2018 ANNUAL REPORT

Living a healthy life.

Krka, d. d., Novo mesto

Contents

INTRODUCTION

Statement by the President of the Management Board

Dear Shareholders, Business Partners and Employees,

Our company performed well in 2018. Total revenues grew by 5% to €1,331.9 million, of which €1,326.7 million was generated through sales of products and services. Year on year, we recorded 5% sales growth and 7% growth in terms of quantity. The output volume of prescription pharmaceuticals, non-prescription products, and animal health products reached record 14.3 billion tablets, capsules, and other dosage form units. We also posted the highest monthly and quarterly production volumes.

In 2018, earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 12% to €343.3 million, while earnings before interest and taxes (EBIT) increased by 17% to €232.7 million, and net profit generated by the Krka Group totalled €174.0 million, 14% more than in 2017. Return on equity (ROE) improved by 1.1 percentage points to 11.5%.

Sales Growth in All Sales Regions

Sales revenues in Region East Europe increased by 7% in 2018. Sales results of €412.9 million were achieved primarily through good performance in the two key markets, the Russian Federation and Ukraine. Other regional markets also significantly contributed to the above figures. We have been increasing our market share in the Russian Federation, our leading regional market and the largest individual market. In terms of value, last year sales amounted to €274.7 million, accounting for a 2% year-on-year rise. Growth expressed in the Russian rouble reached 15% as a result of an 18% climb in the sales volume. After a period of a downward trend, the pharmaceutical market in Ukraine recorded growth in 2017, which further increased in 2018. Due to our sales volume of €56.2 million and 24% growth, which substantially outperformed the overall market growth and direct competitors, we ranked second among foreign providers of generic medicines.

Region Central Europe generated product sales of €318.3 million, a 5% increase compared to 2017. Sales growth was attained on all regional markets. In terms of value, the rise was the greatest in Poland, and in relative terms in Estonia. In Poland, the largest regional market and one of our key markets, product sales reached €148.8 million, 3% more than in 2017. We recorded the highest growth rates of all foreign providers of generic medicines in the country.

In Region South-East Europe, we sold €176.2 million worth of products, a 9% year-on-year increase. Most regional markets contributed to the sales growth with Serbia at the forefront, as sales there exceeded the 2017 sales results by slightly more than €5 million.

The markets of Western Europe are considered our key markets, with product sales in the region totalling €287.1 million. Sales value increased by 1%, and sales volume was just shy of the 2017 figure. Germany, the Scandinavian countries, Spain and France were the leading markets. Most notably, sales through our own marketing-and-sales network recorded the highest growth and accounted for over 70% of regional sales.

Region Overseas Markets generated €43.4 million in sales and remained our smallest yet fastest growing region, recording 12% growth. We advanced sales through all three sales offices that cover several regional markets. Prescription pharmaceuticals contributed over 90% to sales and were primarily marketed under our own brand names.

Sales of products and services in Slovenia, also one of our key markets, amounted to €88.9 million in 2018. Health resort and tourist services, marketed by our Terme Krka subsidiary, should in particular be mentioned. With respect to value, product sales totalled €51.3 million, a 3% rise in value attained through 4% sales volume growth.

I would like to briefly outline sales by product groups. We engage in production of pharmaceutical products, and prescription medicines account for the largest proportion of our sales, 83% in 2018. Medicines for the treatment of cardiovascular diseases, the central nervous system, and diseases of the alimentary tract and metabolism remained our key prescription pharmaceuticals in 2018. These three therapeutic classes accounted for more than three quarters of all our prescription pharmaceuticals. Other major therapeutic classes also include medicines for pain relief, the systemic treatment of infections, and those acting on the blood and blood-forming organs. We also produce medicines for the treatment of

HIV infection and other antivirals, antidiabetics, medicines for the treatment of diseases of the urinary tract, and oncology medicines. Non-prescription products with the leading brands Septolete, Herbion, Nalgesin, and Bilobil accounted for a good 9% of total sales in 2018. Animal health products for farm and companion animals contributed almost 5% to our total sales. Products for companion animals recorded the largest increase in sales and contributed almost 50% to 2018 animal health product total sales. Health resort and tourist services provided by Terme Krka in Šmarješke Toplice, Dolenjske Toplice, Strunjan, Otočec, and Novo mesto represented 3% of the Krka Group revenues. Terme Krka is distinguished by quality healthcare services and is a tourist-and-health resort destination particularly popular with domestic visitors.

Twenty-Three New Products in 2018

We complemented our portfolio of prescription pharmaceuticals, non-prescription products, and animal health products with 23 new products in 52 dosage forms and strengths in 2018. Most of them, 18, were prescription pharmaceuticals, one was a non-prescription product, and four complemented the animal health range.

A high level of vertical integration is characteristic of our research-and-development and production operations. It integrates our development and production processes and presents the key advantage of our development strategy. Because of vertical integration, we are able to enter the markets as the first generic manufacturer with high-added-value products and manage our products throughout their life cycles.

Investments and 2018 Factory-of-the-Year Award

We invested in new production equipment and improvement of infrastructure in Slovenia, Croatia, and the Russian Federation. In 2018, the Krka Group allocated €96.3 million to investments, of which €78.0 million went to the controlling company and €18.3 million to subsidiaries. Investments slightly decreased in comparison to the previous years when we constructed and equipped the Notol 2 plant, our most ambitious investment in production of finished products to date.

In 2018, our major investment was Razvojno-kontrolni center 4 (Slovene abbreviation: RKC 4), the laboratory facility for pharmaceutical development and control at the production site in Novo mesto. It will serve to satisfy development and quality assurance needs in the upcoming years. The installation of equipment is under way and should be finished in the first half of 2019.

At the same site, the construction of a multi-purpose warehouse is in progress to acquire additional storage room for incoming materials and finished products, and to increase the speed and flexibility of production. It will be completed in January 2020.

Our new facility for manufacturing solid dosage forms, the Notol 2 plant, was presented with the 2018 factory-of-the-year award at the ceremony organised by the *Finance* newspaper. Its modular design allows for step-by-step integration of technological equipment in order to meet the increasing demand for finished products. We have also been expanding and modernising production capacities at other production sites in Slovenia and abroad. Our production plant in the Russian Federation has been additionally equipped and production programme in Croatia expanded. We are also constructing a new office building in Ljubljana for Marketing and Sales.

First Results in China

In 2018, Krka and its Chinese partner Menovo established a joint venture Ningbo Krka Menovo. Krka and Menovo have productively collaborated in various projects for 15 years, and this proved a good starting point for the launch of our largest project in China so far.

In 2018, we paid in the initial capital, acquired the necessary equipment, and obtained a GMP certificate for leased production facilities. In 2019, we plan to continue our investments. Ningbo Krka Menovo intends to invest several million in fixed assets for production, which will enable further production and business growth of the company.

Commercial manufacture of the first product intended for markets outside China began at the end of 2018. At the same time, we filed all marketing authorisation documents required to sell the product in China. In 2018, we also produced some validation batches for other products. In 2019, we plan to file another five marketing authorisations for our products in China. Our product portfolio will be adapted according to market needs and regulatory opportunities. Our production plans for Ningbo Krka Menovo entail the manufacture of approximately a quarter of a billion tablets and capsules. At the same time, we intend to adequately optimise production and other business functions.

Restrictive Regulatory Environment

In 2018, the quality of pharmaceutical products was closely examined in many markets. Several recalls of medicines reflected the growing importance of quality assurance in the pharmaceutical industry. In most cases, recalls resulted from non-compliant raw materials used in production of finished products. None of our medicines were recalled. We believe that this can be attributed in equal measure to quality assurance and the vertical integration business model, which allows us to manage all key processes, raw materials, and finished products by ourselves.

In 2018, pharmaceutical manufacturers accelerated their preparations for implementation of the new European legislation on public health protection, which aims to prevent the entry of falsified medicinal products into the legal supply chain. The legislation, which entered into force in February 2019, stipulates that packaging must bear safety features to prevent situations in which falsified medicines could reach patients. Similar changes have already been introduced in Russian legislation. We have upgraded all our packaging lines with equipment that prevents folding boxes from being opened without any noticeable damage. The equipment allows connection of information systems at Krka with databases of the European Medicines Verification System (EMVS). We have followed new requirements very thoroughly and are convinced that as regards quality, our products have gained an additional competitive advantage.

Information on Important Dispute Regarding the Active Substance Perindopril

According to the 2014 findings of the European Commission, Krka allegedly violated Article 101 of the Treaty on the Functioning of the European Union causing distortion of the competition in the perindopril market of the European Union. The European Commission imposed a €10 million fine on Krka. Krka settled the fine within the time limit set by the European Commission, but decided to bring an action before the General Court against the decision of the European Commission on the grounds that there was no breach of the EU competition rules, and in December 2018, the court ruled in favour of Krka.

The decision of the General Court has not yet become final, and the European Commission filed an appeal against the decision within the provided time limit, on which the Court of Justice of the European Union will rule. At the beginning of 2019, the European Commission refunded Krka the €10 million fine, but in compliance with legal opinion Krka decided to post the refund under deferred revenues.

We Invest in Our Human Resources Systematically

Our employees work in a culturally diverse international environment where they can develop professionally and personally. Thereby, the management and employees embrace new ideas and the company attracts, identifies, and develops talent.

At the end of 2018, the Krka Group had 11,390 employees, 5% more than the year before, close to 54% of whom hold at least a university degree. The average age of our employees is approximately 40 years, so the personnel are relatively young. Early identification and systematic development of key and promising employees are important. Over 50% of our employees work abroad.

We Remained Dedicated to the Values and Goals of Sustainable Development

Our responsibility to the natural environment and sustainable development is constantly increasing. We are well aware that our actions impact the environment. This is why we do not regard investments in environmental protection, occupational safety and development of social communities as costs, but rather as long-term investments that help us preserve and improve the quality of our living environment. We use a proactive dialogue to understand the needs of users and social environment as well as our impact on them. It serves as the basis for upgrading our actions in compliance with our strategic goals. Please read our 2018 annual report to learn more.

I would further like to highlight our latest environmental achievements. River water supply to cooling towers was partially replaced by clean rinse-water from production. Environmental load units (ELU) of waste water were reduced by 5% and the quantity of sludge from the wastewater treatment plant decreased by 41.3%. A total of 96 tonnes of aluminium and 146 tonnes of plastic were recovered from 259 tonnes of waste composites produced by our plants. We reduced the amount of waste disposed at landfills by 9% and energy efficiency in compressed air preparation was improved by more than 35% as a result of new technologies.

Sales and Profit Are Projected To Grow

The 2019 plan projects sales at €1.375 billion and net profit at €172 million but we will strive to exceed it. We intend to allocate over €124 million to investment projects to increase and upgrade production facilities and the infrastructure. Further employments are planned in Slovenia and abroad, and the number of employees is estimated to increase by approximately 4%.

We will continue to pursue a stable dividend policy, and allocate more than one half of net profit of major shareholders to dividend payout with due consideration given to investment and financial needs of the Krka Group.

Jože Colarič
President of the Management Board and CEO

Report of the Supervisory Board

Dear Shareholders and Stakeholders,

In 2018, Krka improved its results and all significant performance ratios. The conditions on most of its markets were also favourable.

Below, I outline our work in 2018 on behalf of the members of the Supervisory Board.

The Work of the Supervisory Board

The Supervisory Board of Krka 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 Hans-Helmut Fabry. The employee representatives are Deputy President of the Supervisory Board Franc Šašek, Dr. Mateja Vrečer, and Tomaž Sever. The Supervisory Board of Krka is composed of two women and seven men, whose qualifications, work experience, age, and the fields in which they work, differ. The Supervisory Board members are aged from 46 to 70 years. Their knowledge is versatile and covers various fields, including pharmacy, chemistry, law, economics, psychology, mathematics, social sciences, mechanical engineering, organisational sciences, and management. Throughout their careers, they have managed and supervised many companies, organisations, and processes.

Work and decision-making of the Supervisory Board are based on monitoring the objectives of Krka and the Krka Group in accordance with legislation, good national and international practices, and internal acts. 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.

Also, in 2018 we received all the requisite data, reports, and information. Departments of Krka promptly implemented improvements 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 support of their work throughout the year. The platform was developed by the Slovenian company Ixtlan. The Management Board submitted the materials seven days before each Supervisory Board meeting through a secure website. Simultaneous interpretation and translation of all materials for our meetings were provided for Hans-Helmut Fabry, a member from Germany.

Apart from two members who were absent once 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 departments of Krka occasionally attended the meetings as rapporteurs to present any details of the subject matter under discussion. However, the Management Board is responsible for the reporting.

In 2018, the Supervisory Board members met at five regular meetings and discussed 46 items on the agenda. Members of the Supervisory Board committees met eight times, held one meeting by correspondence, and discussed 40 items on the agenda. They reported to and advised the Supervisory Board.

The Supervisory Board discussed past and current operations of Krka, financial and business risks, information on human resources, investments, products, and implementation of the current strategy. We followed expert and analysts' opinions about Krka, compared the Company operations with those of competitors, and regularly received 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 Annual General Meeting and a proposal for the appropriation of distributable profit. The Supervisory Board also discussed and agreed with the 2019 business and financial plans prepared by the Management Board. Also in 2018, the Supervisory Board continued to improve its work, evaluated its own activities, and adopted an action plan.

Key Areas Discussed at Supervisory Board Meetings in 2018

The Annual Report Within the statutory timeframe, the Supervisory Board thoroughly examined the 2017 report of Krka and the Krka Group, and discussed the auditor's report issued by the Ernst & Young d. o. o., Ljubljana audit firm. 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*. 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 2017 and, together with the Management Board, drew up the *Statement of Compliance* regarding Krka's compliance with the *Corporate Governance Code*.

Interim Results The Supervisory Board regularly reviewed the first-quarter, half-year, and nine-month reports of the operations of Krka and the Krka Group for 2018. The Audit Committee considered the accounting and financial aspects of the interim results and risks, and reported to the Supervisory Board on all interim operational results. When analysing interim results, the Audit Committee and the Supervisory Board learnt about foreign exchange risks and their management in great detail.

Supervision of Krka Group Subsidiary Performance The Supervisory Board discussed the operations of Krka subsidiaries – primarily 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 challenges encountered in business operations, and similar. The board members were informed about all significant accounting data about these companies, especially the book value of investments by Krka in them, the number of employees, the value of inventories, assets, equity, operating revenues and operating costs, as well as operating profit or loss, and net operating results. With this report, the Supervisory Board was first brought up to date with new developments in relation to the new subsidiary of Krka, a joint venture Ningbo Krka Menovo that Krka had established with its partner Menovo in the city of Ningbo, in which Krka holds a 60% stake and the partner a 40% stake. The process of establishing the company was completed in January 2018.

Krka Group 2019 Operational Plans At their meeting in November 2018, the members of the Supervisory Board and the members of the Management Board discussed the 2019 operational plans of the Company and the Group. They were prepared by the Management Board, which outlined them to the Supervisory Board at the meeting in July.

According to the 2019 plans, Krka Group sales are projected at €1,375 million and net profit at over €170 million. Krka intends to allocate €124 million for investment projects to increase and modernise production capacities and infrastructure. In 2019, Krka plans to increase the number of employees in Slovenia and abroad by approximately 4% in total.

The plan includes detailed information about sales by regions and product groups, planned investments in research and development, the purchase of fixed assets and investments, the employment plan, and projected business results. The 2019 business plan is based on the revised 2018–2022 development strategy.

Convening and Holding the Annual General Meeting Together with the Management Board, as in previous years, the Supervisory Board drafted the agenda and materials for the Annual General Meeting (hereinafter: the AGM) on 5 July 2018, and prepared a proposal for appropriation of distributable profit. The Supervisory Board proposed that the AGM discharge the Management and Supervisory Boards of liability for 2017. The Supervisory Board proposed to the AGM that Ernst & Young d. o. o., Ljubljana be appointed for the 2018 audit.

Investments The Management Board regularly reports to the Supervisory Board on Group investments in the first-quarter, half-year, nine-month, and annual business reports. Once a year, the Management Board prepares a detailed overview of all major investments and reports on the course of work, meeting deadlines, and budgeted cost and accounting value, presents photographs of construction sites and buildings, as well as building plans where necessary. In 2018, members discussed in particular information about the Razvojno-kontrolni center 4 (Slovene abbreviation: RKC 4), the laboratory facility for pharmaceutical development and control, Krka's major investment in research and development at its primary site in Novo mesto. Works began in July 2015 and the installation and qualification of the equipment in April 2017. In May 2018, partial certificate of occupancy was obtained for the pharmaceutical development, while the laboratory section had obtained it the year before. Equipment installation will continue in the first half of 2019. The members were informed of an important new investment, a multi-purpose warehouse at the main Krka site in Novo mesto. Its construction started in winter 2017. The building will be handed over in January 2020 providing storage capacities for packaging materials, raw materials, and finished products for the period of ten years. Another major investment in 2018 was Pakirnica 2 (Packaging Room 2), which will further increase the capacities of the Notol 2 plant, the main Krka production plant. We were also informed about the construction of a new office building in Ljubljana, which should be ready for use in mid-2019.

Capital Structure The Management Board prepared a report on the capital structure of the Company in accordance with the proposal of the Supervisory Board. Among its competitors, Krka is known for its low indebtedness. The majority of investors and analysts currently support this concept, as they appreciate conservatism and stable business operations without major risks related to debt financing. When required, Krka also uses debt financing during higher liquidity fluctuations arising from investment expenses, dividend payouts, or movements of working capital. Krka was the first and so far the only company with the registered office in Slovenia to implement cash pooling. This represents an automated collection of cash from accounts of subsidiaries when surplus is recorded and automated financing of accounts in case of deficit, which allows for savings and optimal financing of the Krka Group. In the context of the capital structure, the members also discussed the shareholder structure, which was stable also in 2018 and allowed for long-term decisions. Natural persons owned approximately 40% of Krka shares. They invested in the Company due to its stable performance and growth, high dividends, solvency and security of their investment, and also because of its commitment to corporate responsibility and investing in the environment. Institutional investors invested in Krka due to geographic and product investment diversification, stable performance and low investment risk, higher dividends compared to competitors, and appealing growth opportunities. Slovenski državni holding (the Slovenian Sovereign Holding), Kapitalska družba (Pension Fund Management), and the Republic of Slovenia are three largest shareholders which invest in Krka not only for reasons important to other investors but also because of national and economic reasons.

Risks The Management Board regularly reported to the Supervisory Board on various risks. In 2018, in addition to currency risks, business and legal risks, of which those relating to intellectual property are particularly important, the pharmaceutical industry encountered risks related to product quality assurance and new developments in implementation of legislation regarding the prevention of the entry of falsified medicinal products into the legal supply chain (*Falsified Medicines Directive*, *FMD*).

Quality of pharmaceutical products was under close scrutiny last year in many countries, resulting in a number of recalls of medicines, which shows the great importance of quality in the pharmaceutical industry. However, no Krka medicines were recalled due to investments in quality assurance.

In 2018, pharmaceutical manufacturers focused on accelerated preparation for the aforementioned new legislation, which entered into force in February 2019. The products must be packed in tamper-evident folding boxes, and have a unique identifier to ensure traceability. By installing new modules and IT support on the packaging lines, Krka adequately upgraded its facilities already in 2018.

I would also like to mention the progress of an important dispute concerning the active ingredient perindopril. According to the 2014 findings of the European Commission, Krka allegedly violated Article 101 of the Treaty on the Functioning of the European Union causing distortion of the competition in the perindopril market of the European Union. The European Commission imposed a €10 million fine on Krka. Krka settled the fine within the time limit set by the European Commission, but decided to bring an action before the General Court against the decision of the European Commission on the grounds that there was no breach of the competition rules, and in December 2018 the court ruled in favour of Krka. The decision of the General Court has not yet become final, and the European Commission filed an appeal against the decision within the provided time limit, on which the Court of Justice of the European Union will rule. At the beginning of 2019, the European Commission refunded Krka the €10 million fine, but in compliance with the legal opinion Krka decided to post the refund under deferred revenues. The Supervisory Board was regularly informed of the course of the proceedings in the past years.

Like every year, the Management Board presented the procedures, deadlines, and risks related to patents and other disputes involving Krka to the Supervisory Board by individual products and markets.

At the November meeting, the Supervisory Board discussed the updated risk register of the Krka Group, which presents a comprehensive overview of the risks at the Group level in order to allow for timely determination and management of factors that could impact reaching the objectives defined in the relevant development strategy and quality manual. The changes are primarily based on the *Development Strategy of the Krka Group*, where we wish to point out new product and therapeutic classes and technologies, entry into the Chinese market, more long-term business relations with external partners, digitalisation of operations, and other new developments in information technology. The *Register* also takes into consideration changes in the business environment, particularly requirements with regard to compliance and transparency of operations in all areas, and more stringent legislation, for example the directive on preventing falsified medicinal products to enter the legal supply chain. The *Register* highlights the increase in our suppliers' prices as one of the greatest risks.

During the discussion of interim reports, the Management Board informed the Audit Committee and the Supervisory Board on currency risks. The exposure in the Russian roubles remained the major exposure in the Group in 2018. Krka continued its policy of partial hedging against the rouble in 2018. The key policy of the Group remains to mitigate foreign currency exposure primarily by natural hedging.

The Management Board also reported to the Supervisory Board on potential market and regional risks, such as measures taken by authorities or regulatory bodies in individual countries, or changes in methods for determining the prices of medicines.

Internal Audit of Krka reported to the Audit Committee, which then reported to the Supervisory Board on risks established in internal audit reviews.

Business Trends in the Pharmaceutical Industry and Analytical Reports on Krka In 2018, Krka operations were monitored by eight financial analysts from banks or financial companies, seven of whom were foreign, and by analysts of large owners. Like every year, the Supervisory Board was informed on the findings of external analysts, assessments of fair value of Krka shares, and benefits, opportunities, weaknesses, and dangers with respect to Krka operations. The Supervisory Board also discussed current information about the pharmaceutical industry.

Additionally, the Company further increased investor relations activities in 2018.

Benchmarking Krka Performance against Comparable Companies The Supervisory Board regularly compares Krka operations with its competitors. Also in 2018, the body was informed about performance of the Krka Group in comparison to other generic pharmaceutical companies, in particular Gedeon Richter, Stada, Lek, and Hikma. It especially compared sales, their structure by regions and product groups, gross profit, operating profit (EBIT), earnings before interest, tax, depreciation and amortisation (EBITDA), profit before tax and profit in the period, margins, ROE and ROA ratios, presentation of the cost structure, income statement, and share price indicators. According to the ratios and indicators, Krka regularly ranked very high among its competitors.

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 2018. Its purpose was to inform the Supervisory Board on worker participation in management, draw attention to any shortcomings, and propose measures. In the report, the Works Council assessed the cooperation with the Company management as good and workplace relationships as suitable. Agreements were reached in a spirit of cooperation and focused on finding common grounds for implementation of set goals. Organisational climate was at a high level and employee satisfaction as well. The members of the Supervisory Board were informed about the report and had no comments on it. At the same time, we were pleased with employees' loyalty to the Company and good cooperation between the management and workers, since they positively affects business results.

Organisational Energy Evaluation Results In 2018, the Supervisory Board members discussed the results of measuring organisational energy. Krka has been measuring organisational climate and employee commitment in different ways for several years. Every two years since 1998, Krka has been using a questionnaire drawn up for the Slovenian Organisational Climate (SiOC) project, alternating the sample employee population and total employee population. Every two years since 2007 (the last time at the end of 2018), Krka has taken part in the Golden Thread campaign organised by the Slovenian daily newspaper *Dnevnik* to monitor its employees' attitude towards the Company. In 2017, Krka also tried out the Planet GV methodology. Based on the findings, all directors and heads of Company departments prepare action plans to improve or maintain good performance, which are also discussed by a relevant internal committee. The report discussed by the members in 2018, supplemented the annual presentation by the President of the Works Council, and indicated standard good workplace climate and employee commitment to the Company. Krka has received many awards over the years, such as those conferred on the most reputable employer, the best employer, and awards for systematic investment in education and training of employees, which supports the results of the findings.

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

In 2018, the Supervisory Board determined the performance bonuses for the Head of Internal Audit for 2017 and for the first half of 2018. As the Head's work performance was very good, she received them both times.

We were also informed about the annual report on the Internal Audit performance, on which we had no comments.

With regard to the provisions of the *Companies Act* (ZGD-1), the Supervisory Board discussed and approved the employment contract of the Head of Internal Audit for the following contract period commencing on 1 April 2018.

It also discussed and approved the *2019 Annual Work Plan of Internal Audit.*

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

Management Board Performance and Remuneration and the Updated *Rules Defining the Bonus Element of Management Board Remuneration* In 2018, the Supervisory Board updated the *Rules Defining the Bonus Element of Management Board Remuneration*, effective as of 2019. The *Rules* were aligned with the updates from the *2018–2022 Krka Group Development Strategy*.

The Management Board performance is measured according to qualitative and quantitative criteria. Quantitative criteria valid in 2018 included the growth in sales value and volume, increase in cash flows from operating activities and in operating profit, as well as return on equity. Dividends have been included in the quantitative criteria, since the updated *Strategy* changed the dividend policy. Qualitative criteria applicable in 2018 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, reputation of Krka, as well as investor relations and public relations. Since the updated *Development Strategy* emphasises information technology, investments, and human resources even more, these three fields were added to the qualitative criteria during the update. The criteria, reference periods, and calculation model were technically updated. This was not the first major revision of the Management Board remuneration model. The Supervisory Board first adopted the *Rules* in 2009, and has regularly updated them since, to follow the needs relating to Management Board assessment and remuneration. The *Rules* were first revised in 2012, when qualitative performance criteria were updated and qualitative criteria added for the first time. In 2014, the *Rules* were aligned with the *Krka Group Development Strategy* applicable at the time, and in 2016, variable remuneration was introduced for the Worker Director – a Management Board member.

The Supervisory Board regularly monitors 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 said 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 the annual performance.

Shares and Shareholding Structure Every quarter, the Supervisory Board obtained current information about shares, and reviewed the report on the acquisition of treasury shares, the current shareholding structure, trading in shares, and the Company share price.

In order to implement the valid resolution adopted by the AGM regarding the treasury share fund, we agreed to the revision of the *Rules Governing the Treasury Share Fund.* They specify the AGM resolution and set the framework for submitting purchase orders, and prevent the market manipulation indicators to occur in the market in relation to treasury share purchases. The *Rules* also determine restrictions with regard to the price of an individual purchase of shares, adequate distribution of purchases considering the entire trading period available, prohibition of trading during closed periods, and measures for adequate transparency of purchases and informing the public. The former *Rules* also stipulated that, on an individual trading day, the Company was allowed to acquire a maximum of 25% of the average daily volume of the Company shares purchased in the regulated market within the last 20 trading days. Since this represented an obstacle in acquiring treasury shares and an obstacle with respect to implementing the AGM resolution, the Supervisory Board agreed to raise the threshold to 50%. However, the *Rules* still maintain the restrictions as determined by the regulatory system and all other precautionary measures that have already been described.

In 2018, in accordance with the decision of the Government of the Republic of Slovenia, Slovenski državni holding, d. d., transferred 2,362,194 unpaid Krka shares to the Republic of Slovenia. No major changes occurred in the shareholding structure or the share price in 2018.

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

Strengthening the Good Practice of Supervisory Board Performance In 2018, the Supervisory Board conducted a periodic self-assessment according to the methodology of the Slovenian Directors' Association. 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 grade was 3.7 out of 4. The grades showed that the work of the Supervisory Board is of the highest standards. The members also proposed some improvements to their work, which will be introduced in 2019.

Corporate Events In addition to the Annual General Meeting of Krka, the members occasionally attended various business and social events related to their work in the Supervisory Board.

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

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 under the authority of the Supervisory Board. In 2018, the Supervisory Board agreed with the opinion of the committees regarding the items on which they reported and advised them.

Audit Committee

In 2018, the Audit Committee met five times and held one correspondence meeting. It discussed 31 items on the agenda. The President of the Audit Committee is Borut Jamnik, and its members are Boris Žnidarič, Tomaž Sever, Franc Šašek, and Borut Šterbenc. Borut Šterbenc is an outsourced accounting and auditing expert and is not a member of the Supervisory Board. The other members are members of the Supervisory Board.

The Committee invited the President of the Management Board and the member of the Management Board responsible for accounting, finance and controlling, and the Head of Internal Audit to all its meetings. The President of the Supervisory Board may attend the meetings at his own discretion. The Supervisory Board Secretary attends all meetings. In 2018, two meetings were also attended by representatives of the Ernst & Young d. o. o., Ljubljana audit firm.

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

Annual Report In 2018, the Committee considered the 2017 annual report of Krka and the Krka Group, the auditor's report and the 2017 Supervisory Board report, and proposed that the Supervisory Board approve them. The audit partner and coordinator from Ernst & Young d. o. o., Ljubljana external audit firm reported twice on the audit procedures to the members of the Committee.

Interim Results When considering the interim reports, the Audit Committee discussed these primarily with regard to accounting and finance, and reported about them to the Supervisory Board. In 2018, no accounting or financial particularities, or changes to past practice were established, except for those that are mandatory and stipulated by amendments to the *International Financial Reporting Standards*.

Cooperating with External Auditors and Proposing an Audit Firm for the Financial Statements Audit The Committee regularly monitors the external audit procedures and works with the external auditors, who regularly report to the Audit Committee on the progress of the audit of financial statements for the previous financial year. The Committee proposed the existing audit firm to perform the 2018 audit of financial statements. The Supervisory Board discussed and agreed with the proposal, while the shareholders approved it at the AGM. The Audit Committee reviewed the contractual provisions and advised the Supervisory Board to approve them.

In the autumn of 2018, the Audit Committee began to engage in activities concerning the audit of the 2018 annual report of Krka and the Krka Group. Before starting the audit, the representatives of the Committee usually meet with the audit partner and coordinator, and agree on the key areas of work. In 2018, they met in August with an intention to review the prepared audit plan and the composition of the audit team more closely, and to agree with the Committee representatives on the guidelines for a more in-depth review of individual business operation areas in 2018. In accordance with the Committee resolution, representatives of the Company and the Head of Internal Audit attended the meeting.

We would also like to point out that the statutory auditors now have two new tools available, i.e. Canvas Client Portal for safe and efficient information exchange with the Company, and EY Helix (data analytics) for processing an entire data collection and searching for any patterns, correlations, trends, irregularities, and deviations in data in selected fields.

Managing Non-Audit Services According to the Regulation (EU) no. 537/2014, any firm within the Ernst & Young network performing an audit of the financial statements of Krka as a public-interest entity may 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 if previously approved by the Audit Committee of the Supervisory Board of Krka. For approval purposes, the Audit Committee adopted the *Protocol for the preliminary approval of non-audit services*, which stipulates the basic principles for approval, cost limits, the procedure and the duration of the approved permitted non-audit services.

In 2018, in line with the above, the Audit Committee agreed that the statutory auditors perform the following non-audit services: the translation of the financial report into English and the preparation of the report on relations with affiliated companies for subsidiaries Terme Krka, d. o. o., Novo mesto and Farma GRS, d. o. o.

Internal Audit In 2018, the Committee discussed several other topics related to internal audit. It reviewed the report on the performance of Internal Audit for 2017 and the self-evaluation report of the Internal Audit for 2017. It also discussed the report on the performance of Internal Audit for the period from January to June 2018 and its 2019 work plan.

Also in 2018, the Committee proposed the Supervisory Board performance bonuses for the Head of Internal Audit for 2017 and for the first half of 2018.

In accordance with Krka's procedures, the employment relationship of the Head of Internal Audit had to be contractually renewed in 2018. The Audit Committee reviewed the contract and submitted it to the Supervisory Board, which agreed with the proposal.

In compliance with good practice, *International Standards for the Professional Practice of Internal Auditing*, and legislation, the Head of Internal Audit also has to assess any baseline 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 2018, the Committee members assessed that the provided guidelines do not need to be changed as they were useful. However, they recommended the Head to consider any relevant information provided by the external audit firm when preparing the 2019 work plans.

The Head of Internal Audit regularly informs the members of the Audit Committee on the findings of internal audits. At the meeting in March 2018, she reported about audits performed in the following areas: sales in Region Overseas Markets and Region West Europe; API R&D; Analytics Development; Information Technology; Engineering and Technical Services; Environmental Protection; and Human Resources. She also reported about audits conducted in subsidiaries and representative offices in the Republic of North Macedonia, the Russian Federation, Belarus, Spain, Sweden, Hungary, and Croatia. At the meeting in July, the Head of Internal Audit reported about audit findings concerning subsidiaries in Germany and Romania, the representative office and subsidiary in Bosnia and Herzegovina, representative offices in Albania and

Kosovo, and Krka in the areas of warehousing and transport, and pharmaceutical development. No significant deviations were established.

Risk Management The Audit Committee regularly discussed financial risks in particular and reported about them to the Supervisory Board. It considered currency risks at every meeting, and focused primarily on risks related to the exchange rate fluctuation of the Russian rouble, which accounts for most of Krka's foreign exchange exposure. The committee also dealt with other business risks.

We also wish to point out that the *Risk Register* was updated in 2018, which comprises a comprehensive list with descriptions of risks and control measures at the level of Krka, which the Committee also discussed and reported to the Supervisory Board.

Annual General Meeting The Audit Committee discussed the proposal for the appointment of the audit firm for the financial year 2018 and suggested at the AGM that the Supervisory Board propose the Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana audit firm. The AGM approved the proposal. The selected audit firm has been conducting audits at Krka since 2012.

