., Novo mesto

Opinion

We have audited the separate financial statements of the company Krka, d. d., Novo mesto (the Company), which comprise the separate statement of financial position as at 31 December 2019, 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 Krka, d. d., Novo mesto as at 31 December 2019 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) and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014 of the European Parliament and the Council". 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 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.



**Building a better
working world**

Recoverability of receivables

Trade receivable balances are significant to the Company as they represent 20.8% of total assets as at 31 December 2019. 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 the Company'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 receivables.

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 sample of trade receivable confirmations to the customers. We assessed the management's estimates and assumptions used to calculate the trade receivables impairment amount, notably through analyses of ageing of receivables and review sample of disputable trade receivables. We reviewed the extent to which receivables to third parties had been secured through insurance companies and the process of prolongation of the payment terms after the sales.

In addition, we evaluated the adequacy of the Company's disclosures regarding trade receivables and the related risks such as credit risk and the aging of trade receivables in Note 33 Financial instruments and financial risks – credit risk of the separate financial statements and their compliance with International Financial Reporting Standards as adopted by the European Union.

Revenue recognition - Rebates and discounts

Revenue is measured taking account of discounts, incentives and rebates earned by customers on the Company's sales. Due to the multitude and variety of contractual terms across the Company's markets, the estimation of discounts, incentives and rebates recognised based on sales made during the year, revenue recognition is considered to be complex. Revenue is recognised at the point in time when control of the asset is transferred to the customer.

We determined revenue recognition as a key audit matter because revenue is one of the key performance indicators followed by the Company which could create an incentive for revenue to be recognised before the point in time when control of the asset is transferred to the customer.

Our audit procedures included considering the appropriateness of the Company's revenue recognition accounting policies including those relating to discounts and rebates and assessing compliance with the policies in terms of International Financial Reporting Standards as adopted by the European Union. We tested the effectiveness of the Company's controls over calculation of discounts and rebates and correct timing of revenue recognition. We tested a sample of sales transactions taking place at either side of the balance sheet date as well as credit notes issued after the balance sheet date to assess whether that revenue was recognised in the correct period and whether accruals for bonuses and discounts as at 31 December 2019 are fully recognized.

We also considered the adequacy of the Company's disclosures in Note 5 Revenue from contracts with customers in respect of revenue and Note 28 Current contract liabilities in respect of accrued bonuses and discounts and their compliance with International Financial Reporting Standards as adopted by the European Union.



Impairment of investments in subsidiaries

Equity investments in subsidiaries amount to EUR 329.3 million, which represents 15.5% of total assets as at 31 December 2019 in the separate financial statements. Management's impairment tests are prepared based on the discounted future cash flows and are significant to our audit because the assessment of future cash flows and discount rate requires significant management judgment and estimates.

Given the inherent subjectivity in the valuation, we determined this to be a key audit matter.

Our audit procedures included an assessment of the historical accuracy of management's estimates, evaluation and testing of the assumptions, methodologies, discount rates and other inputs used by the Company. We included in our team a valuation expert to assist us with our assessment of the discount rates and the appropriateness of the models used. Furthermore, we considered sensitivities such as the impact on the impairment tests if net operating income would be decreased, or the discount rates would be increased.

We assessed the adequacy of the Company's disclosures on the impairment test performed, included in Note 14 Investments in subsidiaries of the separate financial statements and their compliance with International Financial Reporting Standards as adopted by the European Union.

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. The supervisory board is responsible to approve the audited Annual Report.

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.

Report on other legal and regulatory requirements

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

Appointment and Approval of Auditor

We were appointed as auditors of the Company at the general meeting of shareholders on 4 July 2019, the president of the supervisory board has signed the audit agreement on 28 August 2019. The agreement was signed for the period of three years.

Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 8 years.

Janez Uranič and Mihael Rot are certified auditors, responsible for the audit in the name of Ernst & Young d.o.o..

Consistence with Additional Report to Audit Committee

Our audit opinion on the separate financial statements expressed herein is consistent with the additional report to the audit committee of the Company, which we issued on 18 March 2020.

Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Company and we remain independent from the Company in conducting the audit.

In addition to statutory audit services and services disclosed in the Annual Report and in the separate financial statements, no other services which were provided by us to the Company and its controlled undertakings.

Ljubljana, 25 March 2020

Janez Uranič
Director, certified auditor
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