Current Issues As every year, depending on current issues or following the proposal of its members, the Committee also discussed other information, particularly from the accounting or financial perspective and the risk perspective.

Human Resource Committee

In 2018, the Human Resource Committee met three times and discussed nine agenda items. The Committee is presided over by Andrej Slapar; the members are Julijana Kristl and Mateja Vrečer. The Committee invited the President of the Management Board and the member of the Management Board responsible for accounting, finance and controlling, 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 2018, the Committee evaluated the work of the Management Board twice, for the entire year of 2017 and separately for the first half of 2018. 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 2017 and the first half of 2018.

Updated *Rules Defining the Bonus Element of Management Board Remuneration* At its meeting in March 2018, the Human Resource Committee decided to update the *Rules Defining the Bonus Element of Management Board Remuneration* together with the Management Board by the end of 2018 as needed in order for the document to follow the current requirements for monitoring and remuneration of a part of the Management Board. At the July meeting, the Committee members thoroughly reviewed potential updates and prepared a final proposal, which they presented to the Supervisory Board at the November meeting. They technically updated the calculation method, which was necessary, since the valid *Rules* were based on those from 2009. It was also necessary to revise the contents in order to align the Management Board remuneration with the updated development strategy for 2018–2022. The Supervisory Board agreed with the proposed changes. The changes are detailed in the section of the report discussing the work of the Supervisory Board.

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 *Companies Act* (ZGD-1), good practice, the *Corporate Governance Code*, and the guidelines of the Slovenian Directors' Association, while also considering other good practices relevant for Krka as a public limited company.

The Management Board regularly attended all the meetings of the Supervisory Board in 2018. The President of the Management Board reported and answered questions on behalf of the Company, while other members of the Management Board provided additional explanations. In 2018, the Supervisory Board decided to invite individual directors from the Group as secondary rapporteurs to the meetings, occasionally and as agreed, in order to present operational details.

In 2018, in accordance with its recent practice, the Supervisory Board considered the work of the Management Board twice a year under a separate agenda item when setting the performance bonus. It assessed the performance of the Management Board with a prescribed model which contains quantitative and qualitative performance criteria. For this purpose, the Management Board prepares a detailed report indicating achievement of individual criteria. The Supervisory Board promptly evaluated the work of the Management Board upon each discussion of interim results, compared Krka performance with competitors, and considered external analysts' opinions about Krka.

In 2018, the Management Board timely collected all the necessary data, reports, and information, so that the Supervisory Board could do its work properly. The Management Board responded quickly and effectively to the decisions of the Supervisory Board. The President of the Supervisory Board and the President of the Management Board remained in contact between the meetings in 2018, consulted each other, and considered various topics together. The Management and Supervisory Boards cooperated professionally and productively in 2018. We assess the performance of the Management Board in 2018 as successful, since all major performance ratios improved, even though they were good the previous year.

We also assess the Supervisory Board performance in 2018 as successful, as by discussing areas stated in this report we thoroughly supervised the Company operations.

All members remained independent in their work in 2018. In line with recommendations of the *Corporate Governance Code*, all members 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 in such cases in particular, 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 situation 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 Annual General Meeting.

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, claiming the annulment of the resolution adopted 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 inspected all submitte. On 3 January 2019, the Company received the judgement delivered by the District Court of Novo mesto, which rejected the claim made by the PanSlovenian Shareholders' Association to annul the appointment of Mr Hans-Helmut Fabry a member of the Supervisory Board of Krka. The Court established that the appointment procedure was correct.

In the following, I present a summary of all costs related to work of the Supervisory Board. Krka allocated €234,000 for the work of the Supervisory Board and its committees (payment for exercising the function, attendance fees, travel expenses) in 2018, whereas €233,682 were spent. In 2018, the Company paid €7,000 for membership fees to the Slovenian Directors' Association. Also, Krka incurred costs related to simultaneous interpretation services totalling €6,433, and the application eNS lease totalling €8,076. There were no other expenses payable to contractors or consultants.

Approval of the Annual Report and Proposal for the Appropriation of the 2018 Distributable Profit

The Supervisory Board discussed the 2018 Annual Report at **two** Supervisory Board meetings and **two** Audit Committee meetings.

The draft 2018 annual report and 2018 unaudited financial statements of Krka and the Krka Group were considered by the Supervisory Board and the Audit Committee at their meetings of 20 March 2019. The statutory audit firm, Ernst & Young d.o.o., Ljubljana, reported to the Audit Committee **on the findings and 2018 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 2018 annual report and audited 2018 financial statements of Krka and the Krka Group** on 2 April 2019, and discussed them at their meetings of 10 April 2019. Certified auditors reported to the Committee and the Supervisory Board.

Corporate governance statement also forms a part of the 2018 annual report. It illustrates key aspects of Krka's governance, particularly the composition and operation 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 proposed copy of the annual report, the auditor's report, and the review by the Audit Committee, the Supervisory Board assessed that the Management Board's annual report is a true and fair account of the events, and presented a comprehensive view of the performance of Krka and the Krka Group in 2018, and provided detailed information that was otherwise sent to the Supervisory Board throughout the financial year. As the Supervisory Board had no comments or reservations in that regard, it unanimously approved the 2018 annual report at their meeting on 10 April 2019. **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 2018, Krka generated total net profit of €163,328,985.07, of which €11,487,966.67 was appropriated to reserves for treasury shares, and €0.00 to other revenue reserves. The remaining profit of €151,841,018.40 and the retained net profit of €37,626,338.93 comprised the accumulated profit, which as at 31 December 2018 amounted to €189,467,357.33.

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

– Dividends €101,835,696.00, or €3.20 gross per share;
– Other profit reserves €43,815,830.66; and
– Retained earnings €43,815,830.67.

The proposal was drawn up by considering the number of treasury shares on 10 April 2019. 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 altered accordingly.

Conclusion

In 2018, all Krka's major business ratios grew even further, and the business situation significantly improved in the majority of markets as well. Sales prospects for 2019 are favourable. Krka is developing and launching new medicines, entering new markets, increasing the number of employees, and investing while maintaining financial stability and low indebtedness, for which it is known among investors. The Supervisory Board members assess Krka's operations in 2018 as strong, successful, and trustworthy.

Jože Mermal
President of the Supervisory Board

Financial Highlights of the Krka Group

In € thousand	2018	2017	2016	2015	2014
Revenues	1,331,858	1,266,392	1,174,424	1,164,607	1,191,614
– of that revenues from contracts with customers (products and services)[1]	1,326,747	1,260,898			
Operating profit (EBIT)[2]	232,686	198,741	122,435	199,434	276,953
EBITDA[3]	343,280	306,638	228,238	306,742	374,535
Net profit	174,008	152,576	108,456	158,185	166,161
Non-current assets (year-end)	1,010,811	1,033,008	1,038,067	986,598	1,008,830
Current assets (year-end)	974,258	886,123	873,451	822,606	786,915
Equity (year-end)	1,540,270	1,487,699	1,444,444	1,405,984	1,351,899
Non-current liabilities (year-end)	123,058	121,182	115,313	110,982	125,421
Current liabilities (year-end)	321,741	310,250	351,761	292,238	318,425
R&D expenses	130,700	125,864	117,994	115,393	108,370
Investments	96,293	105,088	131,817	95,889	173,721

RATIOS	2018	2017	2016	2015	2014
EBIT margin	17.5%	15.7%	10.4%	17.1%	23.2%
EBITDA margin	25.8%	24.2%	19.4%	26.3%	31.4%
Net profit margin (ROS)	13.1%	12.0%	9.2%	13.6%	13.9%
Return on equity (ROE)[4]	11.5%	10.4%	7.6%	11.5%	12.4%
Return on assets (ROA)[5]	8.9%	8.0%	5.8%	8.8%	9.3%
Liabilities/Equity	0.289	0.290	0.323	0.287	0.328
R&D expenses/Revenues	9.8%	9.9%	10.0%	9.9%	9.1%

NUMBER OF EMPLOYEES	2018	2017	2016	2015	2014
Year-end	11,390	10,832	10,889	10,564	10,499
Average	11,129	10,823	10,774	10,532	10,284

SHARE INFORMATION	2018	2017	2016	2015	2014
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]	5.46	4.74	3.35	4.86	5.07
Gross dividend per share in €	2.90	2.75	2.65	2.50	2.10
Closing price on LJSE at the end of the period in €	57.80	57.50	52.90	65.20	59.60
Price/Earnings ratio (P/E)	10.59	12.14	15.81	13.41	11.75
Book value in €[7]	46.97	45.37	44.05	42.87	41.22
Price/Book value (P/B)	1.23	1.27	1.20	1.52	1.45
Market capitalisation in € thousand (31 Dec)	1,895,461	1,885,623	1,734,773	2,138,133	1,954,490

[1] 2018 revenues comply with the latest *IFRS 15*. 2017 revenues from contracts with customers on sales of products and services have been presented adequately.

[2] The difference between operating income and expenses

[3] The difference between operating income and expense plus accumulated depreciation

[4] Net profit/Average shareholders' equity in the year

[5] Net profit/Average total asset balance in the year

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

[7] Equity as at 31 Dec/Total number of shares issued

ID Card of the Krka Group

The Krka Group consists of the controlling company, Krka, d. d., Novo mesto, two subsidiaries in Slovenia, i.e. Terme Krka, d. o. o., Novo mesto and Farma GRS, d. o. o., and 30 subsidiaries outside Slovenia.

The Group is engaged in the development, production, marketing, and sale of human health products (prescription pharmaceuticals and non-prescription products), animal health products, and health resort and tourist services.

Production takes place in the controlling company in Slovenia and in Krka subsidiaries in 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 deal with marketing and/or sales of Krka products, but do not have production capacities.

Terme Krka, d. o. o., Novo mesto deals with health resort and tourist services; it operates through the following branches: Terme Dolenjske Toplice, Terme Šmarješke Toplice, Hoteli Otočec, 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 industry. The company develops new pharmaceutical products, new technological products for pharmaceutical production, and contributes to more efficient pharmaceutical production in terms of energy, environment, and business operations. Farma GRS is the sole owner of six micro companies: GRS TEHFARMA, d. o. o., GRS VIZFARMA, d. o. o., GRS PREK FARMA, d. o. o., GRS EKO FARMA, d. o. o., GRS TREN FARMA, d. o. o., and GRS VRED FARMA, d. o. o. The share of Krka, d. d., Novo mesto in Farma GRS is 99.7%.

At the beginning of 2018, Ningbo Krka Menovo Pharmaceutical Co. Ltd., the joint venture in China, where Krka has a 60% and the Chinese partner, Ningbo Menovo, a 40% stake, started operating.

Information on the Controlling Company

Krka, d. d., Novo mesto	
Registered office	Šmarješka cesta 6, 8501 Novo mesto, Slovenia
Telephone	+386 (7) 331 21 11
Fax	+386 (7) 332 15 37
E-mail	info@krka.biz
Website	www.krka.si
Core business	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	SI82646716
Company ID number	5043611000
Share capital	€54,732,264.71
Total number of shares issued	32,793,448 ordinary registered no-par value shares

Krka Group Business Model

Socio-economic conditions
Ageing population, better accessibility of medicines, technological and scientific progress, available resources for health-care expenditure, increasing expectations and requirements of governments, regulators, and shareholders, growing competition in the pharmaceutical industry (originator and generic segment), geopolitical tensions

Resources

Human potential

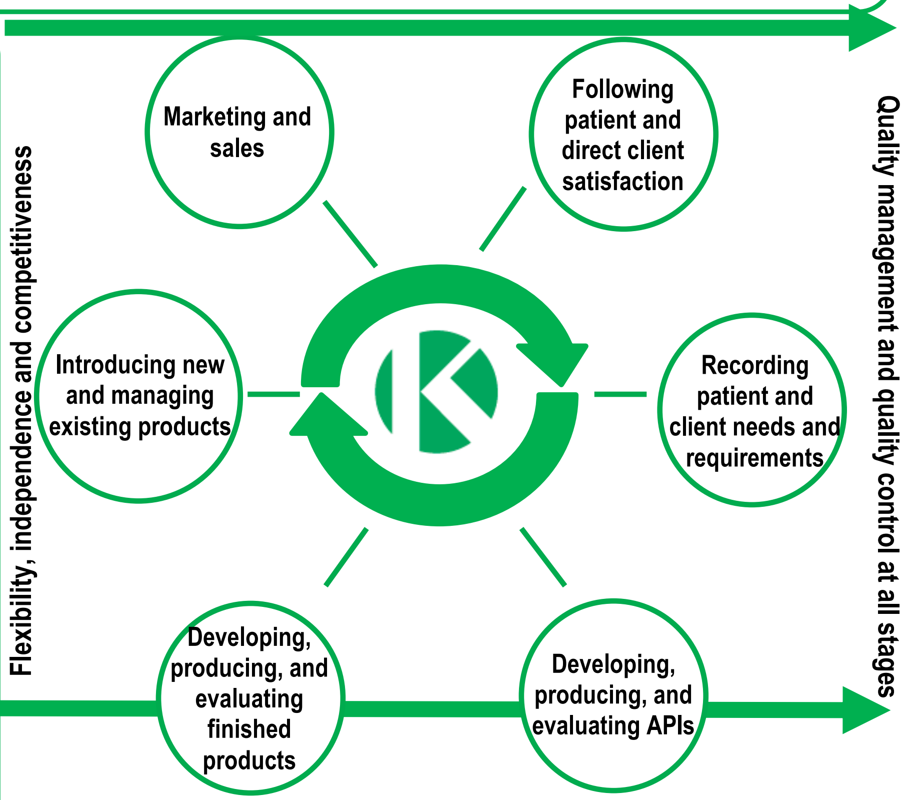
Research and technological capabilities

Intellectual capital

Financial resources

Incoming materials

Environment and natural resources



Creating value for stakeholders

Quality, safe, and efficient medicines based on innovative solutions

Affordable treatment

Sustainable health-care system

Investment in further development

Stable dividend policy

Safe and healthy work environment

Opportunities for employment and development of knowledge, skills, and talents

Efficient management of natural resources

Improvement of life in the community

Purchase of materials and services

Prescription pharmaceuticals

- for cardiovascular diseases
- for the alimentary tract
- for the central nervous system
- for pain relief
- for the systemic treatment of infections
- for blood and blood-forming organs
- for urinary tract
- oncology medicines
- for the treatment of diabetes

Non-prescription products

Animal health products

Health resort and tourist services

Our Company mission is living a healthy life. We contribute to this by working entirely for the benefit of patients and our other clients. Our business model provides affordable products of high quality and enables long-term responsible and sustainable value creation. The vertically integrated business model allows us to plan and maintain an integrated management system, thus ensuring adequate processes as well as the marketing of quality, safe, and efficient products through their entire life cycle.

Our values determine the manner of cooperation to implement our visions and guide our business decisions. Our mission is balanced, natural, and sustainable development by which we contribute to protection of health, preservation of the environment, and development of the community.

Krka Group Organisation Chart

Central Europe

- **Poland**
  KRKA - POLSKA Sp. z o.o.
- **Czech Republic**
  KRKA ČR, s. r. o.
- **Hungary**
  KRKA Magyarország Kft.
- **Slovakia**
  KRKA Slovensko, s.r.o.
- **Lithuania**
  UAB KRKA Lietuva
- **Latvia**
  SIA KRKA Latvia

Overseas Markets

- **CHINA**
  Ningbo Krka Menovo Pharmaceutical Co. Ltd.
- **USA**
  KRKA USA LLC

South-East Europe

- **Croatia**
  KRKA-FARMA d.o.o.
- **Romania**
  KRKA ROMANIA S.R.L.
- **Serbia**
  KRKA-FARMA DOO BEOGRAD
- **Republic of North Macedonia**
  KRKA-FARMA DOOEL Skopje
- **Bosnia and Herzegovina**
  KRKA FARMA d. o. o., Sarajevo
- **Bulgaria**
  KRKA Bulgaria EOOD

Slovenia

- KRKA, d. d., Novo mesto
- TERME KRKA, d. o. o., Novo mesto
- Farma GRS, d. o. o., Novo mesto

East Europe

- **Russian Federation**
  KRKA-RUS LLC
- **Russian Federation**
  KRKA FARMA LLC
- **Ukraine**
  KRKA UKRAINE LLC
- **Kazakhstan**
  LLC "KRKA Kazakhstan"

West Europe

- **Germany**
  TAD Pharma GmbH
- **Sweden**
  Krka Sverige AB
- **Austria**
  KRKA Pharma GmbH, Wien
- **Ireland**
  KRKA PHARMA DUBLIN LIMITED
- **Portugal**
  KRKA Farmacêutica, Unipessoal Lda.
- **Spain**
  KRKA FARMACÉUTICA, S.L.
- **Italy**
  KRKA FARMACEUTICI MILANO S.R.L.
- **France**
  KRKA France Eurl à capital variable
- **Belgium**
  KRKA Belgium, SA
- **United Kingdom**
  KRKA UK Ltd
- **Finland**
  KRKA Finland Oy

The chart includes companies in operation as at 31 December 2018.

- Production and distribution companies
- Other subsidiaries outside Slovenia
- Joint venture for development, production, and distribution
- Health resort and tourist services company
- The EU project: research and development company

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

Krka's Presence in Global Markets

Overview of Significant Events and Awards in 2018

Events

- At the beginning of the year, fifteen worker assemblies were held at Krka in Slovenia, where the President and members of the Board presented performance results, plans for the current year, and the strategy as well as other current information.

- In March, we organised the twelfth consecutive meeting with local sponsored parties whose main sponsor is Krka. At the meeting, three young talents received the best talent recognition for sports and cultural achievements in 2017.

- In April, we conducted Krka's Week of Charity and Volunteering, a socially responsible campaign, for the seventh year in a row. Charitable activities brought together 1,100 Krka volunteers and were also organised in 19 subsidiaries and representative offices.

- 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 86 Krka employees who successfully completed programmes in the pharmaceutical industry.

- The Management Board adopted the *Code of Conduct* and updated the *Rules on Fraud Prevention, Detection and Investigation*. These two basic documents defining business compliance within the Krka Group entered into force on 1 May 2018.

- We select and award best employees and best managers to strengthen employee loyalty and positive atmosphere in the company. At the Krka Awards Day ceremony, we conferred plaques to thank our employees who celebrated their many years of service and those who suggested the most useful proposals and improvements.

- Marketing Awards were conferred on the best marketing employees for the 19th consecutive year. The most successful employees in regulatory affairs were also awarded.

- Slovakia was included among Krka key markets.

- At the 24th Annual General Meeting, the proposed dividend per share in total of €2.90 gross, which is 5.5% more than the year before, was approved.

- At the 48th Krka Prizes ceremony held in autumn, the best secondary school research projects and the best undergraduate and postgraduate research projects were awarded.

- Krka's Car-Free Day was organised for the third consecutive year as part of the European Mobility Week. This event encourages Krka employees to come to work on foot, commute by bike, or use other alternative means of transport.

- According to the survey on the most attractive employers in Slovenia conducted by Competo and Stratkom, Krka again ranked first among 100 major Slovenian companies.

- The 23rd audit of our integrated management system was successfully concluded in October confirming the validity of all our current certificates (ISO 9001, ISO 14001, HACCP, BS OHSAS 18001, and ISO/IEC 27001).

- Innovation is one of key factors in achieving competitiveness. We invited the Company’s most active innovators to a meeting of proposers of useful suggestions. Pharmaceutical Production was our best organisational unit in terms of innovations and received a plaque for their 2017 innovations in 2018.

- According to the 2014 findings of the European Commission, Krka allegedly violated Article 101 of the Treaty on the Functioning of the European Union causing distortion of the competition in the perindopril market of the European Union. The European Commission imposed a €10 million fine on Krka. Krka settled the fine within the time limit set by the European Commission, but decided to bring an action before the General Court against the decision of the European Commission on the grounds that there was no breach of the EU competition rules, and in December 2018, the court ruled in favour of Krka. The decision of the General Court has not yet become final, and the European Commission filed an appeal against the decision within the provided time limit, on which the Court of Justice of the European Union will rule. At the beginning of 2019, the European Commission refunded Krka the €10 million fine, but in compliance with legal opinion Krka decided to post the refund under deferred revenues.

Awards

- In January, the Slovenian Science Foundation presented Krka with the 2017 Prometheus of Science for Excellence in Communication award. A special Prometheus of Science award was conferred on Prof. Dr. Miha Japelj, a former director of Krka's Development Institute and
- mastermind behind the Krka Prize, for his lifetime achievements.

- In 2018, Krka again received an award for the most reputable employer according to the survey conducted by the Slovenian employment portal MojeDelo.com about the reputation of Slovenian employers.

- On the occasion of the 2018 Days of Corporate Security, the Institute for Corporative Security Studies awarded Krka's Information Security Officer Dušan Dular with a Lifetime Achievement Award for his corporate security achievements.

- The Chamber of Commerce of Dolenjska and Bela krajina awarded Krka, d. d., Novo mesto and Farma GRS, d. o. o., Novo mesto four gold awards and one silver award for best innovations.

- The Slovenian Chamber of Commerce and Industry conferred on Krka's innovators two golden awards for two innovative generic medicines: an oncology medicine and a medicine for relieving pain in musculo-skeletal disorders.

- Krka was announced the best manufacturing company in Slovenia at the closing ceremony of the competition organised by the *Finance* newspaper and received the 2018 Factory of the Year award. Krka received the award for its know-how and technical knowledge, one of its key competitive advantages, which guarantees continuous progress and many new developments in technology.

- Krka received the Prime Market Share of the Year Award at the Ljubljana Stock Exchange Investor Conference in November. The award recognises the great work that was accomplished in promoting Krka and its shares on foreign capital markets.

- In December, Dr. Aleš Rotar, a Member of the Management Board and Director of Pharmaceutical R&D and Production, was presented with the recognition for successful cooperation between Krka, d. d., Novo mesto and the Faculty of Pharmacy.

- The Slovenian business daily *Finance* held the 19th consecutive competition for the best annual report and conferred on Krka two highest awards, for the best annual report and for the best annual report for rapid reporting.

Events after the Accounting Period

- According to the 2014 findings of the European Commission, Krka allegedly violated Article 101 of the Treaty on the Functioning of the European Union causing distortion of the competition in the perindopril market of the European Union. The European Commission imposed a €10 million fine on Krka. Krka settled the fine within the time limit set by the European Commission, but decided to bring an action before the General Court against the decision of the European Commission on the grounds that there was no breach of the EU competition rules, and in December 2018, the court ruled in favour of Krka.

  The decision of the General Court has not yet become final, and the European Commission filed an appeal against the decision within the provided time limit, on which the Court of Justice of the European Union will rule. At the beginning of 2019, the European Commission refunded Krka the €10 million fine, but in compliance with legal opinion Krka decided to post the refund under deferred revenues.

- On 3 January 2018, we received a judgement delivered by the District Court of Novo mesto that rejected the claim filed by the PanSlovenian Shareholders' Association (Vseslovensko združenje malih delničarjev) to annul the appointment of Hans-Helmut Fabry as a member of the Supervisory Board. The court established that the appointment procedure had been correct.

- Krka carried out all procedures for the implementation of the *Falsified Medicines Directive* (FMD), i.e. the directive on the prevention of the entry into the legal supply chain of falsified medicinal products, in full, on time and with no complications.

- At the beginning of 2018, Krka received the 2018 Most Reputable Employer award from the Slovenian employment portal MojeDelo.com for the seventh time. The poll (the eighth in a row) on the companies in Slovenia, and job seekers ranked Krka the most reputable company in the Slovenian labour market, which shows that the pharmaceutical industry enjoys a very high level of recognition in Slovenia.

- On 12 March 2019, the President of the Supervisory Board received a resignation statement of a member of the Supervisory Board, Hans-Helmut Fabry. Mr Fabry stated in the letter that he would resign from his Supervisory Board membership on 12 March 2019 and thanked the President of the Supervisory Board, Supervisory and Management Board members for constructive cooperation. Mr Fabry plans to become engaged by a direct competitor of Krka.

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 internal acts.

The Company's governing bodies are the:
- Annual General Meeting;
- Supervisory Board; and
- Management Board.

Annual General Meeting

Pursuant to provisions of the Slovenian *Companies Act*, the Annual General Meeting is the Company's highest body. This is where shareholders participate in the Company's governance and where all fundamental and statutory decisions are taken. Each share, except for treasury shares, represents one vote at the general meeting. Krka has one share class only: ordinary no-par value shares.

The Management Board calls the Annual General Meeting (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 other restrictions on the disclosure of information.

In the AGM notice, in accordance with Item 6.2 of the *Corporate Governance Code*, the Company encourages all major shareholders to publicly disclose their investment policies with respect to the stakes they are holding 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 or supervisory bodies.

At the 24th AGM of 5 July 2018, the shareholders:
- received information about the *2017 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 *2017 Annual Report*;
- adopted a resolution on the appropriation of accumulated profit for 2017;
- discharged the Management and Supervisory Boards from liability in 2017; and
- appointed the auditor for 2018.

According to the 2019 financial calendar, this year's AGM is due on 4 July. The call, with the proposed resolutions, the place of the meeting and eligibility conditions will be published in the SEOnet system of the Ljubljana Stock Exchange, the ESPI system of the Warsaw Stock Exchange, the 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 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 informed 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 Annual General Meeting, and three employee representatives are elected by the Company Works Council. The president of the Supervisory Board is always elected from among 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 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, the term of office terminated for Simona Razvornik Škofič due to her resignation, and for Anja Strojin Štampar due to her removal 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.

The President of the Supervisory Board is Jože Mermal. His deputies are Andrej Slapar, the shareholder representative, and Franc Šašek, the 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's performance complies with legislation, the recommendations of professional associations, especially the Slovenian Directors' Association, and other good practice recommendations, particularly the *Slovenian Corporate Governance Code*.

The remuneration, reimbursement and other benefits of Supervisory Board members do not directly depend on the Company 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 exercising their functions according to the resolutions of the 16th AGM in 2011.

Members report to the Company and competent institutions on any acquisitions or disposals of Company shares. Krka makes the information public. Under 'Related Party Transactions' in the financial report, we disclose how many Krka **shares** are held by Supervisory Board members.

Members of the Supervisory Board pursue the Company 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 2018 is further presented in the report of the Supervisory Board.

Shareholder Representatives

Jože Mermal
President of the Supervisory Board

Jože Mermal, born in 1954, is from Ljubljana. He graduated in economics and has been successfully managing the BTC company for over 20 years. He has worked in many management positions since 1978. He initiated and managed the project of restructuring and transforming public warehouses into a successful, dynamic, and rapidly expanding company that has also become one of the largest international business, shopping, sports, and entertainment centres: BTC City. As the founder and strategist of BTC, an advanced company, he has been supporting 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 wide society, globalisation, innovation and sustainable development.

He has received several awards for his work, including Manager of the Year in 1997 and the Primus Award for excellence in communication in 2001 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 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 Southeast and Central Europe 2016 award, which is bestowed by the Independent Agency for the Selection and Promotion of Managers. He was awarded the title of a 2017 honorary citizen 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. BTC itself has received several important awards for various projects in its wider environment under Mermal's management.

Jože Mermal is a member of the Council of the Faculty of Economics, University of Ljubljana. He also holds key managerial functions in various sports organisations. Under his management, ABC Accelerator was established in 2015. Its main function is the development of a start-up business ecosystem. Since 2016, Mermal has been the president of the Strategic Council at ABC Accelerator, which has extended beyond the borders of Slovenia due to extremely dynamic and advanced business activities. In 2016, it opened for business in Germany (Munich) and the United States of America (San Jose, Silicon Valley).

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. In May 2013, he became the president of the management board of Zavarovalnica Triglav, where he began his career as a lawyer in the field of international damages. Andrej Slapar has been employed at the leading Slovenian reinsurance company Pozavarovalnica Triglav Re for a good ten years, and since November 2009 as a 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), the board of directors at Triglav INT holding group, and is a member of the supervisory boards of Krka and Triglav Skladi, 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. Later, he started working at Kapitalska družba, d. d. (Pension Fund Management), where he gained experience in IT and analysis, and was involved in drafting the First Pension Fund in Slovenia. In the periods 2003–2005 and 2008–2011, 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 became the chairman of the management board at Modra zavarovalnica, d. d., where he is responsible for asset management, compliance, planning and controlling, strategic communication, as well as legal and HR matters. He was reappointed to the management board of the European Association of Public Sector Pension Institutions (EAPSPI) in 2017. 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 also engages in the development of corporate governance professional and practical fields, and supervisory and management board functions under the Slovenian Directors' Association, whose president he has been since 2012. As an executive and member on the supervisory boards of large Slovenian companies (a member of the Supervisory Board of Krka and the president of the supervisory board of Cinkarna Celje), he has been engaged in various complex corporate campaigns and contributed to resolving complex business issues with his long experience and negotiation skills.

Hans-Helmut Fabry

Hans-Helmut Fabry was born in 1956 in Germany. He studied psychology in Belgium and Germany, where he graduated from the University of Münster in 1981. His career spans the fast-moving consumer goods industry (Henkel, Bongrain, L´Oréal) and the pharmaceutical industry (Novartis), where he has held positions with growing responsibility in European markets (Germany, France, Switzerland, Austria, the Czech Republic, Slovakia). Most recently, he has been the CEO of Hexal AG, the German subsidiary of Sandoz (Novartis) and the leading generics company in Germany, and the global commercial head of the OTC Division of Novartis.

Hans-Helmut Fabry served as general manager of Novartis Deutschland GmbH and has headed the supervisory boards of various pharmaceutical production companies owned by Novartis: Salutas GmbH (Magdeburg, Germany) and Sandoz GmbH (Kundl, Austria). Since 2016, he has been engaged as a mentor and advisor. He was appointed to Krka's Supervisory Board in July 2017.

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 upgraded her knowledge in the pharmaceutical industry and at the University of Geneva. She has successfully carried out numerous scientific, teaching, and managerial tasks. Her research focuses on biomaterials, modern active substance delivery systems, and nanotechnology. Her research articles have been published in numerous renowned international scientific and professional 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 been acting 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 is still active in the Slovenian Research Agency and serves on committees at the University of Ljubljana and the Faculty of Pharmacy. For the second term, she has been a member of Krka's Supervisory Board, holding a certificate of 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, and the development and assessment of medicines, as well as 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 board of the investment manager, Kapitalska družba, d. d., Ljubljana. Before that, he was successfully employed by several departments of the Triglav Group insurance company. He was the deputy president of the management board of 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 an assistant director for legal, 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 the Head of Technical Services. He has worked in engineering and technical services since the beginning, where he was also a technologist, the 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-maintenance 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, quality trainer, and registered internal quality auditor. He is jointly responsible for the development and maintenance of the integrated quality system.

In 2009, he underwent training for supervisory and management board members at the Slovenian Directors' Association. He was elected president of Krka's Works Council for the 2009–2013 term and again for the 2014–2018 term, and assumed his position on the Supervisory Board for a second term as an employee representative on 21 June 2014.

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 prepared technical documentation for proposed new products. 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 the Head of International Quality Assurance. In September 2011, she was appointed Director of Quality Management.

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

Tomaž Sever

Tomaž Sever was born in 1967. After graduating as a mechanical engineer, he acquired 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, charged with the following tasks: market research, proposing and developing Krka's presence in individual markets, defining sales supply, proposing pricing strategies for individual markets, collaborating on planning sales activities, designing, developing and managing distribution channels, and collaborating on the creation of sales networks abroad. Before 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 in the 2005–2009 term, was re-elected for another five-year term of office in 2009, and started his third term as an employee representative in June 2014.

Independent Expert, Member of the Audit Committee

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

Borut Šterbenc
Independent expert on accounting and audit, 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. He is the financial director and deputy president of the management board of Kolpa, d. d. Metlika, a Slovenian company. 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's **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
- act with the reasonable care and diligence of a good and honest manager 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's **operational functions and assignment of duties** are defined by the *Rules of Procedure of the Management Board.* The body's operating approach is to coordinate opinions and make decisions by consensus. In 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 Management Board's work:

- 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 sectors in Krka. They prepare business policies and strategic guidelines by individual areas and also have some decision-making responsibilities relating to the implementation of annual plans.

Emoluments, reimbursements, and other benefits for Management Board members are defined in 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 a **'Management Board Remuneration Policy'** in 2010. The Supervisory Board amends or updates both documents in the light of business conditions

Payments to Management Board members are made **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 they may make. Krka makes this information public.

Management Board members must disclose any **conflicts of interest** to the Supervisory Board, and notify other Management Board members accordingly. Members of the Management Board do not act as members of the management or supervisory bodies of unrelated companies during their term of office for Krka.

At the 23rd General Annual Meeting 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 new purchases and 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

Please find the CVs of the members of the Management Board presided over by Jože Colarič stated below. Their six-year term of office commenced on 1 January 2016.

Jože Colarič
President of the Management Board and CEO

Jože Colarič was born in 1955 in Brežice. After graduating from secondary school in Novo mesto, he studied at the Faculty of Economics in Ljubljana, and graduated in 1979.

He has worked at Krka since 1982, starting in the Finance Sector, where he was initially Head of Foreign Currency Payments, and then Assistant Director. In 1989, he took charge of exports within the Import-Export Sector, and two years later became Deputy Director of Import-Export.

In early 1993, he was appointed Deputy Chief Executive for Marketing and Finance, and in September of the same year also became Director of Marketing and Sales.

In 1997, he was appointed to the Management Board. In the following year, the Supervisory Board appointed him Deputy President of the Management Board, and in 2002, acknowledged him as a future president of the Management Board, making him responsible for proposing candidates for the new Management Board team.

At its meeting 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 management, Krka has developed into one of the leading generic pharmaceutical companies and built solid foundations for growth. Jože Colarič runs the Company by focusing on Krka's in-house knowledge, new product development, annual investments, recruitment, and regular dividend payments. On 21 January 2015, the Supervisory Board unanimously appointed 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. Because of his good performance and following a proposal 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 of Product Supply. In 1998, he became a warehouse technologist and then a senior warehouse technologist. In 2000, he assumed the job of assistant to the head of 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 the Company's great competitive advantage. Vinko Zupančič has made a key contribution to the success of this strategy. Following a proposal by Jože Colarič at the meeting on 18 November 2015, the Supervisory Board unanimously appointed Vinko Zupančič to the Management Board for a new term of office from 2016 to 2021.

David Bratož
Member of the Management Board

David Bratož was born in 1976 in Novo mesto. He holds a degree in economics. After secondary school in Novo mesto, he enrolled at the Faculty of Economics at the University of Ljubljana, where he graduated in finance in 2000.

He began his career at Krka in 2001 in the department of Finance, where he was responsible for several major projects. In 2003, he began working in Sales, Region Central Europe, with a focus on the Polish market. Owing to his good performance, he was appointed Director of Krka–Polska in 2007, where he managed operations in marketing, sales, production and distribution. Two years later, he was appointed President of the Board of Directors.

Bratož and his team worked together to make Krka–Polska one of the largest and most successful Krka subsidiaries. Under Bratož's leadership, Krka–Polska developed into one of the largest and most successful Krka's subsidiaries, doubling its sales, quantity and range of manufactured products. The subsidiary currently employs approximately 800 people. Krka-Polska and David Bratož received several awards during his management.

David Bratož is familiar with all the business functions of a big company. At its meeting on 18 November 2015, following a proposal from 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 was closely linked to production; to 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, so the Works Council proposed her as the new Worker Director at the 15th regular meeting on 28 September 2015, and on 18 November 2015, the Supervisory Board unanimously appointed her to the Management Board for the term of office from 2016 to 2021.

Management and Supervisory Board Diversity Policy

Krka's *Corporate Governance Policy* includes a commitment to prevent discrimination. Accordingly, all Krka employees must have equal opportunities, regardless of gender, race, colour, age, medical condition or disability, religious, political or any other beliefs, trade union stewardship, national or social origin, family status, financial condition, sexual orientation, or other personal particulars. The Company has not adopted any additional independent policies to govern the management and supervisory body structures in terms of gender, age, level of education, or other personal particulars. 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 operational objectives of all individual companies in the Krka Group and monitors the implementation of plans. To ensure cohesive management and supervision across the Group, the Management Board of the controlling company also acts as the annual general meeting of all subsidiaries. Individual Management Board members are also members of the supervisory boards or boards of directors of some subsidiaries, but do not receive additional payment for their function.

Krka applies the principles of functional leadership. This means the business function in the controlling company manages the business function in a subsidiary. In this way Krka ensures that objectives are met in practice. The supervision of everyday operations in subsidiaries is carried out by means of regular reports, while the 'function covers function' principle means that specialist staff members from the controlling company are in daily contact with their colleagues in the subsidiaries.

An exception with regard to the above is Ningbo Krka Menovo Pharmaceutical Co. Ltd., the joint venture in China, in which Krka holds a 60%, and the Chinese partner, Ningbo Menovo, a 40% ownership share. Krka has two representatives in the company's three-member board of directors, one being the president.

Corporate Compliance

A Chief Compliance Officer is appointed at the Krka Group level, whose autonomous and independent function is monitoring of 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.

The *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 must 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 continuously increase the culture of ethics and protect Krka's reputation and property, so we constantly raise employee awareness regarding fraud indications, non-compliance, and other breaches, as well as how to manage them and responsibility in identifying and reporting them.

We ensure compliance also in relation to personal data protection. The purpose of updating the *Rules on Personal Data Protection* was to provide compliance of our internal act and all processes with Regulation (EU) 2016/679. All Krka subsidiaries in the EU adopted the *Rules* by 25 May 2018 and supplemented them in accordance with their valid local legislation.

We have a Data Protection Officer responsible for the protection of personal data at the Group level and in subsidiaries. Activities for achieving compliance at this level were carried out in all Krka subsidiaries within the EU. We have reviewed and upgraded personal data databases as well as internal procedures and processes which include personal data processing. We introduced an additional training on personal data protection for all employees in Slovenia and abroad. In addition, we communicate the importance of personal data protection and protection of individuals' rights through our internal publications and our website.

Internal Audit

Internal auditors carry out their tasks 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 Conduct)*.

In compliance with the 2018 annual plan, sixteen regular internal audits were carried out by 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 for each audit area.

Internal audits were carried out in compliance with the said methodology for: sales, pharmaceutical development, media supply, quality management, warehousing, transport, and information technology. Regular internal audits were also conducted in several subsidiaries and representative offices abroad. Moreover, internal auditors provided consultations in line with the aforementioned standards.

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

The internal auditors also work with Krka's Supervisory Board and its Audit Committee, as well as with the external auditors.

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 the efficiency of accounting data exchange between the subsidiaries and the controlling company, and hence also control of information.

Accounting controls are based on the principles of veracity and segregation of duties, transaction controls, accuracy of accounting records, reconciliation of accounting balances and the actual balance, separation of recordkeeping from payment transactions, professionalism of the accounting staff and independence. Accounting controls are closely linked to information technology controls, which, among other things, ensure restrictions and the supervision of access to networks, data and applications, and the completeness and accuracy of data capture and processing. Authorised external agents also verify the compliance of operations and the existence of the requisite controls within information systems on an annual basis.

We manage risks related to the consolidated financial statements of the Krka Group by directing the accounting activities and their supervision in the subsidiaries and by auditing the annual financial statements of all subsidiaries in the Krka Group.

External Audit

The certified 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 findings on audits 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, section ‘Transactions with the audit firm’.

Composition of the Supervisory Board of Krka as at 31 December 2018

Name and surname	Jože Mermal	Borut Jamnik	Andrej Slapar	Julijana Kristl	Boris Žnidarič	Hans-Helmut Fabry	Franc Šašek	Mateja Vrečer	Tomaž Sever
Position	President	Member	Deputy President	Member	Member	Member	Deputy President	Member	Member
First appointment	2015	2017	2015	2010	2016	2017	2009	2005	2005
Duration of current term of office	2020	2022	2020	2020	2020	2022	2019	2019	2019
Representative of shareholders/employees	Shareholders	Shareholders	Shareholders	Shareholders	Shareholders	Shareholders	Employees	Employees	Employees
Attendance at meetings	5/5	5/5	5/5	4/5[1]	4/5[2]	5/5	5/5	5/5	5/5
Gender	Male	Male	Male	Female	Male	Male	Male	Female	Male
Citizenship	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	German	Slovenian	Slovenian	Slovenian
Year of birth	1954	1970	1972	1953	1948	1956	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 psychology	University graduate in organisational sciences	Doctor of pharmaceutical sciences	University graduate in mechanical engineering and master of management and organisational sciences
Independent according to the *Corporate Governance Code*	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Conflicts of interest in the financial year	In 2018, no permanent or relevant conflicts of interest were established for any Supervisory Board members. Statements of independence are published on the website of the Company.								
Membership in 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 Human Resource Committee	Member of the Audit Committee
Attendance at regular committee meetings	–	5/5	3/3	2/3[1]	4/5[2]	–	5/5	3/3	5/5
Membership of supervisory bodies of other companies	Members of the Supervisory Board, especially representatives of shareholders, take on responsibilities also in supervisory and management bodies of other companies, but not to an extent that would influence their work on the Supervisory Board of the Company.								

1 Absent from the meeting of 21 March 2018
2 Absent from the meeting of 21 November 2018
The composition and amount of remuneration of the Supervisory Board members are disclosed in the section ‘Related Party Transactions’.

External Members of Committees as at 31 December 2018

Audit Committee

Name and surname	Borut Šterbenc
Position	Independent external expert of the Audit Committee in accordance with Article 280 of the *Companies Act*
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 *Corporate Governance Code*	Yes
Membership of 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 2018

Name and surname	Jože Colarič	Aleš Rotar	Vinko Zupančič	David Bratož	Milena Kastelic
Position	President	Member	Member	Member	Member, Worker Director
Area of work in the Management Board	Marketing, sales, human resources, investments, public relations, legal affairs, new products to a certain extent, 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
Duration of current term of office	2021	2021	2021	2021	2021
Gender	Male	Male	Male	Male	Female
Citizenship	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian
Year of birth	1955	1960	1971	1976	1968
Education and qualifications	University graduate in economics	Doctor of pharmaceutical sciences	Doctor of pharmaceutical sciences	University graduate in economics	University graduate in food technology
Membership of supervisory bodies of companies not related to Krka	No	No	No	No	No

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 2018, Krka's code of reference was the *Corporate Governance Code* (hereinafter: the *Code*), adopted on 27 October 2016 by the Ljubljana Stock Exchange and the Slovenian Directors' Association. The *Code* entered into force on 1 January 2017 and is published on the Ljubljana Stock Exchange website.

The Management Board and Supervisory Board of Krka, tovarna zdravil, d. d., Novo mesto hereby declare that in 2018 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 2018. However, we have always worked towards realising these recommendations and tried to provide appropriate ways to implement them.

Individual deviations from the *Code* in 2018 are explained below.

In 2018, the Management Board and Supervisory Board of Krka did not adopt a special document titled 'Diversity Policy'. However, the Company implements the principles of this policy through other internal acts, policies, and procedures, including the *Code of Conduct*, *Corporate Governance Policy*, *Rules of Procedure of the Supervisory Board* with regard to proposing candidates for Supervisory Board members, procedures and commitments of the Human Resource Committee of the Supervisory Board, and the Nomination Committee for the preparation of voting proposals for Supervisory Board members. In practice, diversity is ensured through the procedures for nominating and appointing members to the management and supervisory bodies, since Krka always strives to provide equal opportunities to candidates and prohibits any kind of discrimination (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 2018, no proposal for additional training was made, so the plan was not adopted (Item 13.1 of the *Code*).

The evaluation of the Supervisory Board performance was conducted by the members themselves while fully following the methodology and *Supervisory Board Assessment Manual* prepared by the Slovenian Directors' Association. The evaluation procedure was carried out professionally and objectively. Therefore, there was no need for external professional support in 2018, which is why an external assessment of the Supervisory Board's performance in collaboration with a specialised institution or other experts was not carried out (Items 14.2 and 14.4 of the *Code*).

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

In 2018, 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 performed (Item 5.7 of the *Code*).

The 'Corporate Governance Statement' of the *2018 Annual Report of Krka* does not indicate any association of members of the Management and Supervisory Boards with any governance or supervisory bodies of unrelated companies in the uniform tables (Attachments C1 and C2 to the *Code*). The information is included in members' CVs, which also state their managerial functions and jobs (Items 5.5. and 29.5 of the Code). Information in Attachments C3 and C4 to the *Code* on the composition and amount of remuneration are almost entirely disclosed in accordance with recommendations of the *Code* (Items 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. They are disclosed in the financial report in the section 'Related Party Transactions'. The Management Board receives the variable part of remuneration twice a year, first after six months and second with the salary payable after the Supervisory Board meeting at which the annual report is approved (Item 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 either from the business strategy, the change of business environment, or remuneration trends. However, the criteria were not determined in the same manner every year, as stipulated by Item 12.10 of the *Code*, as the current code is better tailored to the actual needs of the Supervisory Board for monitoring the work of the Management Board.

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 consent. This is a partial deviation from Article 19.6 of the *Code*, which covers all, not only unrelated companies and organisations.

Krka publishes contact details for investors and the public on its website, but without the names of individuals (Item 28.2 of the *Code*), as there are several persons responsible for 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 operation of its bodies, and thereby all the essential information on corporate governance, in the 2018 'Corporate Governance Statement'. No other operational documents were published in 2018 (Item 29.9 of the *Code*).

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 in the dissemination system of the Warsaw Stock Exchange.

Novo mesto, 18 April 2019

Signing the Governance Statement and Its Constituent Parts

Jože Colarič
President of the Management Board and CEO

Dr. Aleš Rotar
Member of the Management Board

Dr. Vinko Zupančič
Member of the Management Board

David Bratož
Member of the Management Board

Milena Kastelic
Member of the Management Board – Worker Director

Non-Financial Statement

The Management Board of Krka, tovarna zdravil, d. d., Novo mesto hereby declares that Krka follows 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 section 'Krka Group Business Model' and also monitors its own placement in various environments. Further information is available in the section 'Risk Management'.

Krka is committed to high ethical standards. The *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 for all Krka employees. The *Code* is also the basis for all other Krka's internal rules. The basic 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 internal rules. The *Code* is published on the Krka website. All Krka's business partners are familiar with the *Code*, and we expect they adhere to it when conducting 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 the crucial source for 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 Krka's values. We try to make our overall operations reflect responsibility for employees, the environment, and stakeholders. Krka's values lead us in setting the objectives, reaching the results, and cooperating with employees, as well as in their management and development of their potential. Together, we encourage a culture of mutual trust, respect, cooperation and teamwork, lifelong learning, and responsible, efficient, and sustainable work. Krka's 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 'Responsibility to Employees' and 'Social Corporate Responsibility'.

We provide a safe and healthy working environment and regularly adopt measures to decrease and eliminate potential health and accident risks. We adhere to all regulations and internal rules 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 line with all regulatory requirements and standards relating to human rights in all countries where Krka is present. 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 stewardship, financial condition, 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 a relevant authorised person.

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 functions, 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 of the Krka Group.

We regulate the prevention of fraud and corruption, the responsibility of employees in their detection, and potential measures with the *Rules on Fraud Prevention, Detection and Investigation*, which are available to the public.

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's business opportunities, Company assets, and information in order to gain personal and economic advantages or advantages from any third party. We do not promise any advantages and do not give gifts to influence the decisions of national authorities, public officials, business partners, or any other entity, and we do not except gifts or any other advantages that may influence our decisions in relation to our work. We make sure that the persons who have access to inside information are aware of the confidentiality levels and sensitivity of such information. We have valid internal rules on trading in financial instruments of the Company and we have set up control mechanisms for employees and third parties that handle such information. In this manner, we can prevent possible abuses and insider trading. A time period is specified for all persons with access to inside information, within which they are forbidden from trading in financial instruments of the Company.

We take care of the environment and respect environmental regulations, and also cooperate with the local community and beyond. The definition of responsibility to the natural environment is included in our environmental policy, and thereby we undertake to take care of the environment in accordance with the requirements of the newly issued ISO 14001:2015 standard, and to prevent or reduce our environmental impact to the largest extent possible. More information is available under 'Responsibility to Our Natural Environment'.

The non-financial risks of the Krka Group are described under 'Risk Management', and non-financial indicators and results of the described policies under '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

Krka Group Development Strategy

The current development strategy of the Krka Group covers the five-year period from 2018 to 2022. The Supervisory Board of Krka adopted it in November 2017. It includes all areas of operation within the Krka Group, focusing on the core pharmaceutical and chemical activity. The strategy considers 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 supporting 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 in autumn 2019.

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 basis 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 or processes. The strategy also includes a draft multi-annual development, financial, and investment business plan.

Part of the strategy is also risk management, which is incorporated into all Krka Group business processes. Risk management is based on the *Risk Register.* The *Register* provides a comprehensive overview of risks at the Group level and is intended for timely identification and management of factors that could endanger achieving the objectives defined in the *Development Strategy*. Every time the *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; and Corporate Identity Committee).

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 2022
To attain at least 5% average annual sales growth in terms of volume and/or value.
To ensure sufficient quantities of manufactured products through an efficient and optimised development-and-production chain in accordance with the required quality standards in a timely manner in line with target sales growth and market needs.
To keep the focus on maximising the long-term profitability of the products sold from development and production to the sales of finished products, including all other functions within the Krka Group.
To ensure growth by acquisitions and long-term partnerships (including joint ventures) in addition to organic growth, when interesting and available 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 in addition to the existing range of products, also referred to as 'the golden standard'.
To maintain the largest possible proportion of vertically integrated products.
To launch a selected product portfolio in selected key target markets as the first generic pharmaceutical company.
To increase 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 2022
Markets
To focus primarily on European, Chinese, and central Asian markets.
To focus especially on key markets (the Russian Federation, markets of Western Europe, Poland, Slovenia, Slovakia, Romania, Hungary, Ukraine, the Czech Republic, and Croatia), with an emphasis on key customers and key products.
To maximise the sales potential in all sales regions (Slovenia, South-East Europe, East Europe, Central Europe, West Europe, Overseas Markets).
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 acquisitions of local pharmaceutical companies, business acquisitions, and various types of long-term partnerships (joint ventures) in selected markets with the primary objective of attaining new products and thus entering new therapeutic areas and/or markets.
Products and services
To strengthen the pharmaceutical and chemical sectors and increase the range of medicines in three key therapeutic areas of prescription pharmaceuticals (medicines for the treatment of cardiovascular diseases, the central nervous system, and the alimentary tract and metabolism) as well as in other promising therapeutic areas (analgesics and oncology medicines, antidiabetics, antivirals, and antibiotics) while entering new therapeutic areas. We will introduce innovative products in key therapeutic areas (innovative fixed-dose combinations of two or three active ingredients, strengths, pharmaceutical dosage forms, and new delivery systems).
To strengthen the range of non-prescription products and animal health products (primarily pet products) in selected therapeutic areas.
To enter the market of similar biological medicines.
To further develop health resort and tourist services, and seeking strategic partners outside the Krka Group.
Development and manufacture of products
To strengthen vertical integration from product development to manufacture.
To ensure a permanent supply of incoming materials and optimise supply Our aim is the continuous reduction of purchase prices.
To increase the proportions of research, development, and production of certain active ingredients and finished products outside Krka (outsourcing).
To develop generic medicines and prepare relevant registration documents before the product patent on the original medicine expires.
To strengthen all types of connections in the field of development and other fields as well as with external institutions and companies.
Quality
To ensure functioning and continuous 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 also 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 major shareholders for dividend payouts.
Digitalisation of operations
To introduce information technology and provide high availability and information security of implemented IT solutions effectively and in accordance with the regulatory standards.
To continue the digitisation of operations: introduce information (digital) technology in business processes due to automation and optimisation of processes and procedures, support or strengthen cooperation within the Krka Group and in the entire supply chain, and acquire relevant information for business decisions. Our aim is to offer customers added value.

International group with responsibility to its business environment
To strengthen professional and cost synergies within the Krka Group, and maximise the utilisation of competitive advantages in the business environments of Krka's 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 meet our economic, social, and environmental responsibilities to the environments in which we operate.
To strengthen corporate integrity and operate in accordance with legislation, rules, ethical principles and good practices.
To maintain the reputation of the Krka Group and emphasise zero tolerance for fraud and corruption.

Objectives by markets
To make widely available products that are competitive in terms of prices in all the major systems of medicine distribution and supply in accordance with market demand.
To achieve sales growth in relation to strategic and, primarily, marketing objectives at least in line with the growth of local pharmaceutical markets or average growth of the leading suppliers of generic medicines in all major markets of individual regions. To maximise absolute growth in the markets of Eastern and Western Europe, pursue relative growth in overseas markets, and maintain sales growth in Central Europe.
To retain the position of the leading pharmaceutical manufacturer, to remain among the leading manufacturers of non-prescription products in the Slovenian market, and maintain the position of one of the leading generic pharmaceutical companies in the markets of Central, South-Eastern and Eastern Europe. To ensure this by strengthening the reputation and awareness of the Krka brand with the target public by entering into new therapeutic classes and selling products primarily under our own brands.
To increase market shares in Western European markets by expanding the portfolio in existing therapeutic classes and entering new classes by exploiting the sales potential of already introduced products and also by increasing Krka brand awareness (Krka and TAD Pharma brands) through subsidiary operations and partner relations with unrelated customers.
To develop sales in existing overseas markets through partner relations with unrelated customers, as well as by establishing conditions for own marketing and entering new markets (China and other markets) by marketing products in selected markets and targeting selected groups.

Product and service portfolio
Prescription pharmaceuticals
Key therapeutic areas: cardiovascular diseases, diseases of the central nervous system, and of the alimentary tract and metabolism. To add a new key therapeutic area to our existing key therapeutic areas, i.e. medicines for pain relief.
To introduce new innovative products, in addition to generic products, in the market of leading medicines (innovative fixed-dose combinations, strengths, dosage forms, and new delivery systems) in the key therapeutic areas.
To introduce fixed-dose combinations of two or three active ingredients for the treatment of high blood pressure, and innovative fixed-dose combinations for the advanced treatment of concomitant high blood pressure and cholesterol levels.
To strengthen promising therapeutic areas, including antidiabetics and oncology medicines, and enter the market of antiviral medicines for the treatment of HIV, and anticoagulant medicines.
To provide an extensive range of medicines from other therapeutic areas, such as antimicrobial medicines, medicines for the treatment of allergies, the urinary tract, and blood and blood-forming organs.
To expand the range of medicines by entering the market of similar biological medicines.
To make a plan for entering at least one new therapeutic area.
Non-prescription products
To strengthen all key therapeutic areas, including cough and cold remedies, analgesics, vitamin and mineral products, products for the alimentary tract and metabolism, and products improving cerebral and peripheral circulation.
To supplement the umbrella brands with products with a new composition and pharmaceutical form within the group of cough and cold remedies.
To supplement the group of vitamin and mineral products with remedies of similar composition in new pharmaceutical dosage forms for children
Animal Health Products
To strengthen the key therapeutic areas for companion animals (antiparasitics and analgesics) and farm animals (antimicrobials and antiparasitics).
To expand the portfolio of animal health products with medicines for the treatment of the cardiovascular system and dermatologicals.
To supplement the range of products for companion animals with specific combinations and pharmaceutical dosage forms.
Health resorts and tourist services
To develop and improve health services, such as medical rehabilitation, the prevention programme, health promotion, and active leave programmes marketed under the Terme Krka brand in domestic and selected foreign markets.

Achieving objectives in 2018
In 2018, the Krka Group generated €1,331.9 million in sales revenues (of which revenues from contracts with customers on sales of products and services amounted to €1,326.7 million, and contracts with customers on sales of materials and other revenues constituted the difference), 5% more than in 2017.
In terms of volume, sales of products increased by 7%.
Good regional dispersion of sales among the sales regions Slovenia, East Europe, West Europe, Central Europe, South-East Europe, and Overseas Markets. 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.
The number of employees in the Krka Group increased by 5%.

Krka Group business objectives for 2019
Sales of products and services are estimated at €1,375 million.
Sales outside Slovenia are expected to account for 93% of total sales.
Prescription pharmaceuticals remain the most important product group, comprising 81% of the overall sales.
Profit is planned at €172 million.
The total number of employees in Slovenia and abroad is projected to grow by 4%. This rise is partially expected due to transfers of people employed through agencies to Krka.
We plan to allocate more than €124 million to investments, primarily for expanding and modernising production facilities and infrastructure.

2019 Macroeconomic Forecast

Dispersed international operations and the vertically integrated business model make stable performance of the Krka Group possible despite the challenging macroeconomic situation in individual key markets.

After a few successive years of economic growth, the macroeconomic situation in individual key markets remains stable presenting solid grounds for positive expectations also for the upcoming years.

Even so, certain risks are imminent in individual markets basically due to labour shortage and fast-growing inflation rates, which will slightly slow down favourable growth trends. In the upcoming periods, global economic growth will be under pressure of trade conflicts between the global trade superpowers, and a slight slowdown is anticipated with respect to 2018.

Additional risk is posed by the political uncertainty caused by Brexit, while the conflict between the Russian Federation and Ukraine presents additional geopolitical challenge in the Eurozone.

Given a relatively favourable economic situation and forecasts, our expectations with regard to the macroeconomic situation in sales markets are moderately optimistic. According to the 2019 forecasts for our target markets by the Organisation for Economic Co-operation and Development (OECD), European Commission, and international banks, the macroeconomic situation will remain balanced, albeit the optimism is expected to moderate compared to the year before.

2019 Macroeconomic Forecast in Figures

Country	**Pharmaceutical market growth** (%)	**Projected value of pharmaceutical market at wholesale prices** (€ million)	**FX rate** (currency/€)
Slovenia	6	680	Eurozone
Croatia	5	1,120	7.4
Romania	3	3,400	4.7
Russian Federation	7	15,000	78
Ukraine	3	1,500	33
Poland	4	6,700	4.3
Hungary	3	2,500	330
Czech Republic	4.5	2,450	25.5
West Europe	1	276,000	Primarily Eurozone

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

The macroeconomic projections below were summarised primarily according to the forecasts by the European Commission and analysts of commercial banks that regularly monitor the macroeconomic situation in said markets.

Slovenia

In 2018, the economic growth was favourable and reached 4.3%, but was below the 2017 figure. Growth is anticipated to ease to 3.3% in 2019. The slowdown results from a drop in net exports and slower private consumption growth. Public finances are expected to present further positive trends. By the end of 2019, public debt is expected to slide below 70% of GDP. Labour market conditions are still improving, and according to forecasts the unemployment rate will have dropped to 5% by 2020. Wage pressures and consequently the inflationary pressure are set to grow due to decreasing unemployment rates. Inflation is projected to rise to 2.3% in 2019. Key risks for Slovenian economy comprise growth slowdown in key economic partners of Slovenia and deterioration of the situation in international financial markets. Also in 2019, the macroeconomic situation is expected to remain balanced and favourable for Slovenia.

In 2019, we estimate the sales value of pharmaceuticals at approximately €680 million, or 6% higher than the year before.

Croatia

In 2018, the macroeconomic situation in Croatia remained stable, and also 2019 forecasts are similar, projecting an economic growth rate of 3%. Since the country joined the European Union in 2013, Croatian economy has been experiencing revival primarily due to pronounced growth of exports and rising private consumption. The government plans tax changes to increase the available household income and entice private consumption. It is nevertheless expected to grow at slightly lower rates than in the past two years. Industrial production will be under pressure due to the situation in traditional industries, especially in shipbuilding, chemical and oil industries. Further growth of tourist services will be limited by the peak season accommodation shortages and proliferation of the competitive tourist destinations in the Mediterranean. Above average growth is projected in service sector and construction. In 2018, the unemployment rate slid below 10% for the first time and is expected to decrease also in 2019. Due to rapid decline of unemployment, some individual industries encounter difficulties related to tight market of properly skilled labourers causing imbalances in the labour market. Public finances, monetary and foreign currency markets are expected to remain solid in 2019.

We expect the value of the Croatian pharmaceutical market to grow by 5% in 2019, and amount to approximately €1.1 billion.

Romania

The macroeconomic situation in Romania is expected to deteriorate in 2019. In 2018, economic growth dipped to 4.1%, and is expected to slide further to 3.3% in 2019. Growth slowdown was the outturn of less expansive fiscal policy, lower private consumption growth, and inadequate increase in investments. The annual inflation rate remains higher than in other countries of the region, and in 2019 monetary policy is expected to become more restrictive. The central bank intends to increase the key interest rate in the second half of the year, gradually decelerating inflation to 3%. General budget deficit and current account deficit will keep rising, the first due to waning growth of tax income at increased mandatory budget spending, and the latter because imports are projected to grow faster than exports. The two deficits accelerate risk of gradual national currency depreciation in 2019. National currency value remained solid in 2018 despite global pressures on national currencies. The central bank will mitigate any potential volatility of the national currency.

In 2019, we expect the value of the Romanian pharmaceutical market to rise by 3% compared to 2018 and reach €3.4 billion.

The Russian Federation

Currently, the macroeconomic situation in the Russian Federation is stable. The general government balance and trade balance are in surplus, foreign exchange reserves are rising, and the burden of the budgetary and foreign debts is decreasing. The economy encounters uncertainty due to pressures related to emerging markets. Economic sanctions by the European Union and the US are increasing the macroeconomic risks in 2019. In 2018, GDP saw a 2.3% rise, but due to a rising interest rate and VAT the economic growth is expected to slowdown to 1.2%. Because of a weaker rouble, higher VAT, and food and fuel prices in 2019, the inflation rate will gradually pick up to 5 or 5.5%, exceeding the central bank's target value. After increasing the interest rate twice in the second half of 2018, the central bank is expected to pursue a restrictive monetary policy also in 2019. In 2017 and 2018, the Russian monetary authorities adopted measures decoupling the value of the Russian rouble from oil prices. Potential economic sanctions by the European Union and the US in the future are increasing the risk of depreciation of the rouble.

We expect the value of the Russian pharmaceutical market to grow by 7% in the local currency in 2019 at most. We estimate the value of the market at €15 billion.

Ukraine

Implementation of reforms requested by the International Monetary Fund has stalled, freezing the absorption of the bailout. Without the support of the International Monetary Fund, Ukraine has no access to international capital markets and foreign financing. Introduction of the reforms has stalled due to internal political disagreements, which are expected to intensify in view of the upcoming 2019 presidential elections. In 2018, Ukrainian GDP improved by 3% and a slightly weaker growth rate is expected in 2019. At the end of the year, inflation was 11%, and is expected to remain at this level also in 2019. The value of the Ukrainian hryvnia expressed in the euro dropped in 2018. Taking into account the inflation, hryvnia appreciated against the euro, which worsened the economic competitiveness of Ukraine in the international environment. The risk of further downfall in value of the domestic currency in 2019 is significant. Constant conflicts with the Russian Federation pose a grave risk to Ukrainian economy. Also in 2019, the macroeconomic outlook is expected to remain bleak, but might gradually improve if the country improves its cooperation with the International Monetary Fund.

We expect the value of the Ukrainian pharmaceutical market to increase by 3% in 2019 to amount to €1.5 billion.

Poland

At the beginning of 2018, the economic growth gained an unexpected momentum reaching a record 5.1%. In 2019, growth is expected to slow down by one percentage point. This is the result of a slowdown in private consumption due to receding disposable household income caused by an uptick in inflation and the unemployment downward trend that significantly impacted the Polish economic growth over the past years. Also in 2019 and 2020, the investment growth rate will be positive. It will be driven primarily by the low interest rate and re-start of private and public investments financially supported by the EU funds. In 2018, the unemployment rate was on average 3.3% and will slide below 3% by 2020, consequently posing risk of labour shortage and at the same time building pressure to increase wages. In 2019, the inflation rate is expected to pick up gradually reaching the euro zone inflation level. Despite inflation growth, analysts do not expect any more restrictive monetary policy and a rise in the key interest rate in 2019. The central bank will pursue the monetary policy in compliance with the monetary policy set by the European Central Bank (ECB). As long as global currency markets are stable, no pressure on the domestic currency value is expected in 2019, and the 2018 level of 4.3 złoty against the euro should be retained.

Given the expected 4% growth, the value of the Polish pharmaceutical market will reach approximately €6.7 billion.

Hungary

Very favourable economic growth of more than 4% in 2018 is expected to ease in 2019 due to lower credit activity of the banks and reduction in project value funded by the EU. Also in 2019, inflation rates will range between 2 and 4%, so the central bank does not intend to change its expansive monetary policy. This will fuel inflation growth and at same time increase risk for the depreciation of the Hungarian forint. It is anticipated that the central bank will not actively oppose the depreciation of the domestic currency as its lower value might increase the competitiveness of the Hungarian economy. Monetary policy of the Hungarian central bank is not in alignment with policies of other central banks in the region, so the risk relating to domestic currency will gain momentum, especially if the pressure of the international environment increases.

We expect the Hungarian pharmaceutical market to grow by 3% in 2019, and its value to reach €2.5 billion.

The Czech Republic

The Czech economy grew somewhat more moderately in 2018 than the year before, and is expected to further decelerate in 2019. Imbalances, such as record level of employment and the related upsurge in labour costs triggered by the rapid economic growth over the past years, will hinder continuation of high growth rates in the upcoming periods. Moreover, in 2019, the government is expected to continue to incite fiscal policy of the previous year. In 2018, having increased the key interest rate five times, the central bank pursued restrictive monetary policy. As inflation is anticipated to remain above the target level of the central bank, the policy is not likely to ease in 2019. In the upcoming periods, the Czech koruna exchange rate will be shielded by solid macroeconomic foundations and restrictive monetary policy. Even though the economic growth is expected to decelerate, it is projected at approximately 2.7%. Main risk to the Czech economy and the domestic currency value lies in particular in the potential drop in foreign demand for the country's export products, which could impact the situation in the domestic monetary and currency markets.

The Czech pharmaceutical market is expected to grow by 4.5%, and its value to reach approximately €2.45 billion.

Western Europe

Comparison of the more and less developed member states of the European Union shows that the economic growth rate of the more developed economies lags slightly behind the growth recorded by the less developed economies. In 2018, European economy recorded 2.2% annual growth. Uncertainty of the situation in the area and outside it is rising, and, according to the European Central Bank’s forecast, the 2019 annual growth rate should present a 1.7% increment. In 2018, quarterly growth decelerated step by step and is projected to gradually slow down also in upcoming periods. Economic growth will remain driven primarily by domestic demand. Strong private consumption results from higher wages and job creation.