Mihael Rot
Certified auditor

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1

ENCLOSURE 1

Repurchased treasury shares in 2019 by days

Date	Number of shares	Average share price (€)	Value of treasury shares (€ thousand)	Date	Number of shares	Average share price (€)	Value of treasury shares (€ thousand)	Date	Number of shares	Average share price (€)	Value of treasury shares (€ thousand)
3 Jan 2019	7,837	57.50	451	11 Feb 2019	1,612	57.69	93	20 June 2019	4,267	63.89	273
4 Jan 2019	1,470	57.90	85	12 Feb 2019	1,126	57.67	65	19 Aug 2019	2,872	61.10	175
7 Jan 2019	1,196	58.06	69	13 Feb 2019	2,398	58.02	139	20 Aug 2019	2,443	61.10	149
9 Jan 2019	2,229	57.47	128	14 Feb 2019	4,082	57.89	236	21 Aug 2019	787	61.10	48
10 Jan 2019	1,146	58.09	67	15 Feb 2019	3,995	57.69	230	22 Aug 2019	3,194	61.10	195
11 Jan 2019	929	57.65	54	18 Feb 2019	2,991	58.25	174	23 Aug 2019	2,970	61.13	182
14 Jan 2019	774	57.70	45	27 May 2019	2,678	60.28	161	26 Aug 2019	3,188	61.10	195
15 Jan 2019	4,547	58.00	264	28 May 2019	1,421	60.58	86	28 Aug 2019	3,157	60.70	192
16 Jan 2019	4,564	58.09	265	29 May 2019	735	60.50	44	29 Aug 2019	3,060	60.55	185
17 Jan 2019	4,592	58.09	267	30 May 2019	2,992	60.35	181	30 Aug 2019	3,362	60.50	203
18 Jan 2019	698	58.10	41	31 May 2019	2,552	61.03	156	2 Sept 2019	3,421	60.78	208
21 Jan 2019	4,458	58.09	259	3 June 2019	3,079	61.60	190	3 Sept 2019	2,967	60.60	180
22 Jan 2019	2,549	58.09	148	4 June 2019	3,252	61.48	200	4 Sept. 2019	3,099	60.69	188
23 Jan 2019	3,357	58.48	196	5 June 2019	717	61.10	44	5 Sept 2019	500	60.30	30
24 Jan 2019	568	58.09	33	6 June 2019	2,516	61.10	154	6 Sept 2019	3,254	60.70	198
25 Jan 2019	1,716	57.81	99	7 June 2019	3,353	61.50	206	9 Sept 2019	3,274	60.70	199
28 Jan 2019	2,528	58.36	148	10 June 2019	3,331	61.50	205	10 Sept 2019	3,351	60.75	204
30 Jan 2019	808	58.14	47	11 June 2019	3,492	61.85	216	11 Sept 2019	1,440	60.86	88
31 Jan 2019	2,241	58.09	130	12 June 2019	3,534	62.07	219	12 Sept 2019	2,733	60.90	166
1 Feb 2019	2,263	57.69	131	13 June 2019	3,981	61.80	246	13 Sept 2019	3,000	61.77	185
4 Feb 2019	2,395	57.59	138	14 June 2019	3,750	62.39	234	16 Sept 2019	3,641	61.55	224
5 Feb 2019	2,368	57.39	136	17 June 2019	3,851	62.83	242	17 Sept 2019	3,680	61.10	225
6 Feb 2019	2,555	57.37	147	18 June 2019	2,864	63.10	181	18 Sept 2019	1,806	61.10	110
7 Feb 2019	2,354	57.40	135	19 June 2019	2,909	63.55	185	19 Sept 2019	1,336	61.46	82

Date	Number of shares	Average share price (€)	Value of treasury shares (€ thousand)	Date	Number of shares	Average share price (€)	Value of treasury shares (€ thousand)	Date	Number of shares	Average share price (€)	Value of treasury shares (€ thousand)	
20 Sept 2019	3,752	61.83	232	11 Oct 2019	1,226	64.78	79	3 Dec 2019	1,696	70.40	119	
23 Sept 2019	3,195	61.86	198	14 Oct 2019	3,189	64.83	207	4 Dec 2019	1,238	70.68	87	
24 Sept 2019	1,004	62.70	63	15 Oct 2019	3,815	65.15	249	5 Dec 2019	4,392	71.43	314	
25 Sept 2019	4,016	62.99	253	16 Oct 2019	3,844	65.49	252	6 Dec 2019	3,323	71.47	238	
26 Sept 2019	3,869	62.66	242	17 Oct 2019	1,993	64.91	129	9 Dec 2019	4,591	71.63	329	
27 Sept 2019	2,890	63.10	182	18 Oct 2019	2,985	65.30	195	10 Dec 2019	4,737	71.47	339	
30 Sept 2019	3,922	63.17	248	21 Oct 2019	2,485	65.40	163	11 Dec 2019	1,116	71.72	80	
1 Oct 2019	3,928	63.28	249	21 Nov 2019	3,000	70.31	211	12 Dec 2019	3,000	72.18	217	
2 Oct 2019	3,904	63.10	246	22 Nov 2019	1,741	72.11	126	13 Dec 2019	4,633	73.95	343	
3 Oct 2019	3,663	63.10	231	25 Nov 2019	4,222	71.72	303	16 Dec 2019	5,230	74.72	391	
4 Oct 2019	894	63.35	57	26 Nov 2019	3,029	71.07	215	17 Dec 2019	5,029	74.32	374	
7 Oct 2019	2,961	63.92	189	27 Nov 2019	2,208	70.51	156	18 Dec 2019	2,796	73.52	206	
8 Oct 2019	4,048	63.91	259	28 Nov 2019	4,222	70.04	296	19 Dec 2019	5,090	74.64	380	
9 Oct 2019	143	64.50	9	29 Nov 2019	3,451	70.17	242	20 Dec 2019	4,405	74.67	329	
10 Oct 2019	3,525	64.67	228	2 Dec 2019	4,346	70.47	306	23 Dec 2019	3,904	74.07	289	
									Total purchases in 2019	340,805	63.67	21,698

Broker's fee is included in the weighted average price of shares.

SIGNING OF THE 2019 ANNUAL REPORT AND ITS CONSTITUENT PARTS

President and members of the Krka, d. d., Novo mesto Management Board are aware of the content of the integral parts of the 2019 Annual Report of Krka and the Krka Group, and hence of the entire Annual Report of Krka and the Krka Group for the year 2019. We hereby acknowledge the Report by our signatures.



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