At the end of 2018, the European Central Bank halted the bond-buying programme. The programme was launched in March 2015. The bank also announced that tightening of the monetary policy would be very gradual. The ECB intends to leave interest rates unchanged at least in the first quarter of 2019 according to the analyst forecasts. Interbank interest rates will further serve as an incentive to finance economies. Also in 2019, the inflation rate will remain below 2%. In 2018, the euro gained momentum against currencies of developing countries, and the Western European countries recorded slightly higher borrowing costs. The two trends are projected to continue also in 2019.

Key risk factors for the Western European countries in 2019 will include Brexit, stability of public finances in Italy, and the US foreign trade policy.

We expect the value of the Western European generic market to reach €52.3 billion in 2019, a 3% increase compared to last year. Total value of the Western European pharmaceutical market is projected to increase by 1% to €276 billion.

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 '2018 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 and under the supervision of relevant organisational units of the controlling company. We apply over 3,000 standard operating procedures and other internal rules 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 *Register* provides a comprehensive overview of risks at the Group level and is intended for timely identification and management of factors that could endanger achieving the objectives defined in the current *Krka Group Development Strategy* and the *Quality Manual.* It is updated at least biennially and every time the *Strategy* is revised. Subsidiaries have their own risk registers.

Below we describe 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 the damage and the probability of its 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, incidence/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 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, and adapting sales and marketing activities	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	Hazardous substance spills and emissions; breach of legislation and loss of reputation due to excessive environmental pollution	Separation of atypical water and solvents; effective control of the environmental management process and continuous emission monitoring; employment of best available techniques to reduce environmental impact and cooperation with several top 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 having a sufficient number of 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 all legal issues, cooperation with external 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; cooperating with leading global financial institutions; following the latest practices in hedging against foreign exchange risks; occasional use of financial instruments; natural hedging	High
Interest rate risk	Unfavourable interest rate changes	Monitoring interest rate changes; 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 the 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 the 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 the optimum utilisation of production capacities and measure production efficiency. In this respect, we implement measures for continuous process improvement. We meet product demand by purchasing new equipment and making new investments; we increase 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 follow 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 supply of electric power, we have put in place a redundant electric power system and a diesel-powered generator for critical processes. We continuously follow the situation in the electric power market and make partial purchases. We use natural gas to generate thermal power, and extra-light fuel oil as a back-up fuel, of which we keep extra stocks.

The supply of drinking water is provided by a public utility from two pumping stations.

We mitigate risks related to the inadequate production and distribution of power and process utilities (electricity, steam, heating water, compressed air, refrigerant and river water, pharmaceutical and process water) by critical equipment redundancy, robust system planning, computer control, quality control of process utilities, regular preventive maintenance and system testing, and keeping critical spare parts in stock. Employees undergo regular training, and their skills and qualifications are regularly tested.

We regularly carry out preventive and planned maintenance of air-conditioning systems. Our maintenance team is well organised and trained for immediate intervention in the event of failure. The team uses a central control system to rapidly issue alerts and detect failures. It also keeps adequate inventories of spare parts. Non-critical equipment is dispersed to ensure that a single breakdown does not have a major impact on production capacities. Critical equipment is duplicated. All air-conditioning and power supply systems of systemic information technology premises are duplicated, have security systems in place, and are regularly tested for 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 carry out measurements, calibrations, and maintenance of 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 according to criticality assessments of the processes and information resources. Individual information services and applications are regarded as the principal information resources. Their criticality level is summarised by all infrastructural elements on which the information service or application depends.

We have identified threats and risks to all critical information resources. We take actions 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) and at an appropriately distant location, where daily storage of data back-up copies of all critical data is carried out.

We also mitigate risks by advanced tools such as intrusion detection and intrusion prevention systems (IDS/IPS), a security information and event management (SIEM) system, and vulnerability management.

As an international group, we are obliged to manage personal data in conformity with the national legislation of all countries where our subsidiaries and representative offices are located. 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 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 a raw material through to the finished product.

We maintain the vertically integrated development model with investments, yearly achievements, and research-and-development results related to:

- medicines and therapeutic areas: we enter new therapeutic areas with new medicines and provide for their research, development, and evaluation, and 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 dosage forms: we prepare advanced pharmaceutical dosage forms that allow for easier dosage and administration; and
- 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 with regulatory bodies its development solutions for each product and the planned content of marketing authorisation documents. This reduces the risk of encountering potential problems or even failure 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 services and independent data sources.

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 of medicines and/or reimbursing medicines. We pay special attention to risks related to individual market environments and economies, and risks associated with each customer, 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), at the secondary level (wholesalers' sales to final customers, mainly pharmacies), and at the tertiary level (sales in pharmacies to end users), and 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 fixed-dose 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. We give special attention to organising and supervising the work of employees in the marketing network. Our employees regularly undergo training and we frequently examine their qualifications, skills, and how familiar they are with instructions for work. When marketing our products, we consistently comply with legislation, including the personal data protection legislation, recommendations of the European Medicines Agency, and ethical norms related to advertising pharmaceuticals, and in this regard also provide comprehensive training to our employees.

Intellectual Property Risk

Respect for the intellectual property rights of third parties, especially patent-related rights, is 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 in all its production companies from the aspects of product quality risk, product safety risk, and risk to Group operations. We apply well-known methods to 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 detected risks, we plan audits and other activities within the procedure of supplier and contractor approval.

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, data integrity and cleaning, calibration of instruments, as well as maintenance procedures in order to prevent undesirable effects on the production process and product quality. Monitoring and documenting all processes, procedures, and controls are crucial for product quality assurance. We therefore regularly examine, overhaul, upgrade, and improve them, and ensure that any necessary process changes are made correctly.

Our employees undergo regular training in order to ensure compliance with standard production and pharmaceutical 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 national laws 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 production licences and GMP certificates, and other management systems applied in Krka manufacturing units for every quality assurance element separately.

We regularly and systematically check the efficiency and effectiveness of the quality assurance system in every Krka Group production unit by both external (agency inspections, partner audits, and audits by certified bodies) and internal (internal audits, audits, 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.

Environmental Protection Risk

Krka recognises and controls any environment-related risks according to the requirements of the ISO 14001 standard and by managing the business continuity system. Every year, we review all environmental aspects, the associated risks and extraordinary events, and evaluate their impacts on the environment. We mitigate environment-related risks and provide for efficient actions in the event of emergency by using the best available 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 2018, a machine breakdown occurred in the machine room where we prepare media for extinguishing the liquid material warehouse. As a result, a part of extinguishing water containing a foaming agent spilled into the River Krka. The substance was biodegradable and non-hazardous to the environment theand therefore had no effect on the aquatic environment.

We have reduced the risks in waste solvent management by providing additional warehousing facilities for waste solvents and spreading our cooperation to several contractual partners dealing with waste collection and disposal.

Investment Project Risk

Investment project risks primarily include risks related to planning investments and their value, the purchase of equipment, execution of works, schedules, quality, and changes to the original plan. We reduce these risks by 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 later 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 Risks

The Krka Group manages financial risks centrally in the Finance division of the controlling company in Slovenia. Financial departments of subsidiaries and representative offices abroad perform risk management operational tasks 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 at the moment due to low interest rate exposure. The risk of changes in market values of raw materials and the risk 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 the aforementioned risks, but do not implement any risk management measures.

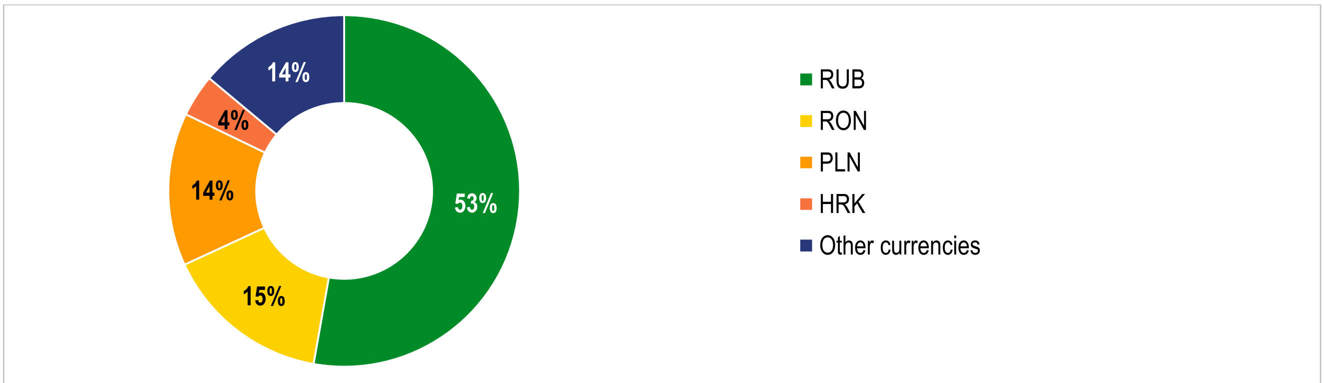
Foreign Exchange Risk

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

Currency exposure arises due to a surplus of assets over liabilities in a particular currency in the statement of financial position of the Group, and from differences between operating income and expenses generated in various currencies.

The key accounting categories composing a currency position are trade receivables, payables to suppliers, and subsidiary funding by the controlling company.

Breaking Down the Currency Position of the Krka Group



The Russian rouble accounts for 53% and the major proportion of the currency position of the Krka Group. The position in roubles arises from trade receivables in the Russian market, and partly also from subsidiary funding by the controlling company of manufacturing capacities in the Russian Federation.

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

The exposure to the Romanian leu accounts for 15% of the currency position and arises from trade receivables accrued due to lengthier payment terms in Romania. The exposure to the Croatian kuna and Polish złoty is the result of trade receivables and manufacturing facilities held by the Group in the two markets and accounts for a total of 18% of the currency position. Other currencies, among them the British pound, US dollar, Swedish krona, Hungarian forint, Czech koruna, Ukrainian hryvnia, Serbian dinar, Macedonian denar, and Kazakh tenge, constitute 14% of the currency position of the Krka Group.

2018 Currency Markets

Also in 2018, we closely monitored the high volatility of individual currencies to which the Krka Group was exposed.

The value of the Russian rouble was the most unstable. It gradually decreased throughout the year, while the exchange rate fluctuation increased in short periods of time. From the beginning of 2018 to its end, the value of the rouble expressed in euros dropped by 13%. The average value of the Russian rouble in 2018 was 11% lower compared to 2017.

In 2018, the value of the rouble was affected by currency interventions and changes of the key interest rate by the Russian monetary authorities, pressure on emerging market currencies, and changing conditions in the global financial markets. The key negative factor were additional economic sanctions imposed by the USA against individual Russian legal entities and natural persons in April and September.

Like in 2017, the oil price movements did not critically affect the value of the Russian rouble in 2018. In 2016, the central bank and the Ministry of Finance introduced measures to mitigate the impact of oil price movements on the inflation and stability of public finances in the Russian Federation, and thereby on the value of the currency.

In 2018, the value of the Polish złoty remained unstable, as has been the case for the last few years. From the beginning until the end of the year, its value expressed in euros dropped by 2.9%, while the average value remained at the 2017 level. Favourable macroeconomic conditions in the country and coordinated monetary policies of the Polish central bank and the ECB provided stability for the Polish currency.

The Romanian leu was stable in 2018. At the end of the year, its value expressed in euros was at the same level as at the beginning of 2018. The stability of the Romanian leu in 2018 was provided by the central bank.

The value of the Croatian kuna was also stable in 2018. Once again, the British pound experienced somewhat higher volatility in 2018 due to uncertainty over Brexit and internal political processes. The Krka Group has a long position in the Croatian kuna and the British pound among others; however, the volatility of the two exchange rates does not significantly influence the net financial result of the Group.

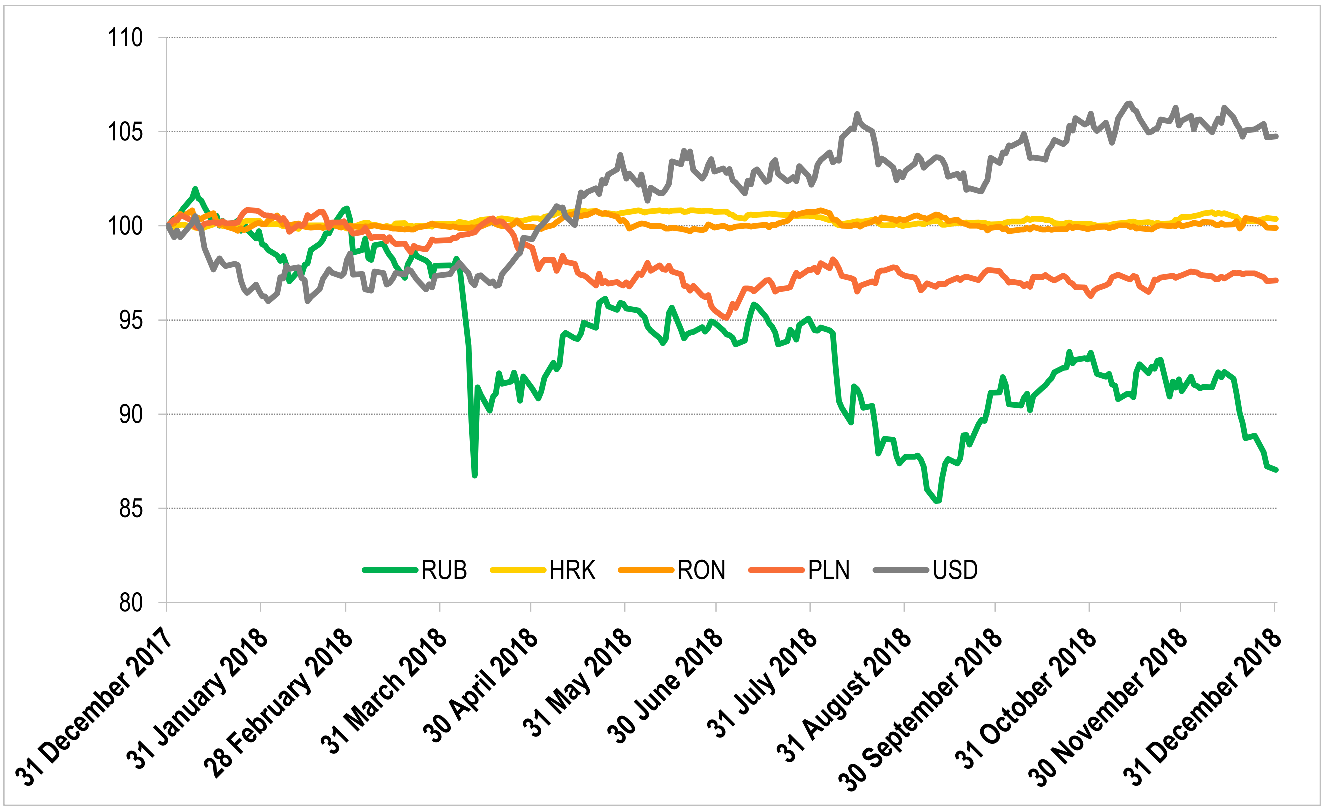
The Krka Group is exposed to the US dollar primarily in purchasing; the currency position in dollars is relatively low, so the value of the US dollar does not significantly affect the exchange rate differences of the Krka Group recorded in the net financial result of the Group.

The US dollar remained unstable in 2018 as well. The US economy recorded a solid economic growth, labour market conditions were favourable, and the inflation was below the target level. Risks related to the US dollar primarily arise from the escalation of the US-China trade conflict, which could have global implications. The US central bank positively affected the value of the dollar, as it increased the interest rate four times in 2018; further increases are expected also in 2019.

The value of dollar expressed in euros dropped in the first quarter of 2018, but strengthened later in the year. From the beginning until the end of 2018, the value of the US dollar rose by 4.7%, whereas the average value of the dollar in euros was 4.4% lower than in 2017.

2018 Movement of Currencies Expressed in Euros

Index 31 December 2017 = 100



Currency Risk Management Results

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

Krka continued its policy of partial hedging against the rouble-related risk in 2018. The portion of the hedged exposure in Russian roubles was decreased at the beginning of the year. We generated a positive net financial result of €2.6 million from forward contracts. Costs of hedging for the Russian rouble due to differences between the exchange rates of the rouble against the euro ranged between 6.5% and 7.5% of the hedged exposure.

Partial hedging partially balanced the negative impact of foreign exchange losses from the exposure in the Russian roubles.

Due to the fall of the rouble value from the beginning until the end of the year, we generated net foreign exchange losses of €27.4 million from the long position in the Russian roubles. More than a third of the amount was generated in December.

Net foreign exchange losses were generated from other currencies in 2018 as well. Exposure to other currencies was not hedged. A multi-year analysis of exchange rate differences and hedging costs for the Romanian leu, Polish złoty, 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 currency exposure of the Krka Group includes the Ukrainian hryvnia, Kazakh tenge, Serbian dinar, and some other currencies. The exposure to these is less significant, and no financial instruments are available to mitigate risk exposure to them.

The currency risk management balance totalled −€28.2 million in 2018. In 2018, the Krka Group net financial result amounted to −€30.1 million, a deterioration on 2017.

2019 Objectives

In 2019, we intend to continue the existing policy of partial hedging against the Russian rouble with forward contracts. We will increase our activities to balance the currency exposure by natural hedging, while continuing to use derivative financial instruments as an exception only.

	31 Dec 2017	31 Dec 2018	Lowest value	Highest value	Average value	Standard deviation	Coefficient of variation*
RUB	69.39	79.72	68.05	81.27	74.02	3.07	4.1%
HRK	7.44	7.41	7.38	7.46	7.42	0.02	0.3%
RON	4.66	4.66	4.62	4.67	4.65	0.01	0.3%
PLN	4.18	4.30	4.14	4.39	4.26	0.06	1.4%
CZK	25.54	25.72	25.19	26.07	25.65	0.22	0.8%
HUF	310.33	320.98	308.51	329.81	318.86	5.98	1.9%
UAH	33.78	32.04	30.13	35.76	32.11	1.19	3.7%
RSD	118.47	118.43	117.08	118.99	118.24	0.24	0.2%
USD	1.20	1.15	1.13	1.25	1.18	0.04	3.1%
GBP	0.89	0.89	0.86	0.91	0.88	0.01	1.0%

* Standard deviation to mean value ratio

Interest Rate Risk

The interest rate risk is defined as a threat of the Krka Group suffering an increase in financing costs from non-current borrowings or a decrease in income from non-current investments due to the changed reference market interest rates.

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

The Krka Group had no non-current borrowings in 2018. Non-current investments are not related to reference market interest rates, which is why the Krka Group was not exposed to the reference interest rate risk.

2019 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.

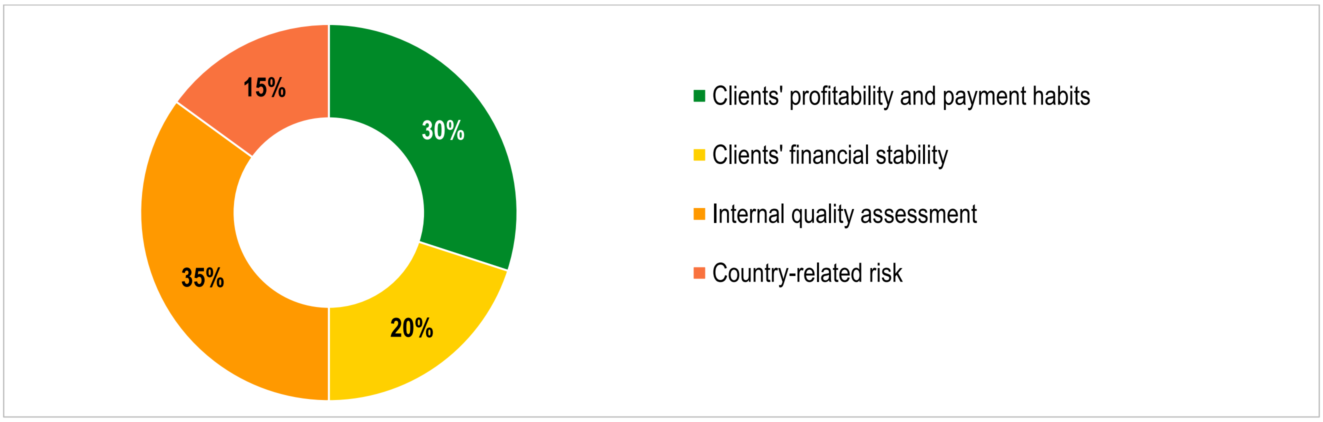
Credit Risk

The key credit risk of the Krka Group relates to trade receivables; this is the risk that a client might fail to settle 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 sales exceeds €100,000. At the end of 2018, trade receivables included in the credit control process accounted for more than 90% of total receivables, and involved more than 400 clients.

The credit control process involves two steps. The first step involves assessing the credit risk of each client, determining the 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 classes; each has a different weight in the final assessment.



Each client is assigned a customised credit limit according to the 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 late on payments or if receivables together with the new shipment exceed the approved credit limit. Employees engaged in sales must start a payment collection procedure 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 engages also the system of regular reporting on trade receivables and the clients' payment discipline. The reporting system supports the early detection of clients at increased risk of defaulting on payments and facilitates effective credit risk management.

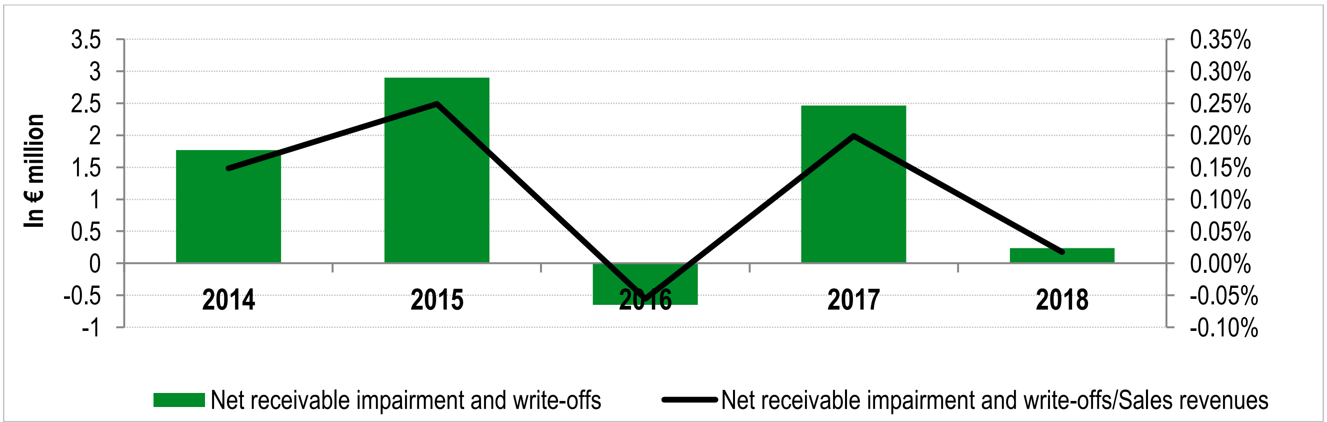
The credit control process is based on uniform rules which apply to all clients of the Krka Group. Due to specifics of individual sales markets, additional local controls have been introduced in individual subsidiaries. The credit control processes are regularly adjusted to changes in the sales markets.

Credit Risk Management Results

Credit control guarantees permanent control of the quality of trade receivables portfolios. The result of credit control process is a low proportion 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.

The credit risk management balance was favourable in 2018 as well. Net receivable write-offs and impairments accounted for 0.02% of the Krka Group annual sales.

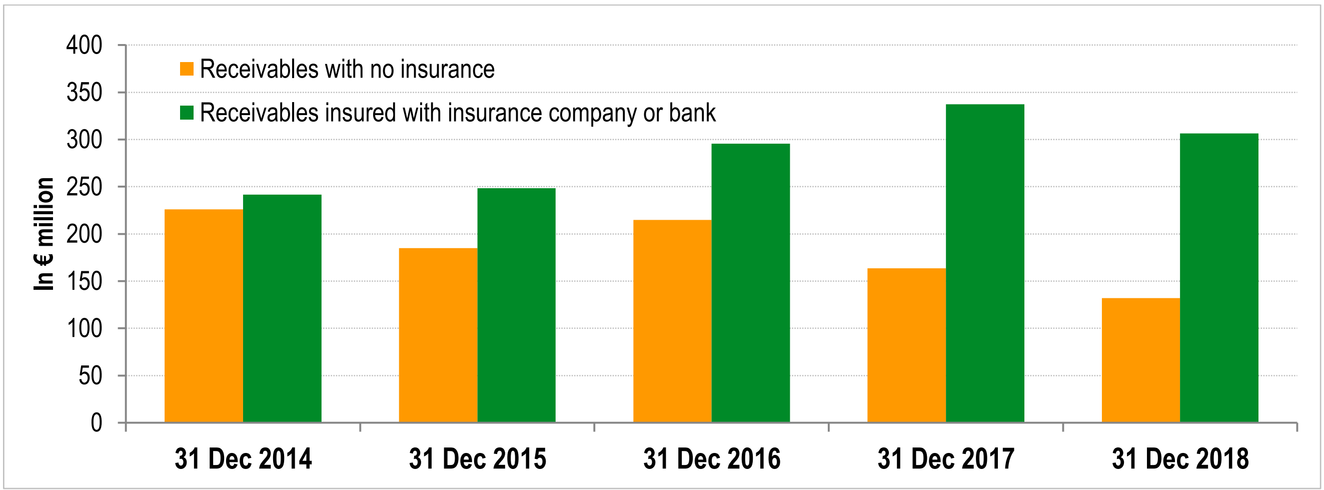


Insurance for Trade Receivables

Since 2009, the Krka Group has insured a part of its trade receivables with a credit insurance company. Trade receivables due from clients from countries with increased credit risk have been insured. Bank guarantees and letters of credit are used as insurance for payments less often.

In 2018, we extended the trade receivables insurance with the existing credit insurance company.

At the end of 2018, more than 60% of trade receivables were insured at a credit insurance company or with financial instruments.

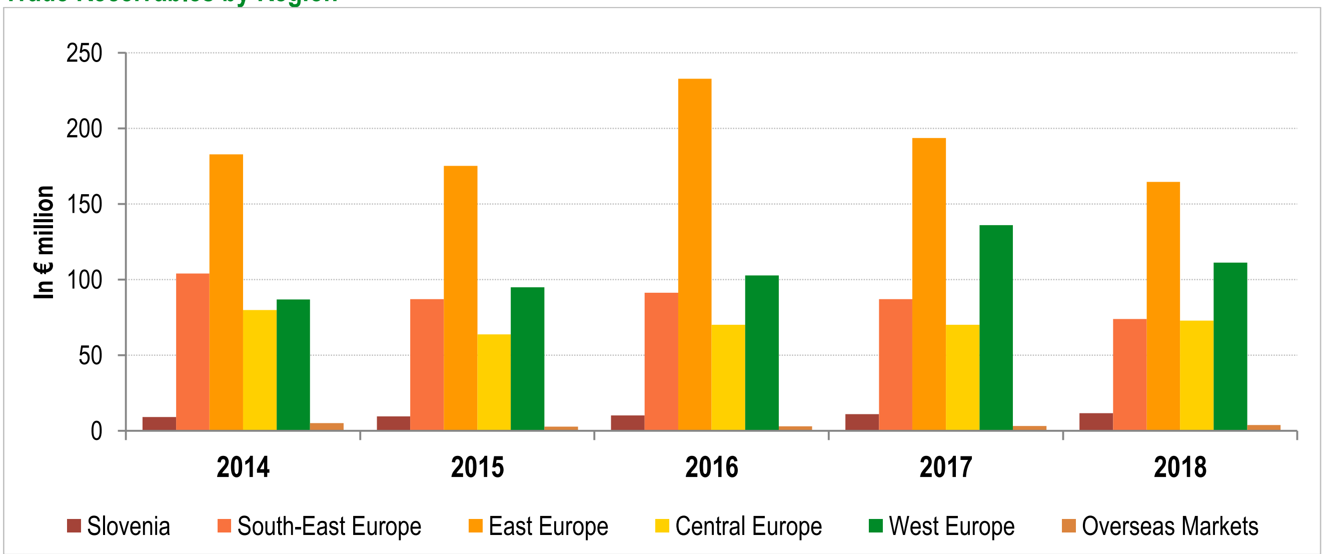


Trade Receivables by Region

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

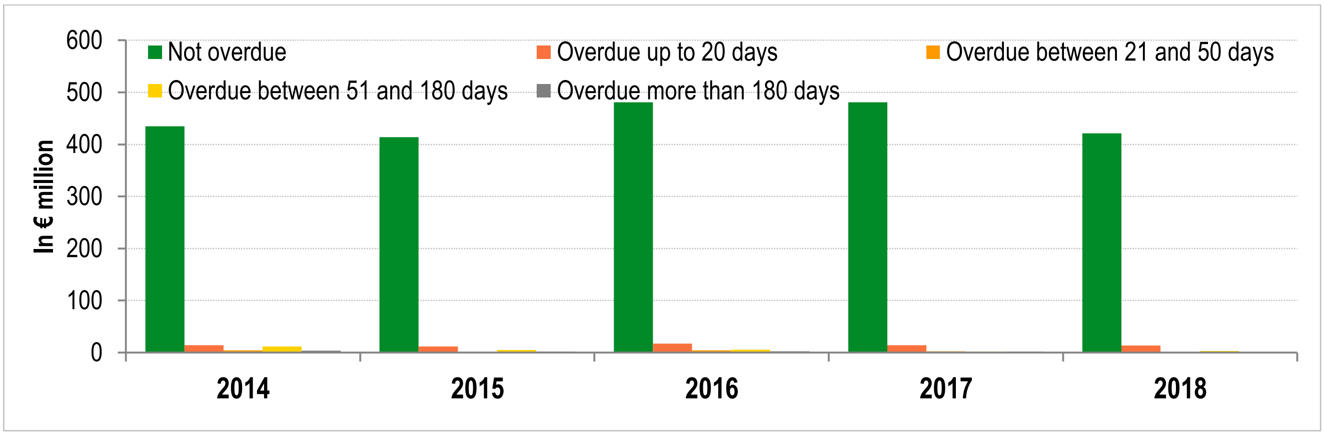
The total value of trade receivables in euros decreased by 12% at the end of 2018 compared to the beginning of the year.

Trade Receivables by Region



Maturity Structure of Net Trade Receivables

The maturity structure for receivables remained stable. The percentage of past due receivables compared to total trade receivables remained low also at the end of 2018.



2019 Objectives

We will continue standard credit risk management activities in 2019. We intend to keep the payment insurance policy unchanged. As has been the case so far, we plan to monitor even more closely clients from markets with a less favourable macroeconomic environment and markets where we have detected increased risks in the wholesale distribution of medicines. Where exposure above the acceptable levels is detected with individual clients, 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

Among its business partners, Krka is known for its financial discipline, low indebtedness, and stable cash flows. In 2018, current borrowings were used only at the beginning of the year. A portion of cash surplus was placed in bank deposit during the year. Krka settled all of its financial liabilities regularly. The exposure of the Krka Group to liquidity risk in 2018 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.

By the end of 2018, we implemented targeted cash pooling at Citibank London for ten of Krka's EU subsidiaries. In this way, we improved cash management, which has ensured a more transparent overview of liquidity in the Group companies, reduced funding needs and therefore lowered financing costs, as well as decreased costs related to cash transactions and improved cash transaction security.

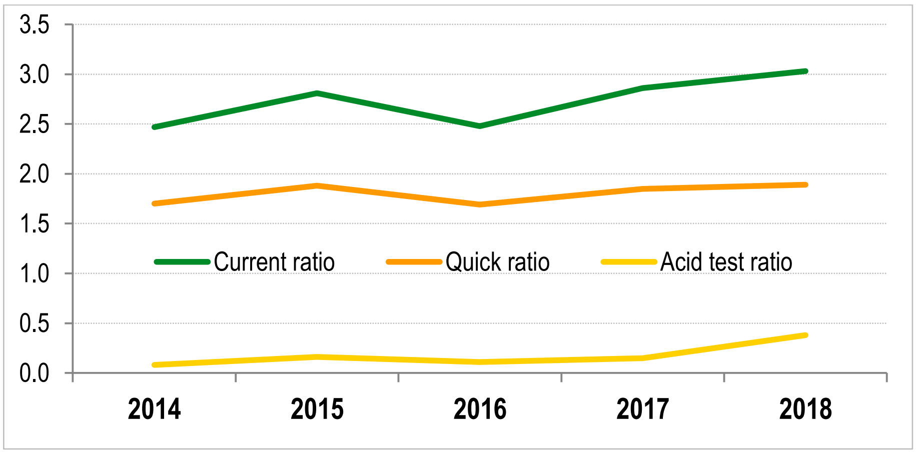
Please see liquidity ratios in the table below. Liquidity ratios were stable and favourable.

Liquidity Ratios of the Krka Group

Liquidity ratios	2018	2017	2016	2015	2014	5-year average
Current ratio	3.03	2.86	2.48	2.81	2.47	2.73
Quick ratio	1.89	1.85	1.69	1.88	1.70	1.80
Acid test ratio	0.38	0.15	0.11	0.16	0.08	0.18
Receivables turnover ratio	2.68	2.36	2.33	2.38	2.44	2.44

Current ratio = Current assets/Current liabilities
Quick ratio = (Current assets – Inventories)/Current liabilities
Acid test ratio = (Investments + Cash and cash equivalents)/Current liabilities

Changes in Liquidity Ratios of the Krka Group



Property, Liability, and Business Interruption Insurance

The Krka Group holds insurance policies from domestic and foreign insurance companies to insure property, liabilities, and financial losses in the event of a business interruption. We adjust the scope and type of insurance coverages to business growth, property value, risks, and the recommendations of insurance inspectors.

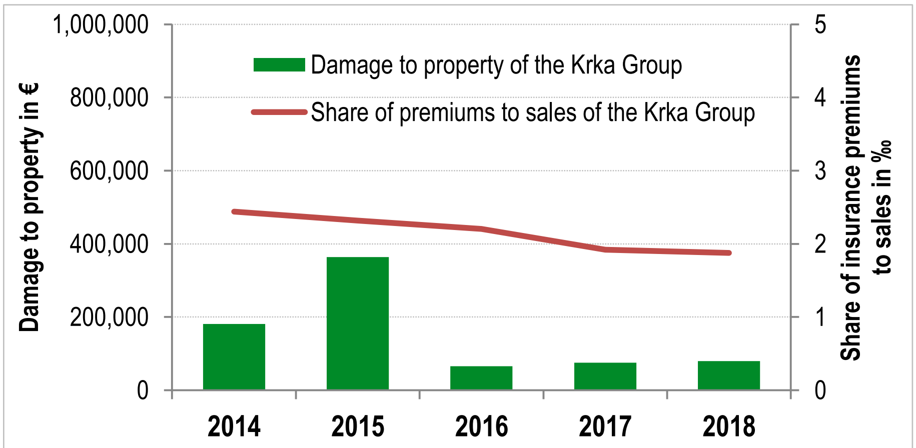
The controlling company manages the insurance policies of all Krka Group companies, except local car insurance policies and potential exceptions. The entire Krka Group is insured in compliance with uniform principles that did not change in 2018. The competitiveness of individual insurance companies is reviewed every year. When selecting insurance companies, we consider the quality of coverage, premium rates, references, and national legal requirements. Also in 2018, Krka further reduced the insurance premium total by inquiries and negotiations, even though total coverage increased.

Krka introduces gradual improvements every year, and at the same time assumes part of the risks by its own contribution to damages or by cancelling insurances with reduced risk.

Krka has been investing systematically in preventing damage. Our buildings are designed so that their hazard exposure is as low as possible. They are equipped with active fire protection systems, for example fire and fume alarms, sprinkler systems, fire flaps, and safety lighting. Preventive inspections and fire watches are arranged regularly. Employees undergo theoretical and practical training in order to respond correctly in emergencies.

The Krka Group has been planning its preventive actions and concluded appropriate insurance policies, so in 2018 the volume of 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 Have Been Reduced



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

Investor and Share Information

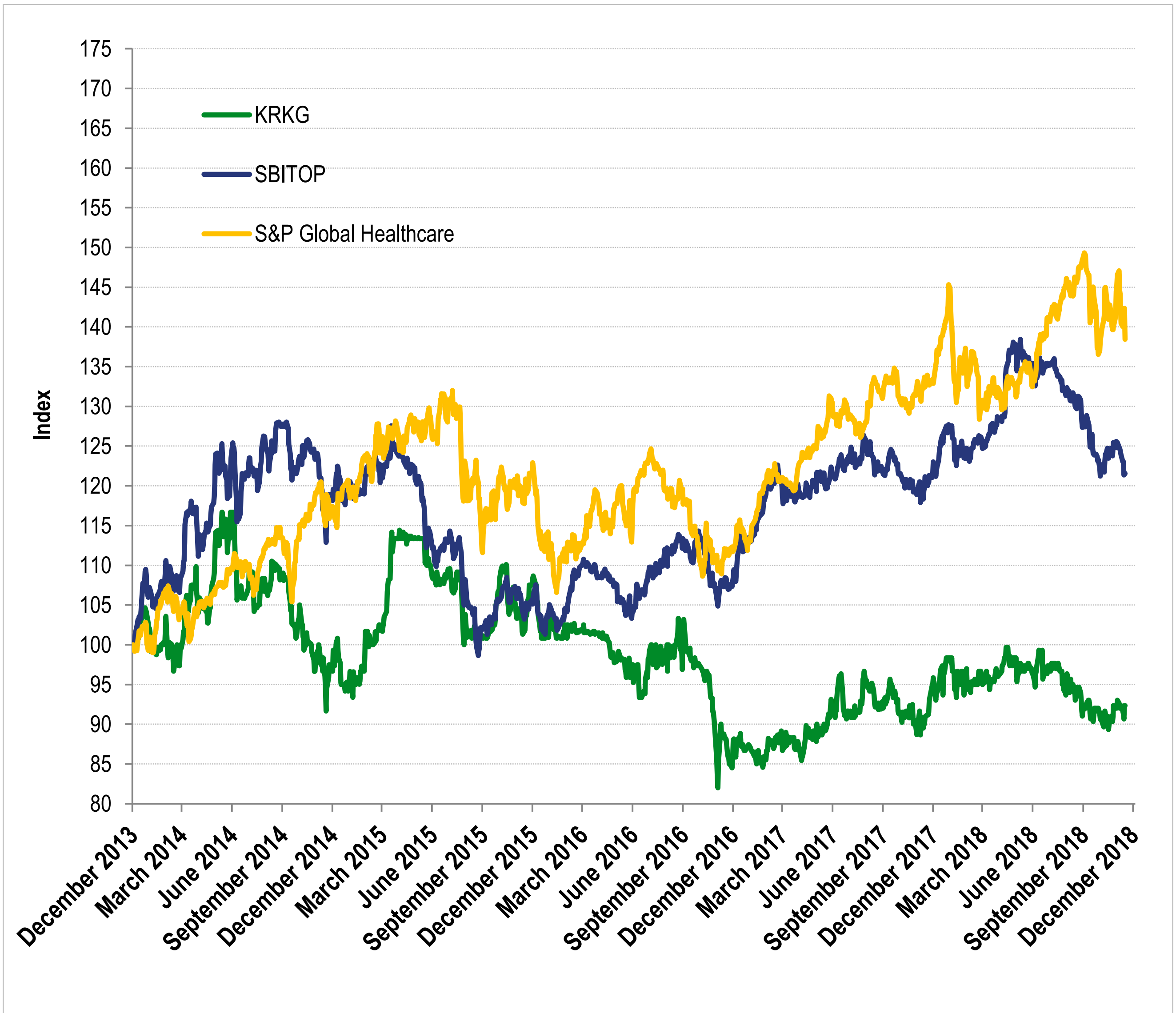
Shareholder Return

Krka Share Price

In €	2018	2017	2016	2015	2014
Year high	59.80	58.00	64.50	68.65	70.00
Year low	53.60	50.75	49.21	56.03	55.00
31 December	57.80	57.50	52.90	65.20	59.60
Annual change (in %)	0.5	9	−19	9	−1

In 2018, the Krka share price rose by 0.5%. In the same period, the value of the blue-chip index of the Ljubljana Stock Exchange (SBITOP) dropped by 0.2%.

Krka Share Price Performance in Comparison with Selected Share Indices (Beginning of 2014 = 100)



Dividend Policy

The Annual General Meeting decides on the proposed dividend amount. In 2018, we allocated 61% of the consolidated profit attributable to equity holders of the controlling company generated in 2017 for the payout of dividends; gross dividend per share increased by 5.5%. When determining the dividend payout each year, the Group's financial requirements for investments and acquisitions are considered, and at least 50% of the net profit of controlling company's equity holders is allocated to dividends.

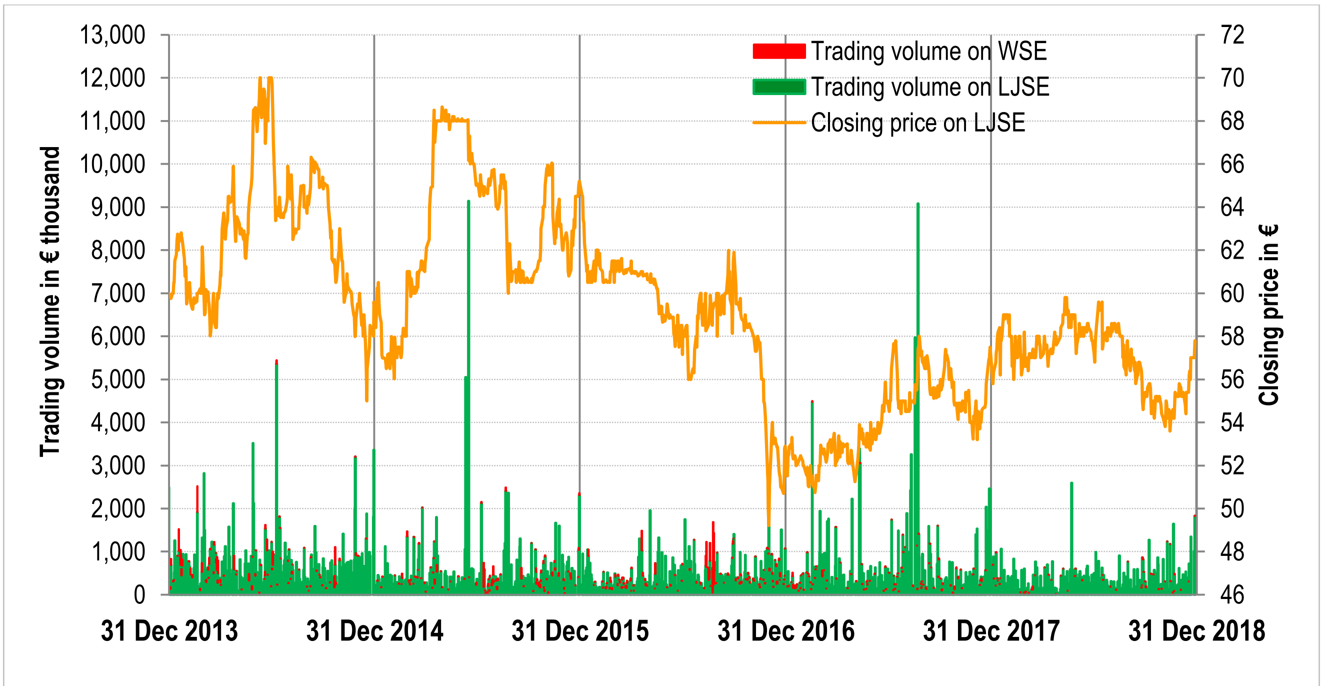
	2018	2017	2016	2015	2014
Earnings per share[1] (in €)	5.46	4.74	3.35	4.86	5.07
Gross dividend per share[2] (in €)	2.90	2.75	2.65	2.50	2.10
Dividend payout ratio[3] (%)	61.2	82.1	54.5	49.3	40.1
Dividend yield[4] (%)	5.0	4.8	5.0	3.8	3.5

[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] Gross dividend per share/Earnings per share from the previous period
[4] Gross dividend per share/Share price as at 31 December

Share Trading and Shareholding

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

Trading in Krka Shares in the Period from 2014 to 2018



Source: The Ljubljana Stock Exchange and the Warsaw Stock Exchange

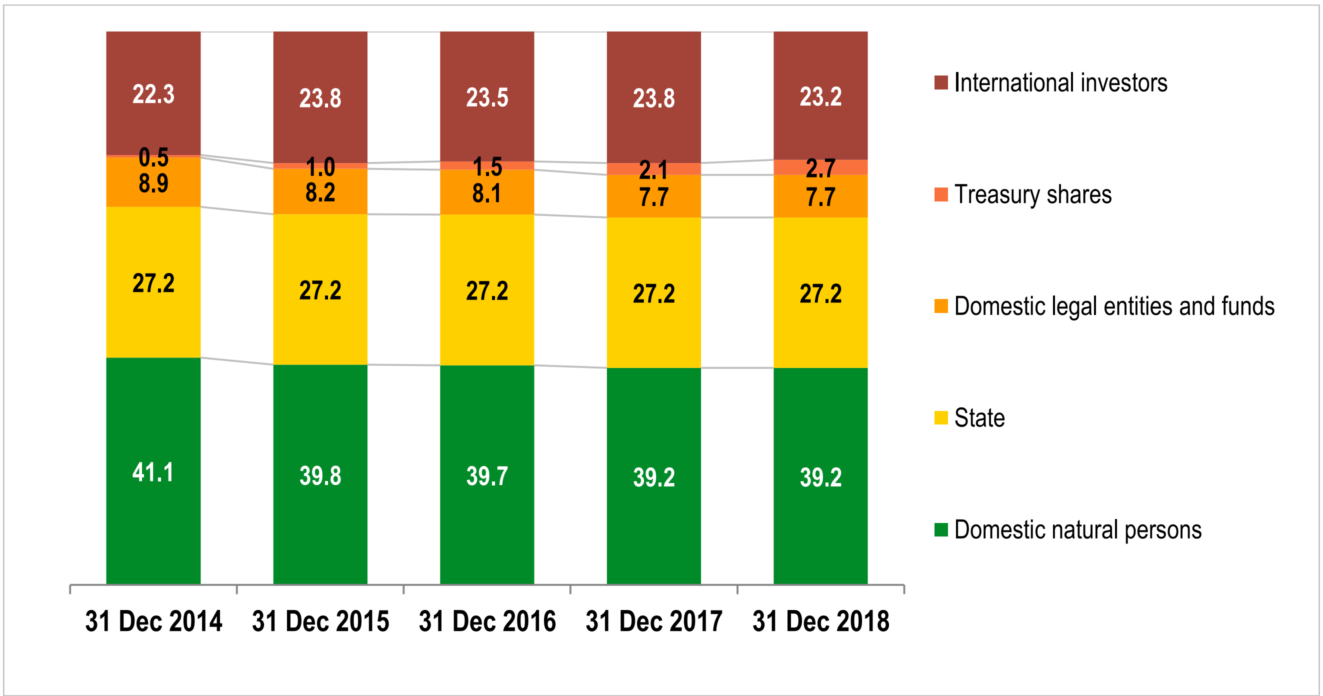
Krka shares are the most traded security on the Ljubljana Stock Exchange. In 2018, the average daily trading volume of Krka shares on the Ljubljana Stock Exchange reached €0.4 million.

The Ten Largest Shareholders on 31 December 2018

	Shareholder	Number of shares	% of total shares issued
1	KAPITALSKA DRUŽBA, D. D.	3,493,030	10.65
2	SDH, D. D.	2,949,876	9.00
3	REPUBLIC OF SLOVENIA	2,366,016	7.21
4	OTP BANKA D. D.	1,622,941	4.95
5	ADDIKO BANK D. D.	1,196,138	3.65
6	CLEARSTREAM BANKING SA	775,122	2.36
7	KDPW	467,289	1.42
8	LUKA KOPER, D. D.	433,970	1.32
9	UNICREDIT BANK AUSTRIA AG	427,268	1.30
10	ZAVAROVALNICA TRIGLAV, D. D.	388,300	1.18
		14,119,950	**43.06**

Krka had 50,382 shareholders at the end of 2018, or almost 3% less than at the end of 2017.

Shareholder Structure (%)

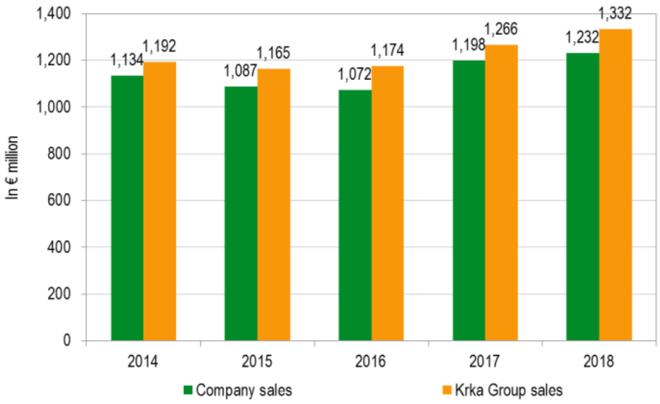


The shareholdings of Slovenian state financial companies, i.e. Slovenski državni holding (SDH, Slovenian Sovereign Holding) and the Republic of Slovenia, and Kapitalska družba (Pension Fund Management) with its funds, remained unchanged; the same is true for shareholdings of domestic legal entities and funds, and domestic natural persons. The shareholding of international investors somewhat decreased, while treasury shares increased in equal proportion.

In 2018, the company acquired 201,730 treasury shares on the regulated market, valued at €11,487,967 and held 893,447 treasury shares on 31 December 2018.

Business Operations Analysis

Operating Income



In 2018, the Krka Group generated revenues in total of €1,331.9 million (of which revenues from contracts with customers on sales of products and services amounted to €1,326.7 million, while other revenues from contracts with customers on sales of materials and other sales revenues constituted the difference), or €65.5 million (5%) more than in 2017. Over the past five years, average sales growth reached 6.2% in terms of volume, and 2.1% in terms of value.

Other operating income amounted to €12.8 million. Other operating income also includes reversal of provisions for lawsuits in total of €2.1 million.

In 2018, sales of the Company amounted to €1,231.8 million (of which revenues from contracts with customers on sales of products and services reached €1,077.6 million, revenues from contracts with customers on sales of materials accounted for €146.1 million, and other revenues from sales totalled €8.0 million), or €34.0 million (3%) more than in 2017.

Other operating income totalled €3.8 million. Other operating income also comprised €2.0 million from reversal of provisions for lawsuits.

Operating Expenses

The Krka Group incurred operating expenses totalling €1,112.0 million, up €33.9 million or 3% compared to 2017. The Company incurred operating expenses in total €1,036.3 million, also up 3% compared to 2017.

The Krka Group operating expenses comprised as follows: costs of goods sold totalling €561.1 million, selling and distribution expenses totalling €344.7 million, R&D expenses totalling €130.7 million, general and administrative expenses totalling €75.4 million. Operating expenses accounted for 83% of sales, and over the past five years ranged from 83% in 2014 and 2018 to 90% in 2016.

Costs of goods sold, which rose by 4% compared to 2017, represented the main item in the Krka Group operating expense structure. Their proportion in sales reached 42.1%, and accounted for 42.5% in 2017. Product portfolio had a major impact on costs of products sold. Selling and distribution expenses increased by 1% and accounted for 25.9% of total sales, down by 1.0 percentage points compared to 2017. R&D expenses amounted to 9.8% of total sales (down by 0.1 percentage points over 2017), and increased by 4% year on year. General and administrative expenses amounted to 5.7% of total sales, a 3% rise compared to 2017, down by 0.1 percentage points.

Operating expenses of the Company included costs of goods sold in total of €532.7 million; selling and distribution expenses in total of €305.1 million; R&D costs in total of €135.1 million; and general and administrative expenses in total of €63.4 million.

Costs of goods sold, which rose by 4% compared to 2017, represented the major item in the Company operating expense structure. They accounted for 43.2% of total sales, 0.5 percentage point increase over 2017. Product portfolio impacted costs of products sold the most. Selling and distribution expenses were at the level of 2017 and accounted for 24.8% of total sales, a downturn of 0.6 percentage points compared to 2017. Research and development expenses amounted to 11.0% of total sales (the same proportion as in 2017) and went up by 3% compared to 2017. General and administrative expenses amounted to 5.1% of total sales, an 8% rise compared to 2017, improving their proportion in sales by 0.2 percentage points.

Financial Income and Expenses

	Krka Group					Company				
In € thousand	2018	2017	2016	2015	2014	2018	2017	2016	2015	2014
Financial income	5,935	24,041	65,679	25,561	1,486	17,382	24,908	78,225	36,735	9,178
Financial expenses	-36,048	-46,608	-71,816	-44,283	-103,126	-33,891	-46,599	-72,733	-43,524	-112,313
Net financial result	**-30,113**	**-22,567**	**-6,137**	**-18,722**	**-101,640**	**-16,509**	**-21,691**	**5,492**	**-6,789**	**-103,135**

In 2018, net financial result of the Krka Group presented a €30.1 million loss, and net financial result of the Company recorded a €16.5 million loss.

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

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

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

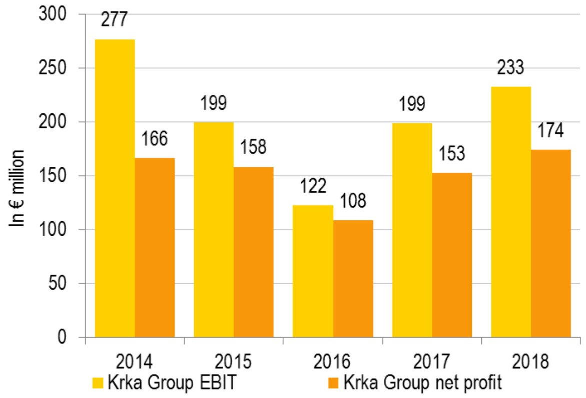
Krka continued its policy of partial hedging against the rouble-related risk in 2018. At the beginning of the year, we decreased the insured proportion of the risk exposure to the Russian rouble. Arising from forward contracts, we generated positive net financial result in the amount of €2.6 million. Costs of hedging against the Russian rouble due to differences between interest rates in the rouble and the euro in 2018 ranged between 6.5% and 7.5% of the insured risk exposure. As the value of the Russian rouble dropped from the beginning until the end of the year, we generated net foreign exchange losses from the long position in the Russian roubles in total of €27.4 million. More than one third of the said amount was accrued in December.

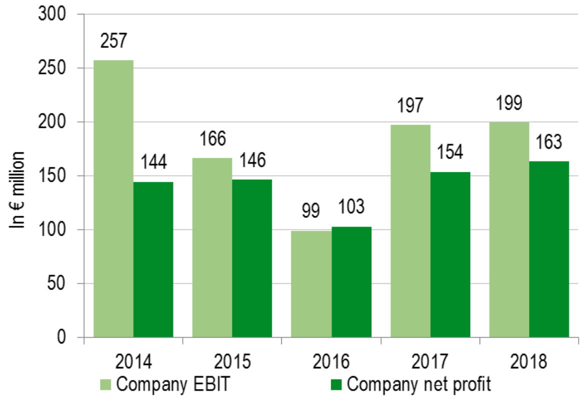
We accrued net foreign exchange losses from other currencies in 2018. Exposure to other currencies was not hedged. A multi-year analysis of exchange rate differences and hedging costs for the Romanian leu, Polish złoty, Czech koruna, Hungarian forint, and Croatian kuna has shown that full hedging for 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. Currency exposure of the Krka Group to the Ukrainian hryvnia, Kazakh tenge, Serbian dinar, and certain other currencies is less significant, and no financial instruments for mitigation of risk exposure have been provided. The currency risk management of the Krka Group resulted in a loss of €28.2 million.
Financial income of the Krka Group comprised interest income of €0.5 million and other financial income of €0.1 million. Financial expenses consisted of interest expenses for borrowings in the amount of €0.6 million and other financial expenses in total of €1.9 million.

Financial income of the Company comprised interest income in total of €0.6 million and income from dividends and other shares in profit worth €11.5 million. Financial expenses were composed of interest expenses for borrowings in the amount of €0.3 million and other financial expenses in total of €1.6 million. Currency risk management of the Company yielded a loss of €26.6 million in 2018.

Operating Results

Operating Profit and Net Profit for the Year





Operating profit (EBIT) of the Krka Group totalled €232.7 million, a €33.9 million or 17% increase compared to 2017. The increase resulted from relatively higher sales growth in comparison to expenses. The Krka Group operating profit increased by amortisation and depreciation (EBITDA) totalled €343.3 million, which was a €36.6 million or 12% climb.

Operating profit (EBIT) of the Company amounted to €199.3 million, while operating profit of the Company increased by amortisation and depreciation (EBITDA) reached €282.5 million.

Profit before tax of the Krka Group grew by €26.4 million or 15%, and totalled €202.6 million in 2018. The effective tax rate of the Krka Group was 14.1%. Profit before tax of the Company amounted to €182.8 million.

The Krka Group recorded net profit of €174.0 million, a €21.4 million or 14% rise compared to 2017. Net profit of the Company reached €163.3 million.

Assets

	Krka Group					Company				
In € thousand	2018	Share (%)	2017	Share (%)	Index 2018/17	2018	Share (%)	2017	Share (%)	Index 2018/17
Non-current assets	**1,010,811**	**50.9**	**1,033,008**	**53.8**	**98**	**1,038,616**	**54.2**	**1,032,595**	**56.2**	**101**
Property, plant and equipment (PP&E)	839,448	42.3	864,842	45.0	97	604,923	31.6	611,341	33.3	99
Intangible assets	110,329	5.6	110,992	5.8	99	28,842	1.5	28,299	1.5	102
Investments and loans	20,199	1.0	18,358	1.0	110	354,128	18.5	341,899	18.6	104
Other	40,835	2.0	38,816	2.0	105	50,723	2.6	51,056	2.8	99
Current assets	**974,258**	**49.1**	**886,123**	**46.2**	**110**	**877,449**	**45.8**	**804,887**	**43.8**	**109**
Inventories	365,149	18.4	310,671	16.2	118	317,499	16.6	264,174	14.4	120
Trade receivables	438,291	22.1	500,735	26.1	88	392,107	20.5	456,265	24.8	86
Other	170,818	8.6	74,717	3.9	229	167,843	8.7	84,448	4.6	199
Total assets	**1,985,069**	**100.0**	**1,919,131**	**100.0**	**103**	**1,916,065**	**100.0**	**1,837,482**	**100.0**	**104**

At the end of 2018, assets of the Krka Group amounted to €1,985.1 million, an increase of €65.9 million or 3% compared to the end of 2017. The proportion of non-current and current assets in total asset structure was slightly different than at the end of 2017, as non-current assets declined by 2.9 percentage points and accounted for 50.9%.

At the end of 2018, the Company assets were valued at €1,916.1 million, a €78.6 million rise, or 4% more than at the end of 2017. The proportion of non-current and current assets in total asset structure was slightly different than at the end of 2017, as non-current assets declined by 2.0 percentage points and accounted for 54.2%.

Non-current assets of the Krka Group amounted to €1,010.8 million, declined by €22.2 million or 2% compared to the end of 2017. The most important item in the asset structure of the Krka Group was property, plant and equipment (PP&E). It was valued at €839.4 million or 42% (of which the Company PP&E accounted for €604.9 million or 72% of the Krka Group PP&E). Intangible assets were worth €110.3 million and accounted for 6% of total assets (of which assets of the Company amounted to €28.8 million or 26% of total intangible assets of the Krka Group). Non-current loans of the Krka Group totalled €10.8 million or 0.5% of total Krka Group assets.

Current assets of the Krka Group amounted to €974.3 million, an €88.1 or 10% increment compared to the end of 2017. Trade receivables due by customers outside the Krka Group totalled €438.3 million and inventories €365.1 million. Trade receivables declined by €62.4 million or 12%, but in order to ensure sufficient quantities of various products to over 70 markets inventories saw a €54.5 million or 18% rise. Current loans of the Krka Group totalled €21.5 million or 1% of total Krka Group assets. They comprised bank deposits with maturity exceeding 90 days in total of €20.0 million. Cash and cash equivalents were valued at €117.8 million, which was €71.9 million or 156% more than at the end of 2017, accounting for 6% of total assets of the Krka Group.

Non-current assets of the Company amounted to €1,038.6 million, and grew by €6.0 million or 1% compared to the end of 2017. The most important item worth €604.9 million or 31% of total assets of the Company was property, plant and equipment. Investments in subsidiaries amounted to €325.5 million or 17% of the Company assets, while trade receivables due by subsidiaries climbed to €38.9 million or 2% of the Company assets. Intangible assets amounted to €28.8 million and represented 1% of total assets. Non-current loans of the Company totalled €19.2 million or 1% of total Company assets.

Current assets of the Company amounted to €877.4 million, a €72.6 or 9% increment compared to the end of 2017. Trade receivables reached €392.1 million or 20% of Company assets (of which trade receivables due by customers outside the Krka Group totalled €186.3 million), and inventories amounted to €317.5 million or 16% of the Company asset total. Receivables went down, while inventories went up. Non-current loans of the Company totalled €51.8 million or 3% of total Company assets. Cash and cash equivalents were valued at €98.5 million, which was €64.4 million or 189% more than at the end of 2017, accounting for 5% of total assets of the Company.

Equity and Liabilities

	Krka Group					Company				
In € thousand	2018	Share (%)	2017	Share (%)	Index 2018/17	2018	Share (%)	2017	Share (%)	Index 2018/17
Equity	1,540,270	77.6	1,487,699	77.5	104	1,552,300	81.0	1,493,325	81.3	104
Non-current liabilities	123,058	6.2	121,182	6.3	102	89,912	4.7	87,911	4.8	102
Current liabilities	321,741	16.2	310,250	16.2	104	273,853	14.3	256,246	13.9	107
Total equity and liabilities	**1,985,069**	**100.0**	**1,919,131**	**100.0**	**103**	**1,916,065**	**100.0**	**1,837,482**	**100.0**	**104**

As at 31 December 2018, equity of the Krka Group saw a €52.6 million or 4% increase compared to the end of 2017. The increase was attributable to net profit of the Krka Group totalling €174.0 million and acquisition of a non-controlling interest in the amount of €2.3 million. Equity was reduced by the dividend pay-out in total of €92.8 million, further repurchase of treasury shares in the amount of €11.5 million, and other comprehensive income after tax totalling €19.5 million. The largest item were translation reserves recorded at a loss of €19.5 million (foreign exchange losses accrued by translation of individual foreign financial statement items in national currencies into the reporting currency).

Provisions of the Krka Group totalled €101.0 million (of which post-employment and other non-current employee benefits accounted for €94.8 million, provisions for lawsuits €4.2 million, and other provisions €2.0 million). In comparison to the end of 2017, they rose by €2.9 million or 3% primarily due to an increase in provisions for post-employment and other non-current employee benefits in total of €2.1 million. Other provisions saw a €1.1 million rise, while provisions for lawsuits dropped by €0.3 million.

Among current liabilities of the Krka Group, trade payables advanced by €31.8 million (from that payables to suppliers abroad went up by €29.2 million, and payables to domestic suppliers by €2.5 million), other current liabilities grew by €11.7 million (from that payables to employees rose by €9.2 million). Current liabilities from contracts with customers dropped by €19.7 million, from that accrued contractual discounts on products sold decreased by €19.5 million, and payables from advances by €0.2 million.

The Krka Group recorded no current or non-current borrowings at the end of 2018.

As at 31 December 2018, equity of the Company reached €59.0 million, a 4% rise compared to the 2017 year-end. The increase was attributed to net profit of the Company totalling €163.3 million, while the reduction was a result of dividend pay-outs in the amount of €92.8 million and repurchase of treasury shares in total of €11.5 million.

Provisions of the Company totalled €87.9 million (of which post-employment and other non-current employee benefits accounted for €83.8 million, and provisions for lawsuits for €4.1 million). They rose by 3% in comparison to the end of 2017 due to an increase in provisions for post-employment and other non-current employee benefits in total of €2.3 million, and provisions for lawsuits over intellectual property rights in the amount of €0.1 million.

Of the Company current liability items, trade payables rose by €14.1 million, while other current liabilities saw an increase of €7.6 million. Current liabilities from contracts with customers dropped by €3.5 million. At the end of 2018, the Company current borrowings from subsidiaries totalled €40.4 million.

Cash Flow Statement

	Krka Group		Company	
In € thousand	**2018**	**2017**	**2018**	**2017**
Net cash flows from operating activities	289,952	227,827	245,326	272,448
Net cash flows used in investing activities	-114,356	-120,132	-88,237	-84,089
Net cash flows used in financing activities	-102,613	-100,091	-91,801	-178,141
Net change in cash and cash equivalents	**72,983**	**7,604**	**65,288**	**10,218**

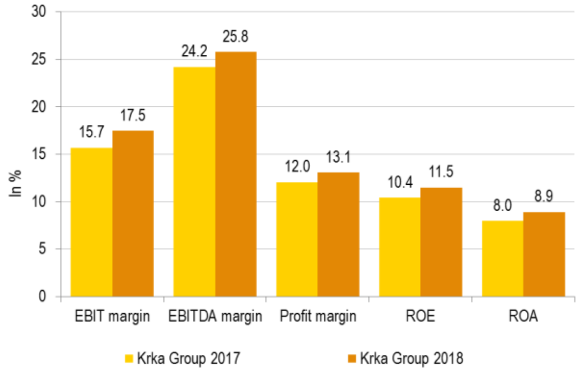
Net change in cash and cash equivalents (exclusive of exchange rate fluctuations) of the Krka Group amounted to €73.0 million in 2018, since the positive cash flow from operating activities exceeded the negative cash flows from investment and financing.

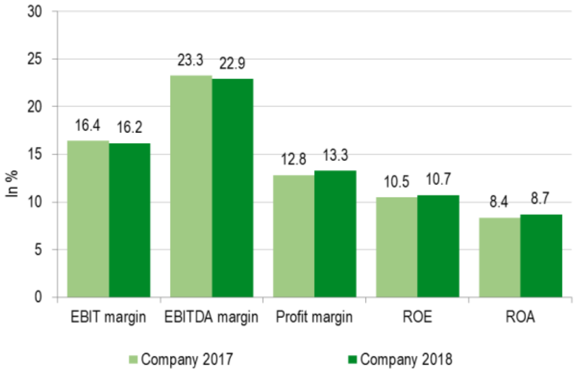
The Krka Group generated profit from operations before changes in net current assets totalling €304.3 million. Changes in current assets that increased cash flows included changes in trade receivables, trade payables and provisions, while changes in inventories, deferred revenues and other current liabilities had a negative effect on profit.

Negative cash flows from investing activities of €114.4 million were accrued due to the acquisition of property, plant and equipment, net outflows related to current investments and loans, acquisition of intangible assets, and non-current loans. Negative cash flows from financing activities in the amount of €102.6 million primarily resulted from pay-outs of dividends and other profit shares totalling €92.8 million, and repurchased treasury shares in the amount of €11.5 million.

Net change in cash and cash equivalents (exclusive of exchange rate fluctuations) of the Company amounted to €65.3 million.

Performance Ratios





All 2018 performance ratios of the Krka Group improved in comparison to 2017.

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

	Krka Group					Company				
In € thousand	2018	2017	2016	2015	2014	2018	2017	2016	2015	2014
Revenues	1,331,858	1,266,392	1,174,424	1,164,607	1,191,614	1,231,784	1,197,756	1,071,709	1,086,526	1,134,169
EBIT	232,686	198,741	122,435	199,434	276,953	199,305	196,953	98,920	166,162	257,167
– Profit margin	17.5%	15.7%	10.4%	17.1%	23.2%	16.2%	16.4%	9.2%	15.3%	22.7%
EBITDA	343,280	306,638	228,238	306,742	374,535	282,493	278,627	180,685	248,998	329,217
– Profit margin	25.8%	24.2%	19.4%	26.3%	31.4%	22.9%	23.3%	16.9%	22.9%	29.0%
Net profit	174,008	152,576	108,456	158,185	166,161	163,329	153,730	102,872	146,262	144,385
– Profit margin	13.1%	12.0%	9.2%	13.6%	13.9%	13.3%	12.8%	9.6%	13.5%	12.7%
Assets	1,985,069	1,919,131	1,911,518	1,809,204	1,795,745	1,916,065	1,837,482	1,837,703	1,761,712	1,768,487
ROA	8.9%	8.0%	5.8%	8.8%	9.3%	8.7%	8.4%	5.7%	8.3%	8.3%
Equity	1,540,270	1,487,699	1,444,444	1,405,984	1,351,899	1,552,300	1,493,325	1,440,448	1,433,211	1,381,313
ROE	11.5%	10.4%	7.6%	11.5%	12.4%	10.7%	10.5%	7.2%	10.4%	10.6%

Marketing and Sales of Products and Services

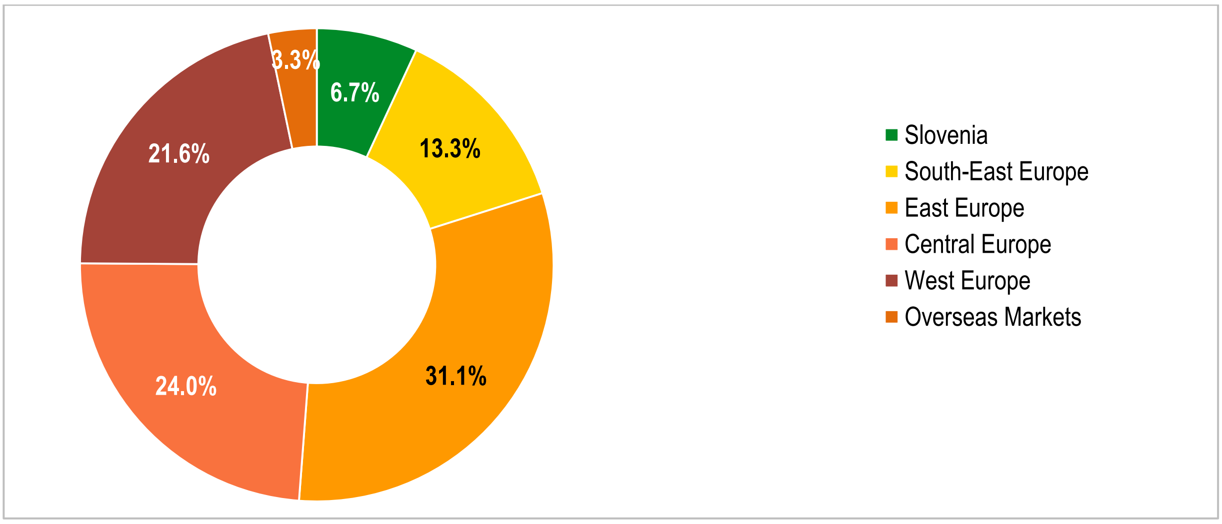
In 2018, the Krka Group generated revenues in total of €1,331.9 million (of which revenues from contracts with customers on sales of products and services amounted to €1,326.7 million, while other revenues from contracts with customers on sales of materials and other sales revenues constituted the difference).

In 2018, the Krka Group generated €1,326.7 million sales total of products and services, or 5% more than in 2017. Sales volume of the Krka Group increased by 7%.

Sales by Region

Region East Europe recorded the highest sales, €412.9 million, or 31.1% of total Krka Group sales, and was followed by Region Central Europe with €318.3 million, or 24.0% of total Krka Group sales. The next region in terms of sales was Region West Europe with €287.1 million, or 21.6% of total Krka Group sales. Sales in Region South-East Europe totalled €176.2 million accounting for 13.3% of total sales, and €43.4 million or 3.3% of total sales in Region Overseas Markets. Sales in Slovenia amounted to €88.9 million, or 6.7% of total Krka Group sales.

2018 Krka Group Sales by Region



Krka Group and Company Sales by Region

	Krka Group			Company		
In € thousand	**2018**	**2017**	**Index 2018/17**	**2018**	**2017**	**Index 2018/17**
Slovenia	88,872	85,265	104	51,280	49,570	103
South-East Europe	176,206	160,963	109	171,120	154,871	110
East Europe	412,945	386,885	107	263,611	250,954	105
Central Europe	318,259	303,582	105	304,209	288,812	105
West Europe	287,076	285,321	101	247,580	257,208	96
Overseas Markets	43,389	38,882	112	39,844	35,340	113
Total	**1,326,747**	**1,260,898**	**105**	**1,077,644**	**1,036,755**	**104**

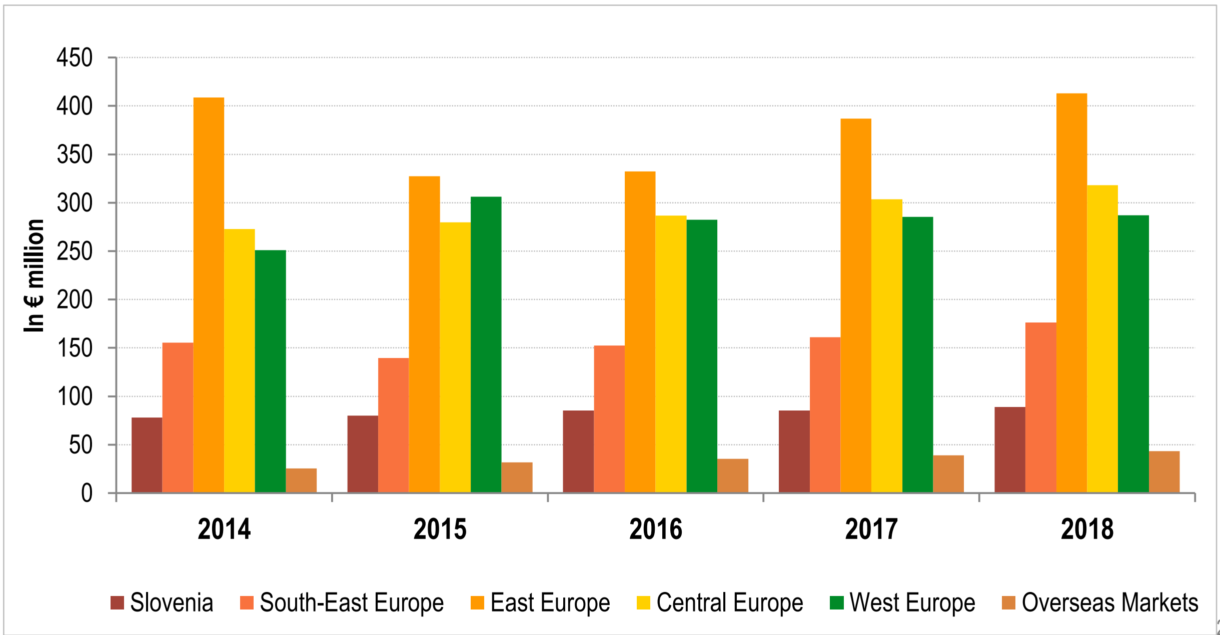
2018 sales revenues comply with the latest *IFRS 15*. 2017 sales revenue data have been adjusted accordingly, hence presented 2017 values differ from values stated in the *2017 Annual Report*.

Krka Group Quarterly Sales by Region

	2018				2017			
In € thousand	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Slovenia	21,108	21,999	23,648	22,117	20,372	21,260	22,983	20,650
South-East Europe	44,174	44,182	43,931	43,919	38,674	41,123	36,461	44,705
East Europe	106,209	112,164	69,229	125,343	101,752	112,166	57,406	115,561
Central Europe	81,160	80,354	78,058	78,687	76,919	77,476	71,621	77,566
West Europe	73,848	71,487	64,636	77,105	71,549	71,324	74,294	68,154
Overseas Markets	10,868	10,807	10,991	10,723	10,661	9,468	9,422	9,331
Total	**337,367**	**340,993**	**290,493**	**357,894**	**319,927**	**332,817**	**272,187**	**335,967**

2018 sales revenues comply with the latest *IFRS 15*. 2017 sales revenue data have been adjusted accordingly, hence presented 2017 values differ from values stated in the *2017 Annual Report*.

Krka Group Sales by Region over the Past Five Years



2018 sales revenues comply with the latest *IFRS 15*. 2017 sales revenue data have been adjusted accordingly, hence presented 2017 values differ from values stated in the *2017 Annual Report*.

Slovenia

Sales of products and services in Slovenia, which is one of Krka's key markets, amounted to €88.9 million in 2018. With respect to value, product sales amounted to €51.3 million, a 3% rise attained due to 4% sales volume growth. Prescription pharmaceuticals accounted for the major share of 77%. Non-prescription products reached 19%, and the remaining 4% were generated by sales of animal health products. Holding an 8.6% market share, we maintained the leading position among medicine providers in Slovenia. Health resort and tourist services yielded €37.6 million.

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

Strongest sales were recorded by medicines for the treatment of cardiovascular diseases, most notably Prenewel (perindopril/indapamide), Prenessa (perindopril), Amlessa (perindopril/amlodipine), and Amlewel (perindopril/amlodipine/indapamide). Of our cholesterol-lowering agents, sales of Sorvasta (rosuvastatin) were most substantial, and we added Ravalsya (rosuvastatin/valsartan) to the range.

Nolpaza (pantoprazole), Ultop (omeprazole), and Emozul (esomeprazole) were our best-known brands of medicines for the treatment of the alimentary tract. We strengthened the brand awareness of Bismuth oxide Krka (bismuth). Among analgesics, Nalgesin (naproxen) and Doreta (tramadol/paracetamol) were at the top, and we paid special attention to marketing our new medicine, Roticox (etoricoxib). In the therapeutic class of medicines for the treatment of the central nervous system, we would like to point out Kventiax (quetiapine), Dulsevia (duloxetine), Memaxa (memantine), and Yasnal (donepezil). We launched an atypical antipsychotic, Parnido (paliperidone).

At the beginning of the year, we launched a non-prescription product Flebaven (diosmin) 500 mg and 1 000 mg tablets for the treatment of chronic venous disease, and entered a new therapeutic area. We strengthened the brand awareness of our food supplement Magnezij Krka 300 (magnesium) and Daleron (paracetamol) products. Sales of our animal health products were driven by Amatib (amoxicillin), Fypryst Combo (fipronil/S-methoprene), Enroxil (enrofloxacin), and Grovit. We added a new antiparasitic, Santiola (closantel), to this product group.

Krka Group Market Position in Slovenia

We held an 8.6% market share and maintained the leading position 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 medicines from the following product groups:

- non-steroidal anti-inflammatory and antirheumatic medicines, accounting for more than a 65% market share;
- proton pump inhibitors, accounting for more than a 55% 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;
- antitussives, accounting for approximately a 40% market share;
- antipsychotics, anti-dementia medicines, and antidepressants, accounting for approximately a 25% market share.

We were the leading provider of medicines containing active substances alprazolam, atorvastatin, ciprofloxacin, dexamethasone, doxazosin, enalapril, indapamide, carvedilol, quetiapine, losartan, including combination with hydrochlorothiazide, memantine, naproxen, omeprazole, pantoprazole, perindopril, including combinations with amlodipine and indapamide, ramipril, rosuvastatin, sertraline, simvastatin, tramadol in combination with paracetamol, and valsartan.
We were the leading provider of generic medicines containing active substances duloxetine, esomeprazole, gliclazide, imatinib, sildenafil, and valsartan in combination with hydrochlorothiazide.
Among non-prescription products, we were the leading provider of non-steroidal anti-inflammatory and antirheumatic medicines, products with an effect on pharynx, and the B-vitamin product group.

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

Region South-East Europe

Product sales in Region South-East Europe amounted to €176.2 million, a 9% year-on-year increase. Most of the regional markets contributed to sales growth, with Serbia at the forefront, as its sales exceeded the 2017 sales results by upwards of €5 million. Bulgaria saw the second highest sales growth of €4.7 million, and was followed by Bosnia and Herzegovina with a €2.7 million sales increment compared to the 2017 figure. In comparison to the year before, sales decreased in Romania and Albania.

Prescription pharmaceuticals accounted for 85%, and were followed by non-prescription products constituting 11% of the regional sales. Year-on-year, both product groups recorded sales growth: 10% prescription pharmaceuticals, and 5% non-prescription products. Animal health products recorded 5% growth, and their market share in the region reached 4%.

In **Romania**, our key and largest regional market, sales amounted to €53 million, just shy of the 2017 figure. Holding a 2.4% market share, we ranked first among foreign providers of pharmaceuticals on the Romanian market.

Prescription pharmaceuticals exceeded 7.8% constituting the major sales proportion. The most important medicines in terms of sales were Atoris (atorvastatin), Co-Prenessa (perindopril/indapamide), Roswera (rosuvastatin), Karbis (candesartan), Doreta (tramadol/paracetamol), and Ciprinol (ciprofloxacin). Among non-prescription products, Bilobil (ginkgo leaf extract) recorded strongest sales, and the Septolete and Nalgesin (naproxen) brands presented the fastest growth. Animal health product sales, also the leading Fypryst (fipronil), remained at the 2017 level.

Krka Group Market Position in Romania
We ranked first among foreign providers of generic medicines holding a 2.4% market share.
We were among the leading providers of medicines from the following groups: • SNRI antidepressants, accounting for more than a 55% market share; • antimicrobial agents (fluoroquinolones), accounting for more than 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 20% market share; • prescription analgesics and antipyretics, accounting for approximately a 20% market share; • ACE inhibitors also in combination with diuretics, accounting for approximately a 15% market share; • cerebral and peripheral vasotherapeutics, accounting for more than a 10% market share; • proton pump inhibitors, accounting for more than a 10% market share.
We were the leading provider of medicines containing active substances ciprofloxacin, duloxetine, enalapril, ginkgo leaf extract, capecitabine, carvedilol, lansoprazole, losartan, mirtazapine, naproxen, norfloxacin, perindopril in combination with amlodipine, pramipexole, ropinirole, telmisartan, tramadol, including the combination with paracetamol. We were the leading provider of generic medicines containing active substances amlodipine, atorvastatin, esomeprazole, ivabradine, candesartan, and pantoprazole, combinations with perindopril and indapamide, and combinations with perindopril, indapamide, and amlodipine.

Croatia, one of our key markets, was the second most important market of the region in terms of sales. We achieved a sales total of €33.4 million due to a 12% increase in sales volume and a 7% rise in sales value. We 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 led again with respect to sales value, primarily due to strong sales of Atoris (atorvastatin), Co-Perineva (perindopril/indapamide), Helex (alprazolam), Roswera (rosuvastatin), Valsacombi (valsartan/hydrochlorothiazide), and Emanera (esomeprazole). Of non-prescription products, Nalgesin (naproxen) and the Septolete brand products recorded strongest sales. Septolete Duo (benzydamine chloride/cetylpyridinium chloride) oral antiseptic contributed significantly to the product group sales growth. Of animal health products, our sales of Fypryst (fipronil) were most substantial.

Krka Group Market Position in Croatia
We placed second among foreign providers of generic medicines holding a 4.2% market share.
We were the leading provider of medicines from the following product groups: • angiotensin II receptor antagonists also in combination with diuretics, accounting for more than a 50% market share; • antimicrobial agents (fluoroquinolones), accounting for approximately a 35% 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 medicines from the following groups: • antitussives, accounting for more than a 35% market share; • sulphonamide antidiabetics, accounting for more than a 25% market share; • anxiolytics, accounting for more than a 20% market share; • proton pump inhibitors, accounting for more than a 20% market share.
We were the leading provider of medicines containing active substances alprazolam, atorvastatin, bromazepam, butamirate, dexamethasone, escitalopram, esomeprazole, clarithromycin, loperamide, norfloxacin, perindopril, including the combination with indapamide; rosuvastatin, and valsartan, including the combination with hydrochlorothiazide. We were the leading provider of generic medicines containing active substances desloratadine, gliclazide, and perindopril in combination with amlodipine and simvastatin.

Serbia generated €23 million sales and recorded almost 30% growth, ranking third among regional markets. Prescription pharmaceuticals contributed the major part to continued fast market share growth. They constituted 4% of total pharmacy sales in Serbia. They presented 33% growth in value and made up 84% of total sales. Nolpaza (pantoprazole), Roxera (rosuvastatin), Atoris (atorvastatin), Valsacor (valsartan), and Ampril (ramipril) were key medicines from this group. We sold 4.1 million packs of Nolpaza, which remained among five medicines with strongest sales in Serbia. Non-prescription product sales were driven by Bilobil (ginkgo leaf extract), Nalgesin (naproxen), and products sold under the Septolete brand, and recorded 9% growth in terms of sales value. Year-on-year, sales of our animal health products went up by 13%. Fypryst (fipronil), Enroxil (enrofloxacin), and Calfoset were at the forefront.

For fourteen consecutive years, we have been recording sales growth in the **Republic of North Macedonia**. Sales totalled €19.6 million, up 9% from 2017. 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 Enap (enalapril), Roswera (rosuvastatin), Tanyz (tamsulosin), Atoris (atorvastatin), and Nolpaza (pantoprazole). In terms of sales, the leading non-prescription products were Bilobil (ginkgo leaf extract), Septanazal (xylometazoline/dexpanthenol), Daleron (paracetamol), and products sold under the Herbion brand. In 2018, we launched several medicines in the country of which we would particularly like to point out prescription pharmaceuticals Co-Amlessa (perindopril/amlodipine/indapamide) and Dutrys (dutasteride), a non-prescription product Flebaven (diosmin), and two animal health products, Otoxolan (marbofloxacin/clotrimazole/dexamethasone acetate) and Santiola (closantel).

While the pharmaceutical market in **Bulgaria** stagnated, we still managed to record sales growth for the fifth consecutive year, primarily due to our dedicated work, successful expansion of our range of products in several therapeutic areas, and rapid adaptations to the market situation. Sales of prescription medicines, above all Co-Valsacor (valsartan/hydrochlorothiazide), Roswera (rosuvastatin), Valsacor (valsartan), and Flosteron (betamethasone), contributed most to the total sales value of €17.9 million, and 35% sales growth. Sales of non-prescription products exceeded 2017 sales by 18%. We successfully launched Flebaven (diosmin).

In **Bosnia and Herzegovina**, we recorded 18% sales growth, among the highest in the region. An increase was recorded by every product group, with prescription pharmaceuticals contributing most to total sales value of €17.4 million. Enap H/HL (enalapril/hydrochlorothiazide), Roswera (rosuvastatin), Enap (enalapril), Atoris (atorvastatin), Naklofen (diclofenac), and Lexaurin (bromazepam) recorded strongest sales. Top non-prescription products included Nalgesin (naproxen), B-complex and Bilobil (ginkgo leaf extract), products sold under the Septolete brand, and Panatus (butamirate). Fypryst (fipronil) was our best-selling animal health product.

We recorded a 5% sales growth increase in **Kosovo**, which places us among the leading providers of medicines in the country. Sales were valued at €6.4 million. In **Albania**, sales amounted to €3.6 million, down 21% compared to 2017. At the beginning of 2018, prices of medicines slumped, which impacted our business operations. As expected, prescription pharmaceuticals constituted the major part of sales. In **Montenegro**, our sales of products totalled €1.7 million, a 37% year-on-year increase.

Region East Europe

In 2018, Region East Europe remained our leading region. The region recorded a sales result of €412.9 million primarily due to good performance on our two key markets. Significant sales growth rates were also recorded on most other regional markets, except in Turkmenistan and Kazakhstan, where our sales lagged behind the 2017 figures.

The **Russian Federation** is among our key markets and has retained the role of our leading regional and largest individual market. In terms of value, sales amounted to €274.7 million, accounting for a 2% year-on-year rise. Growth expressed in the Russian rouble totalled 15% and was achieved through an 18% increase in sales volume. Sales growth dynamics in the Russian Federation has been above the average for years now, and saw a further increase in 2018. This resulted in an increased Krka market share.

Prescription pharmaceuticals were again the leading product group accounting for 81% of total regional sales, a 4% year-on-year sales growth expressed in the euro. Medicines sold under the brands Lorista (losartan), Lorista H/HD (losartan/hydrochlorothiazide), Atoris (atorvastatin), Nolpaza (pantoprazole), Valsacor (valsartan), Roxera (rosuvastatin), Perineva (perindopril), Co-Perineva (perindopril/indapamide), Vamloset (valsartan/amlodipine), and Zyllt (clopidogrel) generated strongest sales. We strengthened our presence in the market by successful launches of new medicines, of which we would like to point out Telmista (telmisartan), and a triple combination of valsartan, amlodipine, and hydrochlorothiazide marketed under the Co-Vamloset brand name. In 2018, we became the leading provider of medicines for the treatment of cardiovascular diseases in the Russian Federation.

In 2018, sales of our non-prescription products expressed in the euro presented a slightly lower figure than the year before, while expressed in the Russian rouble, the attained growth was 9%. Products sold under the Herbion and Septolete Total (benzydamine chloride/cetylpyridinium chloride) brands generated strongest sales. We also successfully marketed Flebaven (diosmin/hesperidin) products, Panatus (butamirate), and Ulcavis (bismuth subcitrate), which were all launched on the market in the past two years. Sales of animal health products were impacted by a drop in consumption of medicines for farm animals. Enroxil (enrofloxacin) was our leading medicine in terms of sales.

Krka Group Market Position in the Russian Federation

We ranked third among primarily foreign providers of generic medicines, holding a 1.91% market share.

Krka outperformed the entire market with respect to sales dynamics.

We were the leading provider of medicines from the following product groups:
- angiotensin II receptor antagonists, including combinations, accounting for approximately a 35% market share;
- other non-mineral multivitamins, accounting for approximately a 40% market share.

We were among the leading providers of medicines from the following groups:
- statins, accounting for more than a 20% market share;
- proton pump inhibitors, accounting for approximately a 20% market share;
- ACE inhibitors also in combination with diuretics, accounting for approximately a 20% market share;
- appetite suppressants exclusive of dieting products, accounting for approximately a 15% market share;
- platelet aggregation inhibitors (ADP receptor antagonists), accounting for approximately a 15% market share;
- atypical antipsychotics, accounting for more than a 10% market share.

We were the leading provider of medicines containing active substances atorvastatin, enalapril, including the combination with hydrochlorothiazide, esomeprazole, losartan, naproxen, norfloxacin, olanzapine, orlistat, pantoprazole, and valsartan.
We were the leading provider of generic medicines containing active substances clarithromycin, clopidogrel, quetiapine, perindopril, including combinations with amlodipine and indapamide, rosuvastatin, risperidone, telmisartan, and valsartan in combination with amlodipine.

After a period of a downward trend and sales stagnation, the pharmaceutical market in **Ukraine** – also one of our key markets – first recorded growth in 2017 that further accelerated last year. We generated €56.2 million sales total, a 24% advance, which significantly outperformed market growth and direct competitors, and won a 2.4% market share. Prescription pharmaceuticals were again the leading product group and recorded fastest growth, above all Dexamethason (dexamethasone), Nolpaza (pantoprazole), Co-Prenessa (perindopril/indapamide), Atoris (atorvastatin), Valsacor (valsartan), and Enap H/HL (enalapril/hydrochlorothiazide). Non-prescription products presented a 22% increase, and best-selling products were products sold under the Herbion and Septolete brands, and Nalgesin (naproxen). Sales of animal health products went down by 8% compared to 2017.

Krka Group Market Position in Ukraine

We ranked second among foreign providers of generic medicines holding a 2.4% market share.

We outperformed the entire market with respect to sales growth in 2018.

We were the leading provider of medicines from the following product groups:
- statins, accounting for approximately a 50% market share;
- parenteral corticosteroids, accounting for approximately a 40% market share;
- ACE inhibitors also in combination with diuretics, accounting for more than a 20% market share;
- angiotensin II receptor antagonists also in combinations, accounting for approximately a 25% market share.

We were among the leading providers of medicines from the following groups:
- proton pump inhibitors, accounting for approximately a 15% market share;
- macrolide and pyranoside antibiotics, accounting for more than a 10% market share.

We were the leading provider of medicines containing active substances atorvastatin, dexamethasone, enalapril in combination with hydrochlorothiazide, ginkgo leaf extract, carvedilol, clarithromycin, naproxen, pantoprazole, rosuvastatin, and simvastatin.
We were the leading provider of generic medicines containing active substances betamethasone, enalapril, 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 generated €29.2 million. The growth was 26%. Year-on-year, we increased our sales in all four countries recording double-digit growths.

Sales in **Belarus** totalled €11.7 million, a 14% increase compared to 2017. We strengthened our market share through an above-average growth dynamics increasing our sales volume by 20%. Our key product group was the group of prescription pharmaceuticals. Nolpaza (pantoprazole), Co-Amlessa (perindopril/amlodipine/indapamide), and Naklofen (diclofenac) generated strongest sales. Sales of non-prescription products saw a 19% rise. We recorded particularly strong sales of Septolete Total (benzydamine chloride/cetylpyridinium chloride) and products sold under the Herbion brand. Animal health product sales amounted to €0.7 million, a 20% increase compared to 2017.

In **Mongolia**, we recorded a €9.1 million sales total and 57% year-on-year growth, increased our market share, and maintained the position of the leading foreign provider of medicines in Mongolia. We launched many new products on the market, prescription pharmaceuticals Emanera (esomeprazole), Niperten (bisoprolol), Vamloset (amlodipine/valsartan), Betaklav (amoxicillin/clavulanic acid), and Levaxela (levofloxacine), and non-prescription products Septolete Total (benzydamine chloride/cetylpyridinium chloride) elder-and-lemon flavoured lozenges, Pikovit Unique lozenges, and Daleron COLD3 (dextromethorphan hydrobromide/paracetamol/pseudoephedrine hydrochloride).

In **Azerbaijan**, our sales of products totalled €5.1 million, a 12% year-on-year increase. We exceeded 8% market growth and increased the market share to 3%. We remained one of the leading providers of generic medicines in the country. In terms of the value, the leading product group of prescription pharmaceuticals saw a 14% rise, and non-prescription products a 4% advance. Sales of our animal health products generated €0.2 million.

In **Armenia**, sales generated €3.3 million, a 27% year-on-year advance. We recorded above-average growth dynamics and increased our market share to 3.3%, placing second among the providers of generic medicines. The major part (83%) was generated by sales of prescription pharmaceuticals, primarily Captopril (captopril), Atoris (atorvastatin), Nolpaza (pantoprazole), and Co-Amlessa (perindopril/amlodipine/indapamide). Non-prescription products saw a 22% rise. Sales of non-prescription products were driven by products of the Septolete and Herbion brands.

Subregion East Europe K

In Kazakhstan, Moldova and Kyrgyzstan, sales of our products generated €26.9 million, or 4% more than in the same period a year ago. The increase resulted from stronger sales in Kyrgyzstan and Moldova.

In 2018, sales of our products generated €15 million in **Kazakhstan**, a 3% drop compared to the same period a year ago, but in national currency we nevertheless recorded a 7% rise in sales through our subsidiary. Prescription pharmaceuticals constituted the major part (70%) of total sales in the country, and the leading medicines were Enap (enalapril), Atoris (atorvastatin), Nolpaza (pantoprazole), Valsacor (valsartan), and Valodip (amlodipine/valsartan). We would also like to point out products under the Amprilan (ramipril) and Valsacor (valsartan) brands due to their rapid sales growth. Sales of non-prescription products amounted to €4.2 million. Products marketed under the Herbion, Duovit, and Septolete brands generated strongest sales, while Duovit and Panzynorm recorded fastest growth. Sales of our animal health products exceeded the 2017 sales figure by more than 50%.

In **Moldova**, sales of our products generated €8.7 million, an increase of 22% over 2017. Holding more than a 5-percent market share, we ranked second among providers of generic pharmaceuticals in the country. Our success was mostly driven by sales of prescription pharmaceuticals, above all by sales of Ampril (ramipril), Lorista (losartan), and Rawel (indapamide). We would like to point out our new products in the country, above all Betaklav (amoxicillin/clavulanic acid), Ecansya (capecitabine), Furocef (cefuroxime), Ulcavis (bismuth subcitrate), and Zulbex (rabeprazole). Non-prescription products sold under the Septolete and Herbion brands and Septanazal (xylometazoline/dexpanthenol) recorded strongest sales. We extended our range of products by Septolete Total (benzydamine chloride/cetylpyridinium chloride) elder-and-lemon flavoured lozenges.

In **Kyrgyzstan**, we recorded a 13% increase in sales volume and a 1% sales value increase despite the slumping price trend. Our sales total of €3.2 million and a 3.4% market share placed us third among all providers of medicines in the market. Prescription pharmaceuticals contributed the major part (74%) to total sales, and Lorista (losartan), Atoris (atorvastatin), and Nolpaza (pantoprazole) generated strongest sales. Our range was extended by Valsacor (valsartan) and Ulcavis (bismuth subcitrate). Products sold under the Septolete, Pikovit and Herbion brands were the leading non-prescription products in terms of sales.

Subregion East Europe U

Subregion East Europe U consists of Uzbekistan, Georgia, Tajikistan, and Turkmenistan. We generated €25.9 million by sales of our products there and recorded a 13% increase compared to the same period last year. We recorded growth in all countries of the region except in Turkmenistan.

In 2018, improved economic situation in **Uzbekistan** facilitated a sales increase. We recorded a 38% increase in sales volume and generated product sales in total of €19 million, a 31% rise in terms of value compared to the year before. 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 were our leading product group, and sales of Amlessa (perindopril/amlodipine), Lorista (losartan), Valsacor (valsartan), and Nolpaza (pantoprazole) the strongest. The key non-prescription products were the Septolete and Pikovit brand products. We successfully launched Bravadin (ivabradine), Flebaven (diosmin/hesperidin), Nalgesin Forte (naproxen), and Bilobil Intense (ginkgo leaf extract).

In **Georgia**, we recorded a 5% increase in sales, which exceeded €4 million for the first time. We held a 3.3% market share placing us seventh among all providers of medicines in the country. The most important product group in terms of sales were prescription pharmaceuticals, especially Lorista H/HD (losartan/hydrochlorothiazide), Enap H/HL (enalapril/hydrochlorothiazide), and Co-Amlessa (perindopril/amlodipine/indapamide). Among non-prescription products, in terms of sales the Herbion brand products, Panzynorm, and Nalgesin (naproxen) were the leaders.

In **Tajikistan**, the pharmaceutical market saw moderate growth in 2018 despite the unfavourable economic situation in the country. Sales amounted to €1.6 million, an increase of 30% compared to 2017. Sales were primarily generated by a prescription pharmaceutical Naklofen (diclofenac) and non-prescription products sold under the Pikovit brand. Our new prescription pharmaceuticals in the country were Co-Amlessa (perindopril/amlodipine/indapamide), Lortenza (losartan/amlodipine), and Maruxa (memantine).

In **Turkmenistan**, foreign currency procurement in the market was limited making buyer payments insecure. The situation affected our sales valued at €1.3 million, which was significantly below the 2017 sales figure. Prescription pharmaceuticals constituted the leading product group, notably Nolpaza (pantoprazole) and Amlessa (perindopril/amlodipine), while the strongest sales in the non-prescription product group were generated by products sold under the Pikovit brand and Panzynorm.

Region Central Europe

Region Central Europe generated product sales of €318.3 million, a 5% advance compared to the year before. Sales growth was attained on all regional markets. In terms of value, the rise was most significant in Poland and in relative terms in Estonia.

In **Poland**, the largest regional market and our key market, product sales reached €148.8 million, or 3% more than in 2017. We recorded the highest growth rates of all foreign providers of generic medicines in the country and ranked fourth. Main sales drivers were prescription pharmaceuticals, most notably pharmaceuticals from the reimbursement list. Our new medicines launched in the country over the past years were also significant contributors.

In 2018, we also focused on medicines for the treatment of cardiovascular diseases. Through sales of our lipid lowering agents, notably Atoris (atorvastatin) and Roswera (rosuvastatin), we advanced sales total by 3% despite ever keener competition, and increased our market share. We increased our market share of the sartan-based medicines to 35% and maintained the position of the leading provider of sartan-based medicines in the country. Our analgesics saw 12% growth primarily through sales of Doreta (paracetamol/tramadol). Strong sales were also recorded with Roticox (etoricoxib) introduced to the market in 2018, which accounted for the 60% market share of etoricoxib-based products. We retained the leading position among all providers as far as prescription pharmaceuticals from the reimbursement list free for patients aged 75 years plus were regarded, as we had more medicines on the reimbursement list than any other producer.

Sales of non-prescription products were slightly below the 2017 figure. Septolete brand products recorded strongest sales and were followed by Bilobil (ginkgo leaf extract). Among animal health products, Fypryst (fipronil) and Floron (florfenicol) performed well. Sales amounted to €5.8 million, a slight year-on-year drop.

Krka Group Market Position in Poland
We ranked fourth among foreign providers of generic pharmaceuticals holding a 2.5% market share.
We outperformed the entire market with respect to sales growth in 2018.
We were the leading provider of medicines from the following product groups: • angiotensin II receptor antagonists also in combination with diuretics, accounting for more than a 35% market share; • statins, accounting for more than a 30% market share; • SSRI and SNRI antidepressants, accounting for approximately a 15% market share. We were among the leading providers of medicines from the following groups: • antimicrobial agents (oral fluoroquinolones), accounting for more than a 20% market share; • aminosalicylates 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 more than a 10% market share; and • antiparkinsonians, accounting for more than a 10% market share.
We were the leading provider of medicines containing active substances atorvastatin, celecoxib, duloxetine, esomeprazole, etoricoxib, candesartan, including the combination with hydrochlorothiazide, lansoprazole, losartan, including the combination with hydrochlorothiazide, rabeprazole, ropinirole, rosuvastatin, sulfasalazine, telmisartan in combination with hydrochlorothiazide, tramadol in combination with paracetamol, and valsartan, including the combination with hydrochlorothiazide. We were the leading provider of generic medicines containing active substances gliclazide, ivabradine, and perindopril, including all combinations with amlodipine and indapamide.

The **Czech Republic** is also one of our key markets, where we increased our sales by 7% in terms of value and by 6% in terms of volume generating €48.9 million. We ranked third among foreign providers of generic medicines holding a 2.2% market share. Prescription pharmaceuticals maintained the leading position in sales, especially Atoris (atorvastatin), Lexaurin (bromazepam), Asentra (sertraline), Pragiola (pregabalin), and Tonanda (perindopril/amlodipine/indapamide). We remained the leading generic provider of medicines containing sertraline, esomeprazole, levocetirizine, and finasteride.

Sales of our non-prescription products advanced by 11% primarily because we continued successful cooperation with several pharmacy chains. Nalgesin S (naproxen) and the Septolete brand products generated strongest sales. Sales of animal health products went up by 3%. Our key products from that group were Fypryst (fipronil) and Dehinel (febantel).

Krka Group Market Position in the Czech Republic
We ranked third among foreign providers of generic medicines holding a 2.2% market share.
We were among the leading providers of medicines from the following groups: • anxiolytics, accounting for more than a 30% market share; • angiotensin II receptor antagonists also in combination with diuretics, accounting for more than a 30% market share; • sulphonamide antidiabetics, accounting for approximately a 25% market share; • proton pump inhibitors, accounting for more than a 20% market share; • mono-component products used in the treatment of benign hypertrophy of the prostate, accounting for approximately a 20% market share; • SSRI and SNRI antidepressants, accounting for more than a 15% market share; • statins, accounting for approximately a 15% market share; • ACE inhibitors also in combination with diuretics, accounting for more than a 10% market share; • atypical antipsychotics, accounting for approximately a 10% market share.
We were the leading provider of medicines containing active substances esomeprazole, finasteride, gliclazide, lansoprazole, and valsartan, including the combination with hydrochlorothiazide. We were the leading provider of generic medicines containing active substances aripiprazole, atorvastatin, escitalopram, levocetirizine, olanzapine, pantoprazole, perindopril, including all combinations with amlodipine and indapamide, and with sertraline and tamsulosin.

Hungary is also our key market. Our sales were valued at €47.4 million, ranking Hungary third among our regional markets. In terms of value, the growth reached 5% increasing our market share and placing us second among primarily foreign providers of generic medicines. Prescription pharmaceuticals accounted for the major part in total sales, in particular Co-Prenessa (perindopril/indapamide), Atoris (atorvastatin), Roxera (rosuvastatin), Zyllt (clopidogrel), Co-Valsacor (valsartan/hydrochlorothiazide), and Valsacor (valsartan). Sales of non-prescription products generated €3 million, a 32% growth compared to 2017. The most important products were Bilobil (ginkgo leaf extract) and products sold under the Septolete brand. Our animal health products presented 15% growth. Fypryst (fipronil) and Milprazon (milbemycin oxime/praziquantel) generated strongest sales.

Krka Group Market Position in Hungary
We ranked second among mainly foreign providers of generic medicines, with a 2.1% market share.
In 2018, we outperformed the entire market with respect to sales growth.
We were the leading provider of medicines from the following product groups: • SNRI antidepressants, accounting for more than a 35% market share; • platelet aggregation inhibitors, accounting for more than a 30% market share; • angiotensin II receptor antagonists also in combination with diuretics, accounting for more than a 30% market share; • mono-component thiazide diuretics and analogues, accounting for approximately a 25% market share; • antimicrobial agents (oral fluoroquinolones), accounting for approximately a 25% market share. We were among the leading providers of medicines from the following groups: • ACE inhibitors also in combination with diuretics, accounting for approximately a 20% market share; • statins, accounting for approximately a 20% market share; • macrolide and pyranoside antibiotics, accounting for approximately a 20% market share; • proton pump inhibitors, accounting for more than a 15% market share; • cerebral and peripheral vasotherapeutics, accounting for approximately a 15% market share; • sulphonamide antidiabetics, accounting for approximately a 15% market share.
We were the leading provider of medicines containing active substances duloxetine, ginkgo leaf extract, indapamide, clarithromycin, clopidogrel, mirtazapine, and valsartan also in combination with hydrochlorothiazide. We were the leading generic provider of medicines containing aripiprazole and gliclazide.

Slovakia, one of our key markets, was our fourth largest regional market last year, and generated product sales in total of €36.5 million. We recorded a 10% increase in terms of value through an 8% sales volume rise, 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 Atoris (atorvastatin), Co-Prenessa (perindopril/indapamide), Nolpaza (pantoprazole), Prenessa (perindopril), and Co-Amlessa (perindopril/amlodipine/indapamide). Sales of non-prescription products saw a 25% rise. Nalgesin S (naproxen) generated strongest sales. Flebaven (diosmin), the first medicine from our new therapeutic area of chronic venous disease treatment, also significantly contributed to strong sales. In 2018, also sales of animal health products went up, of which Enroxil (enrofloxacin) presented strongest sales.

Krka Group Market Position in Slovakia
Holding a 2.8% market share, we ranked third among all providers of generic pharmaceuticals.
In 2018, we outperformed the entire market with respect to sales growth.
We were the leading provider of medicines from the following product groups: • proton pump inhibitors, accounting for approximately a 40% market share; • angiotensin II receptor antagonists also in combination with diuretics, accounting for a 35% market share; • statins, accounting for approximately a 30% market share; • antimicrobial agents (fluoroquinolones), accounting for more than a 25% market share. We were among the leading providers of medicines from the following groups: • anxiolytics, accounting for approximately a 25% market share; • ACE inhibitors also in combination with diuretics, accounting for more than a 20% market share; • sulphonamide antidiabetics, accounting for more than a 20% market share; and • antidepressants and mood stabilizers, accounting for more than a 15% market share.
We were the leading provider of medicines containing active substances atorvastatin, duloxetine, carvedilol, quetiapine, pantoprazole, tramadol in combination with paracetamol, and valsartan also in combination with hydrochlorothiazide. We were the leading provider of generic medicines containing active substances gliclazide and perindopril, including all combinations with amlodipine and indapamide.

In **Lithuania**, we recorded product sales of €17 million or 9% growth in 2018. Good work and adaptation to the new reimbursement system were reflected by a high growth rate. Prescription pharmaceuticals accounted for the major part of sales, in particular Valsacor (valsartan), Valsacombi (valsartan/hydrochlorothiazide), Atoris (atorvastatin), and Nolpaza (pantoprazole). Sales of non-prescription products with respect to value were comparable to sales generated the year before. The leading products were Septabene (benzydamine chloride/cetylpyridinium chloride) and Nalgesin (naproxen). Sales growth of animal health products reached 11%.

In **Latvia**, sales value reached €12.1 million and was comparable to the figure generated in 2017. Thereby, Krka retained the leading position among providers of generic medicines in the Latvian market. As expected, prescription pharmaceuticals constituted the major part of sales, among them Atoris (atorvastatin), Sorvasta (rosuvastatin), and Prenewel (perindopril/indapamide). Sales of non-prescription products lagged behind 2017 sales by 3%. Daleron COLD3 (dextromethorphan hydrobromide/paracetamol/pseudoephedrine hydrochloride) and Septabene (benzydamine chloride/cetylpyridinium chloride) were key products. Sales growth of animal health products reached 23%.

In **Estonia**, sales totalled €7.5 million, or 11% more than in 2017. Prescription pharmaceuticals accounted for the major part of total sales in the country, in particular Co-Prenessa (perindopril/indapamide), Roswera (rosuvastatin), Atoris (atorvastatin), and Co-Dalnessa (perindopril/amlodipine/indapamide). Sales of non-prescription products saw a 5% rise. In terms of sales, products sold under the Septolete brand remained the leaders and recorded third highest sales figure of all our products in the Estonian market.

Region West Europe

Western European markets are considered our key markets with product sales in the region totalling €287.1 million. Sales value increased by 1% and sales volume fell just shy of the 2017 figure. Germany, the Scandinavian countries, Spain and France led in terms of sales. Sales through subsidiaries were essential for continued sales growth and accounted for more than 70% of the regional sales. Sales through unrelated parties totalled €80.1 million, and were below the 2017 figure.

In terms of value, sales of prescription pharmaceuticals were similar to those in 2017, accounting for 90% of total regional sales. Medicines containing valsartan, esomeprazole, candesartan, clopidogrel, and duloxetine were at the forefront. We would also like to point out newly launched medicines containing ezetimibe, ivabradine, vardenafil, and paliperidone, the only generic variety in the Western European countries. Animal health products recorded a 10% 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 €72.6 million, a 10% drop over 2017. The sales slide resulted from diminishing tender sales of medicines. Sales through our TAD Pharma subsidiary amounted to €69.5 million, a 6% year-on-year drop. In terms of sales, our most important products were medicines for the treatment of cardiovascular diseases and for the treatment of diseases of the alimentary 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. In 2018, we successfully launched generic medicines containing ivabradine and ezetimibe, and increased the presence of our medicines for the treatment of cardiovascular diseases.

The **Scandinavian countries** saw a 37% climb, one of the steepest advances in regional sales, and posted €40.4 million sales total. Our product sales were most substantial in **Sweden**, followed by **Finland**, **Norway**, **Denmark**, and **Iceland**. The most notable 90% sales upsurge in terms of value was recorded by Iceland, and also a significant 54% rise in sales posted by Finland should be mentioned. We increased sales through our Krka Finland subsidiary by 75%. In terms of value, sales through our Krka Sverige subsidiary remained at the forefront accounting for a 34% year-on-year advance. Sales through subsidiaries totalled 96%. Medicines containing active substances etoricoxib, candesartan, losartan, esomeprazole, and clopidogrel recorded strongest sales. In Norway, we retained our leading marketing position by many medicines, above all those containing esomeprazole, pantoprazole, and pramipexole.

In **Spain**, year-on-year sales in terms of value went up by 13% reaching €40.2 million. Not only sales through our subsidiary, but also sales through unrelated parties contributed to the sales growth. Tender sales in Andalusia contributed to an increase in sales of products under our own brand names. The combination of tramadol and paracetamol, and medicines containing active substances bisoprolol, donepezil, quetiapine, and atorvastatin generated strongest sales.

In **France**, sales amounted to €32.6 million, an 11% decline over 2017. Most of them were again generated by sales through unrelated parties, primarily by generic varieties of esomeprazole, gliclazide, and clopidogrel. Sales through our Krka France subsidiary improved by 8% primarily due to strong sales of animal health products.

In **Italy**, we recorded a 22% rise in terms of value, which amounted to €28.6 million. Sales under our own brand names stepped up by more than one quarter and accounted for almost 65% of our sales in the country. All product groups contributed to the rise, but animal health products presented the highest growth index. The leading prescription pharmaceuticals were products containing clopidogrel, pantoprazole, and quetiapine.

In **Portugal**, sales amounted to €20.6 million, a slight year-on-year decline. Sales of products under our own brand names went up by 11% accounting for 71% of our total sales in the country. In this way, we maintained more than a 6% generic market share. The leading prescription pharmaceuticals were products containing active substances esomeprazole, olanzapine, and the combination of perindopril and indapamide.

Sales in the **United Kingdom** declined by one third compared to the year before and reached €16.8 million. This slide resulted mainly from the reduction in prices of medicines for human use, our core sales pharmaceutical group in the country. Medicines containing active substances losartan, quetiapine, and perindopril generated strongest sales. Our Krka UK subsidiary increased sales by 74% compared to the same period a year ago, and constituted 15% of Krka overall sales in the country.

In **Benelux**, we recorded a 25% increase in sales amounting to €10.3 million. Sales of products sold under own brand names saw the steepest rise, and we also increased our sales through unrelated parties. In **Ireland**, our product sales reached €10.2 million, an 8% rise. Sales though our Krka Pharma Dublin subsidiary went up by 10% accounting for 87% of total sales in Ireland. We remained the leading provider of generic medicines containing active substances pregabalin, duloxetine, esomeprazole, and aripiprazole. In **Austria**, we posted €8.5 million sales, a 22% year-on-year advance. Our Krka Pharma Wien subsidiary increased its sales by 23%. In **other European countries**, we still make most of our sales through unrelated parties. Product sales amounted to €6.2 million there, a decrease of 17% compared to 2017.

Region Overseas Markets

Region Overseas Markets generated €43.4 million in sales and further remained our smallest region. However, the recorded 12% growth makes it our fastest growing region. We advanced sales through all three sales offices that comprise several regional markets. Prescription pharmaceuticals contributed more than 90% to sales, and were primarily marketed under our own brand names.

In the markets of the **Middle East**, product sales amounted to €22.2 million, an increase of 2% compared to 2017. **Iran** remained our key market, and we posted a 6% increase despite the challenging situation in the country. Sales in **Iraq** remained close to the 2017 figure. In **Lebanon**, sales went down by 30%. The drop primarily resulted from the unfavourable economic situation and pressure to reduce prices of medicines. Despite the war, we remained present and continued sales business in **Yemen**. Asentra (sertraline), Nolpaza (pantoprazole), Vizarsin (sildenafil), Letizen (cetirizine), and Valsacor (valsartan) recorded highest sales of the sales office.

Product sales in the markets of the **Far East and Africa** reached €20.1 million, 25% growth compared to 2017. In **Vietnam**, our sales more than doubled in terms of value and presented the most substantial year-on-year increase making the country the sales office leader. The **Republic of South Africa** followed by maintaining 2017 sales levels. In **China**, where we sell products of our TAD Pharma subsidiary, we increased sales by 10%. We more than tripled our **Hong Kong** sales. We first launched our products in **Libya**. Sales in **Ghana**, **Malesia**, and **Singapore** were also important, and medicines containing active substances esomeprazole, lansoprazole, fruit extract of dwarf fan palm, amlodipine, and carvedilol performed best.

In the **Americas**, we further remained focused on the countries of the Central America, where overall product sales reached €1.1 million, 8% more than in 2017. Medicines sold under the Valsaden (valsartan/hydrochlorothiazide), Valsacor (valsartan), Yasnal (donepezil), and Emanera (esomeprazole) brands generated strongest sales.

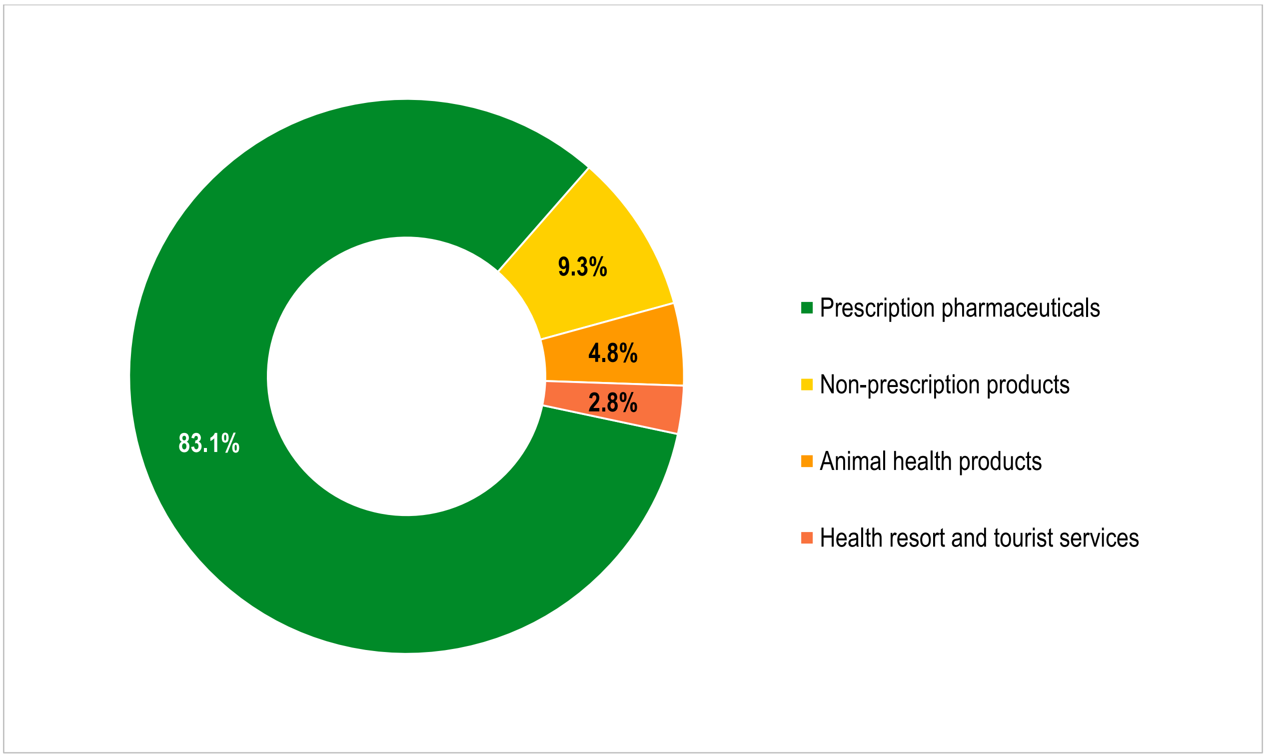
Product* and Service Groups

* Products marketed under different product brand names in individual markets are marked with an asterisk and listed at the end of the chapter. Products may also be marketed under the Krka trademark in individual markets.

In 2018, sales of prescription pharmaceuticals accounted for 83% of total sales, followed by non-prescription products with 9%, animal health products with 5%, and health resort and tourist services with 3%.

Sales revenues of the Krka Group increased by 5% in 2018. Sales of prescription pharmaceuticals went up by 6%, and of non-prescription products by 4%. Sales of animal health products remained at the 2017 level, while sales of health resort and tourist services advanced by 5%.

Krka Group Sales by Product Group in 2018



Krka Group and Krka Sales by Product and Service Group

	Krka Group			Company		
In € thousand	2018	2017	Index 2018/17	2018	2017	Index 2018/17
Human health medicines	1,225,986	1,161,986	106	1,014,654	976,033	104
– Prescription pharmaceuticals	1,102,802	1,043,469	106	904,025	871,893	104
– Non-prescription products	123,184	118,517	104	110,629	104,140	106
Animal health products	63,169	63,216	100	62,990	60,722	104
Health resort and tourist services	37,592	35,696	105			
Total	**1,326,747**	**1,260,898**	**105**	**1,077,644**	**1,036,755**	**104**

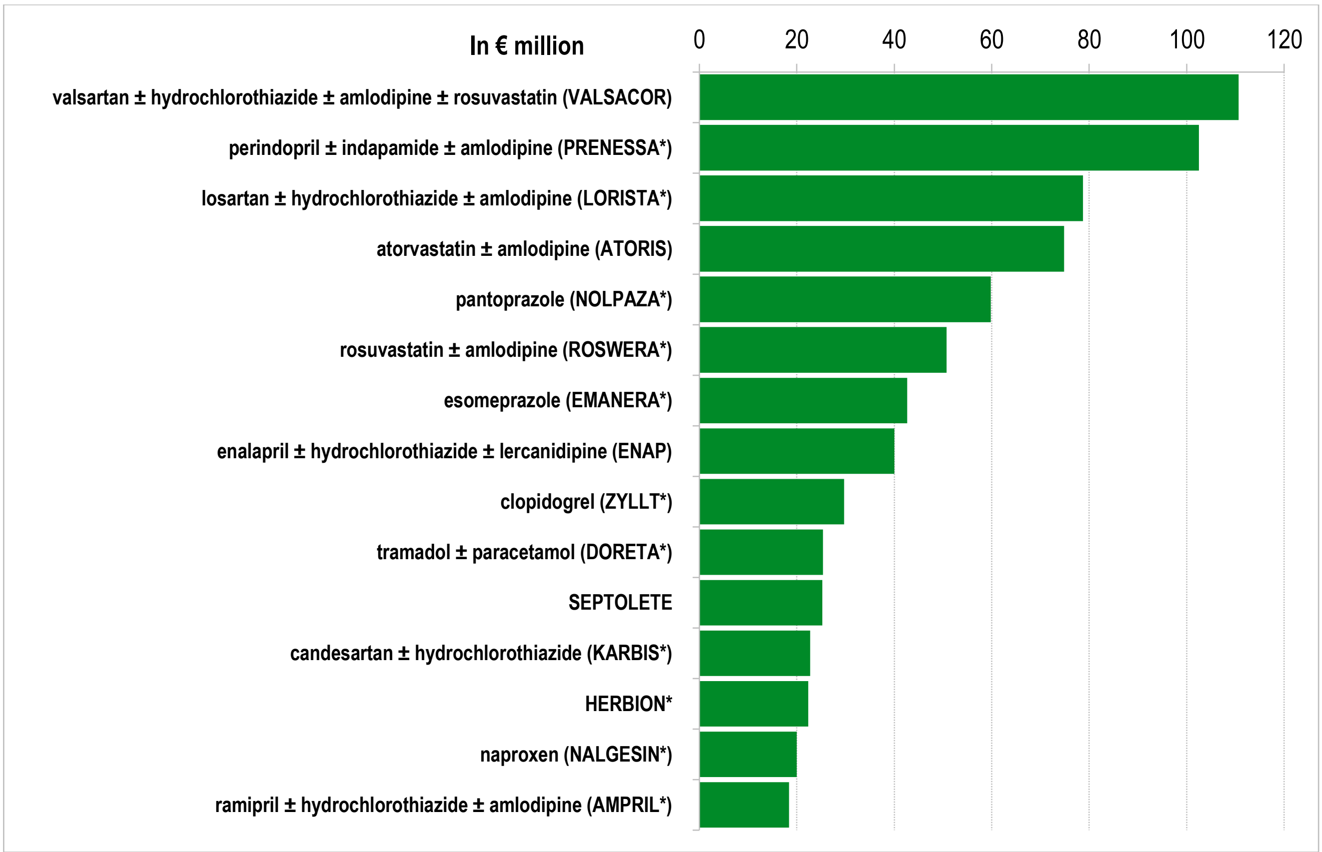
2018 sales revenues comply with the latest *IFRS 15*. 2017 sales revenue data have been adjusted accordingly, hence presented 2017 values differ from values stated in the *2017 Annual Report*.

Krka Group Quarterly Sales by Product and Service Group

In € thousand	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4
Human health medicines	312,934	312,975	264,248	335,829	294,719	306,513	248,176	312,578
– Prescription pharmaceuticals	278,734	288,680	235,434	299,954	263,887	283,185	219,583	276,814
– Non-prescription products	34,200	24,295	28,814	35,875	30,832	23,328	28,593	35,764
Animal health products	16,427	18,724	15,251	12,767	17,620	17,356	13,388	14,852
Health resort and tourist services	8,006	9,294	10,994	9,298	7,588	8,948	10,623	8,537
Total	**337,367**	**340,993**	**290,493**	**357,894**	**319,927**	**332,817**	**272,187**	**335,967**

2018 sales revenues comply with the latest *IFRS 15*. 2017 sales revenue data have been adjusted accordingly, hence presented 2017 values differ from values stated in the *2017 Annual Report*.

Sales of Leading Products** in 2018



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

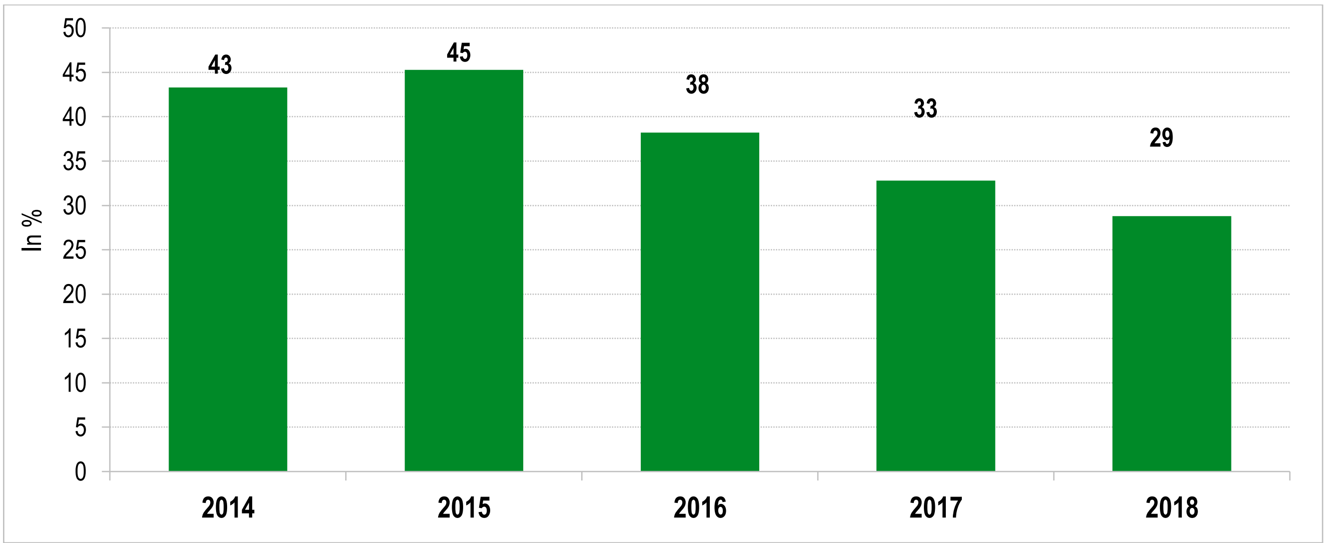
New Products

In 2018, sales of new products, i.e. products launched in individual markets over the past five years, accounted for 29% of Krka Group total sales. Their proportion decreased in comparison to the past, because in certain major markets Lorista* (losartan), Roswera* (rosuvastatin), and Emanera* (esomeprazole) are not included in the new product group any more.

Co-Amlessa* (perindopril/amlodipine/indapamide), which was launched in 2014, was our most important new product. The medicine ranked among our 15 leading products in terms of sales, and was among the three products presenting the highest absolute sales growth. Roticox* (etoricoxib), which was launched in 2017, and Vamloset* (valsartan/amlodipine), which was put on the market in 2014, ranked among the top ten products presenting the highest absolute sales growth.

In 2018, 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.

Krka Group Sales of New Products**



** The proportion of new products including products launched in individual markets over the past five years.

New Products in 2018

Prescription Pharmaceuticals	
Medicines for the treatment of cardiovascular diseases	Valarox, Ravalsyo (rosuvastatin/valsartan) Co-Vamloset (valsartan/amlodipine/hydrochlorothiazide) Eplerenon Krka (eplerenone)
Medicines for the treatment of the central nervous system	Parnido, Paliperidon Krka (paliperidone)
Analgesics	Dekenor (dexketoprofen)
Medicines for the treatment of diabetes	Glypvilo (vildagliptin)
Medicines for the treatment of HIV infection and other antivirals	Efavemten (efavirenz/emtricitabine/tenofovir disoproxil) Darunavir Krka (darunavir) Entecavir TAD (entecavir)
Medicines for the treatment of diseases of the urinary tract	Viavardis, Vardegin (vardenafil)
Non-Prescription Products	
Products with effect on the oral cavity and pharynx	Septabene, Septolete Total, Septolete Duo (benzydamine chloride/cetylpyridinium chloride) with lemon and honey flavour
Animal Health Products	
Antiparasitic products for farm animals	Santiola (closantel)

Prescription Pharmaceuticals

In 2018, the Krka Group sales of prescription pharmaceuticals totalled €1,102.8 million, 6% more than in 2017.

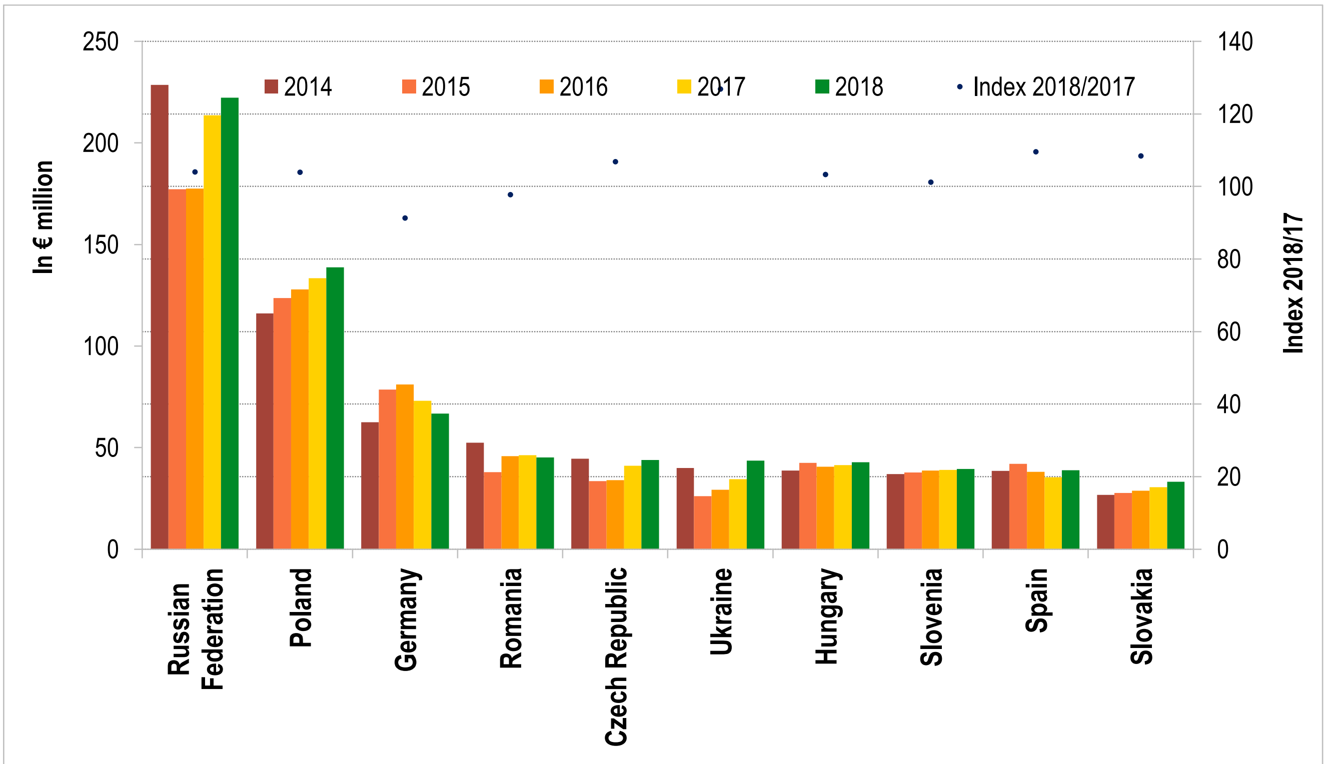
Among ten major individual markets, sales of prescription pharmaceuticals saw the highest growth in relative terms in Ukraine, Spain, Slovakia, and the Czech Republic, while among other markets their sales went up the most in Mongolia, Finland, and Bulgaria.

As far as sales of prescription pharmaceuticals are concerned, medicines for the treatment of cardiovascular diseases remained the key therapeutic class also in 2018, and were followed by medicines for the treatment of the central nervous system and medicines for the alimentary tract.

The leading prescription pharmaceuticals in terms of sales in 2018 were pharmaceuticals containing valsartan (Valsacor, Valsacombi*, Vamloset*, Co-Vamloset*, Valarox*). They were followed by those containing perindopril (Prenessa*, Co-Prenessa*, Amlessa*, Co-Amlessa*), losartan (Lorista*, Lorista H*, Tenloris*), atorvastatin (Atoris, Atordapin*), pantoprazole (Nolpaza*), and rosuvastatin (Roswera*, Rosudapin*). Top ten prescription pharmaceuticals in terms of sales included medicines containing esomeprazole (Emanera*), enalapril (Enap, Enap-H*, Elernap*), clopidogrel (Zyllt*), and tramadol (Doreta*, Tadol).

In most European markets, we market our prescription pharmaceuticals under our own brand names through our own marketing-and-sales network. In countries where we have been present for a long time, our marketing-and-sales network was among the strongest of all pharmaceutical companies. We have been strengthening it in particular in Western European markets, which we have been managing through our own network. We use it to communicate with the expert public, especially doctors and pharmacists.

Sales of Prescription Pharmaceuticals in Ten Major Markets



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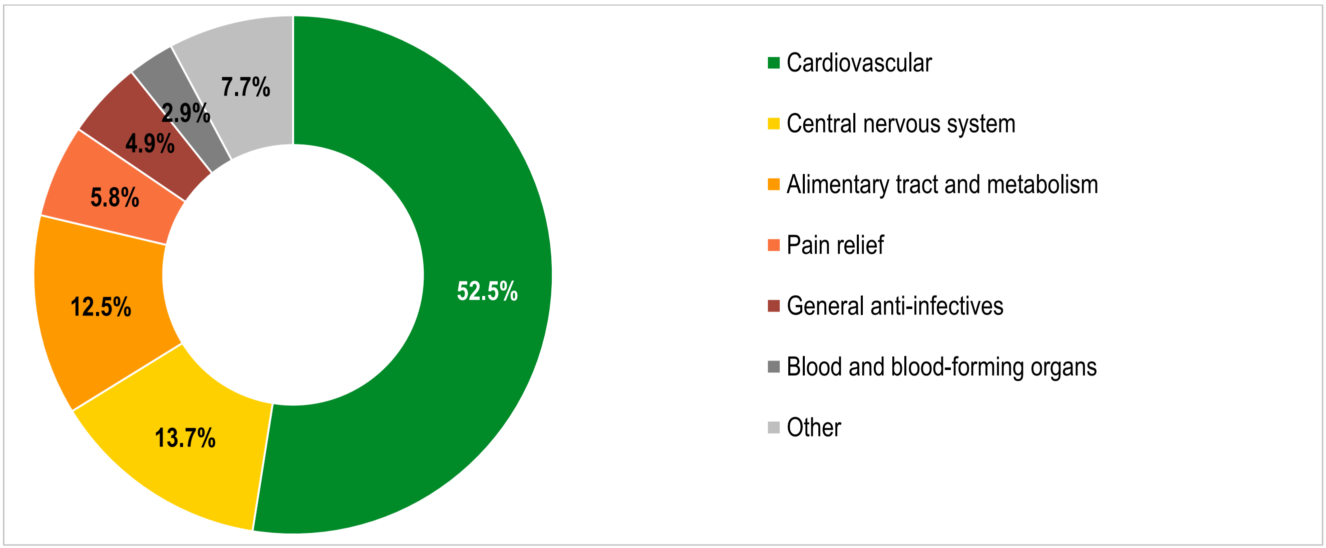
Sales of Prescription Pharmaceuticals by Therapeutic Class



Medicines for the Treatment of Cardiovascular Diseases

Statins

For several years, Krka has been the leading producer of statins in the markets of Slovenia, Central, Eastern, and South-Eastern Europe. We maintained the position also in 2018. Krka statin sales recorded higher growth than other statins in the market. We further increased our market share, and it exceeded 25% in 2018. In the area, one in four patients on statin therapy takes Krka statins. Doctors most often prescribe our most important statins, Atoris and Roswera*.

Atoris (atorvastatin) is our leading statin in terms of sales and ranks among top five Krka medicines. It is the leading statin in the region, its share accounting for more than 30% of atorvastatin sales, and 15% of total statin sales. In fifteen markets, including the major ones, e.g. the Russian Federation and Poland, of all statins doctors most often prescribe Atoris. Krka has the most extensive atorvastatin strength range among all producers in the area. We market the pharmaceutical in six strengths, and are the only pharmaceutical company that supplies 30 mg and 60 mg tablets.

Roswera* (rosuvastatin) closely follows Atoris, and is the second most frequently prescribed statin in the markets of Slovenia, Central, Eastern, and South-Eastern Europe. Holding over a 20% market share, it is the top generic rosuvastatin in the area. Roswera* is the leading rosuvastatin product in ten markets including the major ones, e.g. Poland and Ukraine, while in Slovenia, Serbia and certain other markets, it is the leading statin. In 2018, we launched rosuvastatin also on several Western European markets, i.e. in Italy, France, and Austria, and as the first generic pharmaceutical company in Germany, Belgium, and Portugal. We gained the leading position among generic manufacturers of rosuvastatin in Germany.

Medicines combining two active ingredients for the treatment of hyperlipidemia and high blood pressure supplement our portfolio of statins. Among them, **Valarox*** (rosuvastatin/valsartan) is the newest, launched in 2018.

Statins and Combinations
rosuvastatin (Roswera, Rosuvador, Roxera, Sorvasta) rosuvastatin/valsartan (Valarox, Ravalsyo) rosuvastatin/amlodipine (Rosudapin, Rosmela)
atorvastatin (Atoris) atorvastatin/amlodipine (Atordapin, Atorcombo)
simvastatin (Vasilip)
lovastatin (Holetar)

Other Hypolipidemic Agents

Ezoleta* (ezetimibe) is a hypolipidemic agent with a different mechanism of lipid-lowering action, which supplements the statin range and is used to treat patients with elevated cholesterol levels. We have been marketing it since 2009, and in 2018 we placed it on thirteen new markets, including Spain, Italy, and Belgium and elsewhere. In Germany, France, Poland, and another six markets, we were the first generic pharmaceutical company to have launched ezetimibe. We are the leading generic manufacturer of ezetimibe in Germany.

Angiotensin-Converting Enzyme (ACE) Inhibitors

In 2018, Krka retained its long-standing position of the leading generic producer of angiotensin-converting enzyme (ACE) inhibitors in the markets of Slovenia, Central, Eastern, and South-Eastern Europe. Of all competitors in the area, doctors most frequently prescribed Krka medicines. We market fifteen medicines from this therapeutic class that contain five different angiotensin-converting enzyme inhibitors. The product group also includes five ACE-inhibitor-based fixed-dose combinations with a diuretic, four with a calcium channel blocker, and one with active ingredients of all three classes.

Perindopril medicines and perindopril-based combinations are among leading ACE-inhibitor agents in Europe. They are also our most important medicines of this class and rank second among Krka products in terms of sales. Of all generic manufacturers, Krka has the most extensive range of medicines containing perindopril, as it comprises four medicines in fifteen different strengths. Our range includes **Prenessa*** (perindopril), **Co-Prenessa*** (perindopril/indapamide), **Amlessa*** (perindopril/amlodipine), and **Co-Amlessa*** (perindopril/amlodipine/indapamide), a triple combination that Krka launched in 2014 as the first pharmaceutical company in the world. In 2018, we also put it on the market in Croatia and Tajikistan. We launched Amlessa* in France and Finland. In the markets of Slovenia, Central, Eastern and South-Eastern Europe, the market share of our perindopril-based combinations further advanced in 2018. Amlessa* accounted for more than an 18% market share, while market shares of Co-Prenessa* and Co-Amlessa* were above 23%. Of all generic varieties, our perindopril medicines saw the most substantial increase in sales primarily due to the triple combination of perindopril, amlodipine, and indapamide. For several consecutive years, Krka has been the leading generic manufacturer of medicines containing perindopril in Europe, and retained this position also in 2018.

In terms of sales, **Enap** (enalapril) and enalapril-based fixed-dose combinations remained among top ten Krka medicines, even though promotion focused primarily on our new angiotensin-converting enzyme inhibitors. In the markets of Slovenia, Central, Eastern, and South-Eastern Europe, Enap exceeded a 30% market share, and was the leader among medicines containing enalapril. We also market **Elernap***, a fixed-dose combination of enalapril and lercanidipine. In 2018, we launched it in Italy, and as the first generic manufacturer in France. We are the leading generic manufacturer of this combination in Western Europe.

Our angiotensin-converting enzyme inhibitor range also comprises **Ampril*** (ramipril), ramipril-based fixed-dose combinations with hydrochlorothiazide, and **Rameam*** (ramipril/amlodipine) – a combination of ramipril with a calcium channel blocker. In 2018, we first launched this combination in Italy, and as the only manufacturer in Portugal. In Germany, we are the leading generic producer of the fixed-dose combination of ramipril and amlodipine.

ACE Inhibitors and Combinations
perindopril (Prenessa, Perineva) perindopril/indapamide (Co-Prenessa, Co-Perineva, Prenewel) perindopril/amlodipine (Amlessa, Dalnessa, Tonarssa, Dalneva) perindopril/amlodipine/indapamide (Co-Amlessa, Co-Dalnessa, Co-Dalneva, Amlewel, Dalnecombi, Tonanda)
enalapril (Enap) enalapril/hydrochlorothiazide (Enap-H, Enap-HL, Enap-HL 20) enalapril/lercanidipine (Elernap, Elyrno, Enacanpin)
ramipril (Ampril, Amprilan) ramipril/hydrochlorothiazide (Ampril HL, Amprilan HL; Ampril HD, Amprilan HD) ramipril/amlodipine (Rameam, Ramidipin)
lisinopril (Laaven, Zonixem) lisinopril/hydrochlorothiazide (Laaven-HL, Zonixem-HL; Laaven-HL 20, Zonixem-HL 20; Laaven-HD, Zonixem-HD) lisinopril/amlodipine (Tenlisa)
cilazapril (Cazaprol) cilazapril/hydrochlorothiazide (Cazacombi)

Sartans (Angiotensin II Receptor Antagonists)

Our sartan range comprises eighteen medicines containing one of six different sartans, and includes sartan-based fixed-dose combinations with a diuretic, a calcium channel blocker, and since 2018, a statin. In 2018, we extended the range with our first triple combination of valsartan, hydrochlorothiazide (a diuretic), and amlodipine (a calcium channel blocker). Our sartans are available in 60 markets across the world. Krka is the leading manufacturer of sartans in the markets of Slovenia, Central, Eastern, and South-Eastern Europe, holding close to a 30% market share, which was further increased in 2018. One in three sartans prescribed in the area is made by Krka. Close to eight million patients take our sartans every day.

In 2018, **Valsacor** (valsartan) and valsartan-based fixed-dose combinations with hydrochlorothiazide, amlodipine, and rosuvastatin became Krka's principal medicines in terms of sales and presented the highest absolute sales growth. Year-to-year, sales almost doubled due to intense promotion and favourable market conditions. In Europe, Krka ranks among the leading generic manufacturers of medicines containing valsartan. In Germany, Krka holds the principal position among generic manufacturers, while in the Russian Federation, Poland, Hungary, and several other markets we are at the top of all manufacturers. In 2018, we first marketed **Co-Vamloset** (valsartan/amlodipine/hydrochlorothiazide), our first triple combination, and were the first generic manufacturer to launch it in the Russian Federation. In the same year, we supplemented the sartan range with **Valarox*** (rosuvastatin/valsartan), a medicine for the treatment of lipitension – coexisting hypertension and hyperlipidemia. The medicine was launched in Poland, Portugal, Ukraine, and several other markets. We are the first and only manufacturer of the fixed-dose combination of rosuvastatin and valsartan in Europe.

As far as sales are regarded, our **Lorista*** (losartan) and losartan-based fixed-dose combinations with hydrochlorothiazide and amlodipine placed second among Krka sartan products and third among all Krka products. In the markets of Slovenia, Central, Eastern, and South-Eastern Europe, we retained more than a 40% market share, and were the leading manufacturer of medicines containing losartan. We also recorded strong sales in Western Europe. We were the leading generic supplier of losartan and losartan-based fixed-dose combination with hydrochlorothiazide in the United Kingdom, and the only generic pharmaceutical company to supply the combination of losartan and amlodipine to Germany. In 2018, we launched **Tenloris*** (losartan/amlodipine) in Tajikistan, our eleventh market for this medicine so far.

Tolura* (telmisartan) and telmisartan-based combinations with amlodipine and hydrochlorothiazide are the leading generic telmisartans in the markets of Slovenia, Central, Eastern, and South-Eastern Europe. In 2018, we launched the medicine in Serbia, and we augmented marketing of telmisartan in combination with amlodipine. We launched **Telassmo*** (telmisartan/amlodipine) in Portugal and the Czech Republic, and as the first generic supplier also in Poland and Hungary.

We also market **Karbis*** (candesartan) and candesartan-based combinations containing hydrochlorothiazide. In Germany, Poland, Ireland, and certain other markets, we are the most important supplier of medicines containing candesartan and candesartan in combination with hydrochlorothiazide. We rank among the leading generic manufacturers of those products in Europe.

In Western Europe, sales of **Olimestra*** (olmesartan) and olmesartan-based fixed-dose combinations were thriving. In Germany, Krka is among the leading generic manufacturers of olmesartan and olmesartan-based combinations with hydrochlorothiazide, and the leading generic manufacturer of olmesartan-based combinations with amlodipine. Our olmesartan range was expanded with the latest olmesartan-based combination, **Olssa*** (olmesartan/amlodipine). We started marketing it in 2017, and in 2018 we placed it on several new markets. We put it on the markets of Spain, Italy, Ireland, and as the first generic producer on the markets of Germany, Romania, Portugal, and several other.

Sartans and Combinations
valsartan (Valsacor) valsartan/hydrochlorothiazide (Valsacombi, Co-Valsacor, Valsacor H; Valsacor HD, Valsaden, Janartan) valsartan/amlodipine (Vamloset, Valodip) valsartan/amlodipine/hydrochlorothiazide (Co-Vamloset) valsartan/rosuvastatin (Valarox, Ravalsyo)
losartan (Lorista, Lavestra) losartan/hydrochlorothiazide (Lorista H, Lavestra H; Lorista HL, Lavestra HL; Lorista HD, Lavestra HD) losartan/amlodipine (Tenloris, Alortia, Lortenza, Losamlo)

telmisartan (Tolura, Telmista) telmisartan/hydrochlorothiazide (Tolucombi, Telmista H) telmisartan/amlodipine (Teldipin, Telassmo)
candesartan (Karbis, Candecor, Canocord) candesartan/hydrochlorothiazide (Karbicombi, Cancombino, Canocombi)
olmesartan (Olimestra, Olmecor) olmesartan/hydrochlorothiazide (Co-Olimestra) olmesartan/amlodipine (Olssa, Olmeamlo, Olmira)
irbesartan (Ifirmasta, Irabel, Firmasta, Iracor, Irbecor) irbesartan/hydrochlorothiazide (Ifirmacombi, Co-Irabel, Firmasta H; Firmasta HD, Irbecor comp)

Other Medicines for the Treatment of High Blood Pressure

We have been marketing medicines acting on the renin-angiotensin-aldosterone system (RAAS), including sartans and angiotensin-converting enzyme inhibitors, for thirty years. Our range of products also includes medicines for the treatment of hypertension from other classes. All together, we supply a total of 44 medicines prescribed for this indication in over 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), **Sobycombi*** (bisoprolol/amlodipine) fixed-dose combination, and the latest **Bloxazoc*** (metoprolol). In 2018, we started marketing metoprolol in Germany, and Niperten in Armenia and Mongolia. We were the only generic pharmaceutical company to supply a fixed-dose combination of bisoprolol and amlodipine to Poland, the Russian Federation, Bulgaria, and certain other markets. In Germany, we were among the leading generic producers of the bisoprolol/amlodipine combination.

Other Medicines for the Treatment of Cardiovascular Diseases

Bravadin* (ivabradine) reduces the increased heart rate and is used for treating stable angina pectoris and chronic heart failure. In 2018, we started marketing it in several new, primarily Western European markets. We launched the medicine in eleven countries, including Germany, Spain, and Italy, and other, and as the first generic manufacturer in France and Belgium. We were among the leading generic manufacturers of ivabradine in Germany. Bravadin* is the leading generic product in the markets of Slovenia, Central, Eastern, and South-Eastern Europe.

Our new diuretic is **Eplerenon Krka** (eplerenone). It can be used in combination with other medicines for the treatment of heart failure. The active ingredient is one of the new aldosterone receptor antagonists with a reduced risk of adverse reactions compared to the older active ingredient, spironolactone. In 2018, we launched the product in Ireland and Hungary, and in the future we intend to launch it on other markets as well.

Medicines for the Treatment of the Central Nervous System

Antidepressants

Krka has been the leading generic producer of antidepressants in the markets of Slovenia, Central, Eastern, and South-Eastern Europe for several years, and remained at the top also in 2018. Of all manufacturers in that area, doctors most frequently prescribe Krka antidepressants.

Dulsevia* (duloxetine) is our most important antidepressant. In 2018, we started marketing it in the Russian Federation, and were the only supplier of 90 mg duloxetine in Slovenia, Poland, and Croatia. In Europe, Krka was among the leading generic manufacturers of duloxetine, whereas in Germany we ranked first among generic manufacturers. In Romania, Austria, Ireland, Poland, and several other markets, Dulsevia* took the first place among all antidepressants containing duloxetine.

Our range of antidepressants includes **Elicea*** (escitalopram), which is available in tablets and orodispersible tablets. In 2018, we launched tablets in Moldova. In Croatia and Serbia, Elicea* was the leading escitalopram and has been the leading generic variety of escitalopram in the markets of Slovenia, Central, Eastern, and South-Eastern Europe. In 2018, we further strengthened its position by increasing the market share.

In the area, **Asentra** (sertraline) is the leading generic variety of sertraline, while **Mirzaten** (mirtazapine) ranks first among all mirtazapine-containing antidepressants. Our antidepressant **Alventa*** (venlafaxine) places us among the leading generic manufacturers of venlafaxine in Europe.

Antidepressants
duloxetine (Dulsevia, Duloxalta)
escitalopram (Elicea, Ecytara, Escitalex, Anxila)
sertraline (Asentra)
venlafaxine (Alventa, Olwexya)
mirtazapine (Mirzaten)

Antipsychotics

In 2018, like several years before, Krka was the leading generic manufacturer of antipsychotics in the markets of Slovenia, Central, Eastern, and South-Eastern Europe. We were the leading generic manufacturer with four out of six atypical antipsychotics, namely with medicines containing quetiapine, aripiprazole, paliperidone, and ziprasidone.

We extended our portfolio of five atypical antipsychotics with another advanced medicine, paliperidone prolonged-release tablets. We launched **Parnido*** (paliperidone) in Spain, Belgium, Hungary, Slovakia, and certain other markets. We put it on the market as the first generic manufacturer in Europe and in 2018 also remained the only generic manufacturer in the European market.

Kventiax* (quetiapine) was our most significant antipsychotic in terms of sales. It is available in tablets and prolonged-release tablets. In Slovenia, Kazakhstan, Latvia and Slovakia, it is the topmost of all quetiapine products accounting for more than 35% market shares. We are the leading generic manufacturer of quetiapine in the United Kingdom.

We also rank among the leading generic manufacturers of olanzapine in Europe. In the Russian Federation and in Portugal, **Zalasta*** (olanzapine) is the foremost of all olanzapine products. Of all competing products in the Russian Federation, our **Aryzalera*** (aripiprazole) is also the leader. In 2018, we started marketing it in Serbia and Azerbaijan.

Our range of antipsychotics is supplemented by **Zypsilan*** (ziprasidone), a leading generic variety of ziprasidone in Germany, and **Torendo*** (risperidone), a leading generic variety of risperidone orodispersible tablets in Europe.

Atypical Antipsychotics
aripiprazole (Aryzalera, Aripipan, Arisppa, Zylaxera)
olanzapine (Zalasta, Zolrix)
quetiapine (Kventiax, Quentiax)
paliperidone (Parnido, Paliperidon Krka)
risperidone (Torendo, Rorendo)
ziprasidone (Zypsilan, Zypsila, Ypsila)

Medicines for the Treatment of Parkinson's Disease

We market three medicinal products for symptomatic treatment of Parkinson's disease: pramipexole, ropinirole, and rasagiline. In Europe, we are the leading generic manufacturer of pramipexole and prolonged-release ropinirole, and among the leading generic producers of rasagiline.

Our most important medicinal product from this product class is **Oprymea** (pramipexole). In Romania, Portugal, Poland and several other markets, it has won more than 40% market shares making it the topmost of all pramipexole products. In the United Kingdom, Ireland, and certain other markets, Krka is the leading generic manufacturer of pramipexole prolonged-release tablets. Also in 2018, we retained the leading place among the generic manufacturers in Europe, very much the same as several years before.

Rolpryna SR* (ropinirole) is the foremost ropinirole medicinal product in Poland, Hungary, Romania, and certain other markets. It recorded strong sales also in Western Europe. In Germany and the United Kingdom, we were among the leading generic manufacturers of ropinirole prolonged-release tablets. Through healthy sales in individual markets, we won the place among the top generic manufacturers of those medicinal products in Europe.

Our array of medicines for the treatment of Parkinson's disease is supplemented by **Rasagea*** (rasagiline), the topmost generic variety of rasagiline in Slovakia, Hungary, Ireland, and certain other markets. In 2018, we remained among the leading generic producers of rasagiline in Europe.

Medicines for the Treatment of Alzheimer's Disease

We supply medicines containing all four active ingredients used for the treatment of Alzheimer's disease. Our medicines are **Yasnal*** (donepezil), **Marixino*** (memantine), **Galsya*** (galantamine), and **Nimvastid** (rivastigmine), and we are the only manufacturer in the markets of Slovenia, Central, Eastern, and South-Eastern Europe that supplies the medicine in orodispersible tablets. We sell most medicines of this class in Western Europe, where sales in the absolute terms grew the fastest. In Slovakia, our medicines for the treatment of Alzheimer's disease account for more than a 20% market share and make us the main supplier, while in Slovenia we are the topmost generic manufacturer, with just shy of a 30% market share. Our medicines have won topmost places among all products in individual markets: Yasnal* in Ireland, Slovakia and in Slovenia; Marixino* in Slovenia and Portugal; and Galsya* in Slovakia and in Slovenia. In Europe, Krka is also among leading generic manufacturers of prolonged-release galantamine.

Other Medicines for the Treatment of the Central Nervous System

The range of our medicines for the treatment of the central nervous system includes an agent of the antiepileptic class, **Pragiola*** (pregabalin). We launched it in Albania, Moldova, and Bosnia and Herzegovina in 2018. It is the main generic variety of pregabalin in Austria, Slovenia, and Ireland, while in Estonia it tops all pregabalin products. Also in 2018, we remained one of the leading generic producers of pregabalin in Europe.

Medicines for the Treatment of the Alimentary Tract and Metabolism

Proton Pump Inhibitors

Krka has been the leading manufacturer of proton pump inhibitors for a decade in the markets of Slovenia, Central, Eastern, and South-Eastern Europe. In 2018, we strengthened our leading position by increasing our market share. We market five different medicines of this product class. We are the leading generic manufacturer of esomeprazole in Europe, and among the leading suppliers of pantoprazole, lansoprazole, and rabeprazole. In Serbia, Slovenia, Slovakia, and several other markets, Krka is the most successful among all manufacturers of proton pump inhibitors, holding more than a 30% market share.

The most important Krka medicine of this class is **Nolpaza*** (pantoprazole). In 2018, Nolpaza* presented further growth of market shares in Slovenia, Central, Eastern, and South-Eastern Europe, and achieved the leading place among generic proton pump inhibitors there. Nolpaza* is the leading pantoprazole on most markets in the area, including major regional markets of the Russian Federation and Ukraine. In Slovenia, Serbia, Uzbekistan, and several other markets, Nolpaza ranked first among all proton pump inhibitors. In 2018, we remained one of the leading generic manufacturers of pantoprazole in Europe.

Emanera* (esomeprazole) increased its market share in the markets of Slovenia, Central, Eastern, and South-Eastern Europe to more than 30% in 2018, and further consolidated its topmost position among generic varieties of esomeprazole. We also recorded strong sales of esomeprazole in Western Europe. In the United Kingdom, we were among top generic manufacturers, and the leading generic manufacturer in Germany. In 2018, we started marketing Emanera* in Mongolia, the only esomeprazole there. For years, we have been the leading generic manufacturer of esomeprazole in Europe.

Proton Pump Inhibitors
pantoprazole (Nolpaza, Appryo)
esomeprazole (Emanera, Emozul, Escadra)
lansoprazole (Lanzul, Lansoptol)
rabeprazole (Gelbra, Zulbex)
omeprazole (Ultop)

Other Medicines for Acid-Related Disorders

Ulcavis* (bismuth subcitrate) is our latest medicine for the treatment of acid-related conditions. It is indicated for the treatment of gastritis and removal of *Helicobacter pylori* bacteria when used in combination with antibiotics and proton pump inhibitors. We have been marketing it since 2016, and in 2018 we placed it on thirteen new markets, including Slovenia, Lithuania, and Serbia. In Ukraine and several other Eastern European countries, we launched it as a non-prescription product. In Poland, Croatia, Romania, and several other markets, Ulcavis* is the only bismuth-containing product for the treatment of acid-related conditions.

Medicines for the Treatment of Obesity

This class includes Krka's **Orsoten** (orlistat). Orsoten Slim, the medicine which contains 60 mg of orlistat, is also available as a non-prescription product. We recorded healthy sales of Orsoten in the Russian Federation, where it was foremost of all orlistat products.

Medicines for Pain Relief

Krka's portfolio of analgesics encompasses medicines from various classes. They comprise non-steroidal anti-inflammatory and antirheumatic medicines, including coxibs and opioids, and we also market certain fixed-dose combinations. Our portfolio also comprises medicines from other groups indicated primarily for alleviating neuropathic pain. The range of prescription analgesics is complemented by our non-prescription products.

Doreta* (tramadol/paracetamol) is our most important analgesic and is among the top ten Krka medicines in terms of sales. Doreta* topped all competing products in Germany, Poland, Romania, and in the territory of Slovenia, Central, Eastern, and South-Eastern Europe. The market share in the said territory further increased year on year, and reached almost 50% in 2018. We once again remained among the leading generic producers of the fixed-dose combination of tramadol and paracetamol in Europe.

Adolax* (oxycodone/naloxone) is indicated for the treatment of severe pain that can be properly controlled only with opioid analgesics, and contains the opioid antagonist naloxone for relieving certain adverse effects of oxycodone. It is our newest opioid analgesic. We launched the medicine in 2017, and last year also on certain new markets – in Germany, Spain, Ireland, and as the first generic manufacturer in Bulgaria. In Germany, we were among the leading generic manufacturers of this combination.

Roticox* (etoricoxib) of the coxib medicine class is a non-steroidal anti-inflammatory and antirheumatic medicine (NSAID). We launched it in 2017. In 2018, we introduced it in France, and started marketing it as the first generic variety of etoricoxib in Moldova and Hungary. In Germany, Krka is the leading generic manufacturer of etoricoxib, and in Poland Roticox takes the top place among all competitive products. In 2018, we were also one of the leading generic manufacturers of etoricoxib in Europe.

This class of analgesics includes **Aclexa*** (celecoxib). In 2018, we further consolidated its position of the leading generic variety of celecoxib in the markets of Slovenia, Central, Eastern, and South-Eastern Europe. We recorded the highest sales growth among all competitors, and our market share rose to more than 30%. In Poland, Slovakia, and certain other markets, Aclexa is the leading celecoxib product.

The range of non-steroidal anti-inflammatory and antirheumatic medicines includes **Naklofen Duo** (diclofenac) and **Nalgesin*** (naproxen), which is also marketed as a non-prescription medicine. In 2018, we put naproxen on the markets of Spain, Belgium, Finland, and certain other markets. In the territory of Slovenia, Central, Eastern, and South-Eastern Europe, Nalgesin* is the principal analgesic containing naproxen and holds close to a 60% market share. In Slovenia, it is the most frequently prescribed non-steroidal anti-inflammatory and antirheumatic medicine. In 2018, we expanded our portfolio with a new NSAID, **Dekenor** (dexketoprofen). We started marketing it in injection form in Romania, Bulgaria, and the Baltic States. We also plan to add oral forms to the range in the future and extend marketing.

Prescription Analgesics
tramadol (Tadol) tramadol/paracetamol (Doreta, Tramabian)
oxycodone/naloxone (Adolax, Oxycaloxon, Oxynador)
naproxen (Nalgesin, Analgesin, Naldorex)
diclofenac (Naklofen Duo, Naklofen)
dexketoprofen (Dekenor)
etoricoxib (Roticox, Bericox, Etoxib, Etoriax)
celecoxib (Aclexa, Dilaxa)

Medicines for the Systemic Treatment of Infections

Medicines for the Treatment of Bacterial Infections

Our range of antibiotics includes medicines from different classes. We supply macrolides, β-lactam antibiotics, fluoroquinolones, and other antibiotics. We have been among the leading manufacturers of macrolides and the primary manufacturer of fluoroquinolones in the markets of Slovenia, Central, Eastern, and South-Eastern Europe for years.

Fromilid (clarithromycin) is a macrolide antibiotic and our most important medicine of that therapeutic class. It is the leading generic macrolide in that area, and ranks fourth among macrolide brand names. We are the leading clarithromycin manufacturer in Ukraine, Hungary, Croatia, and several other markets, and the topmost generic manufacturer in the Russian Federation, Serbia, and other markets.

Azibiot (azithromycin) is our second most important macrolide antibiotic. In 2018 we launched it in Azerbaijan. In 2017, we added Azibiot powder for oral suspension to our range, and in 2018 started marketing it in Poland, the Republic of North Macedonia, and Moldova. Azibiot is the leading generic azithromycin variety in Slovenia, Latvia, and Estonia.

Our β-lactam antibiotics include **Furocef*** (cefuroxime) and **Betaklav*** (amoxicillin/clavulanic acid), which was added to the portfolio in 2017. In 2018, we launched Furocef in Croatia, Moldova, and Kosovo, and Betaklav* in Spain, Italy, the Russian Federation, and elsewhere, all together on twelve new markets.

In addition to macrolides and β-lactam antibiotics, we market four fluoroquinolones. **Levalox*** (levofloxacine) is the leading of all levofloxacine products in Slovakia and Lithuania, and we started marketing it in Azerbaijan and Kosovo. We put **Moloxin*** (moxifloxacin) on the markets of Azerbaijan and Ukraine. In Poland, Slovakia and Slovenia, Moloxin* is the leading moxifloxacin product, while in the markets of Slovenia, Central, Eastern, and South-Eastern Europe it is the leading generic variety of moxifloxacin. **Ciprinol** (ciprofloxacin) and **Nolicin** (norfloxacin) – the leading norfloxacin product in the area mentioned above – also belong to Krka's fluoroquinolone class.

Medicines for the Treatment of HIV Infection and Other Antivirals

In 2017, Krka first entered one of the major therapeutic classes in the world in terms of sales, the class of medicines for the treatment of HIV infection. In 2018, we launched our antivirals on new markets, and extended our product portfolio with new medicines.

We launched **Emtenovo*** (emtricitabine/tenofovir disoproxil) in 2017, and in 2018 we started marketing this combination in the Czech Republic, Lithuania, and as the first generic manufacturer in Belgium and the Republic of North Macedonia. In Europe, Krka is among the topmost generic manufacturers of this combination.

We added to the range **Efavemten*** (efavirenz/emtricitabine/tenofovir disoproxil), a triple combination indicated for the treatment of HIV infection with a single tablet, taken daily. We launched it in Germany, France, Austria, and the Scandinavian countries, and as the first generic manufacturer in the Republic of North Macedonia and Belgium. In Western Europe, we were among the topmost generic manufacturers of this combination medicine.

In 2018, we expanded this therapeutic class with **Darunavir Krka** (darunavir). In combination with other medicines, it is indicated for the treatment of HIV infection. We launched it in Latvia, and as the first generic manufacturer in Slovenia, the Republic of North Macedonia, and Slovakia.

We introduced another new medicine, **Entecavir TAD** (entecavir) indicated for the treatment of chronic hepatitis B virus infection. We started marketing it in Germany.

Medicines for the Blood and Blood-Forming Organs

Our most important medicinal product from this product class is **Zyllt*** (clopidogrel). Its sales are most substantial in the Russian Federation, where it is the leading generic variety of clopidogrel. It is also the leading product in Serbia, Georgia, Slovenia, and certain other markets. It is the topmost clopidogrel in Hungary and Uzbekistan. We were among the leading generic producers of clopidogrel in Europe in 2018.

Medicines for the Treatment of Diabetes

In 2018, we remained the leading generic manufacturer of sulfonylureas in the markets of Slovenia, Central, Eastern, and South-Eastern Europe. This group includes our most important oral anti-diabetic agent **Gliclada*** (gliclazide), the only gliclazide available in this region as modified-release tablets in three different strengths, which allows dosing to be adjusted to patients' needs. Gliclada* is the leading generic sulfonylurea in Poland, Hungary, Croatia, and several other markets, while in the Czech Republic it accounts for a 24% market share making it the leading sulfonylurea. In 2018, we started marketing it in Serbia and Ukraine. Krka is among the leading generic manufacturers of gliclazide modified-release tablets in Europe.

In 2018, we supplemented this class with an advanced medicine which belongs to dipeptidyl peptidase-4 (DPP-4) inhibitors. We launched **Glypvilo** (vildagliptin) in Estonia, and as the first generic company in Latvia, and plan to expand to new markets in the future.

Another of our antidiabetic agents is **Enyglid*** (repaglinide), which places us among the leading generic producers of repaglinide in Germany.

Medicines for the Treatment of Urinary Tract Diseases

Among the most important medicines for the treatment of diseases of the urinary tract are medicines for the treatment of erectile dysfunction. We primarily market **Vizarsin*** (sildenafil) tablets, and on several markets also supply it in orodispersible tablets as the only manufacturer. We added **Tadilecta*** (tadalafil) to this class of medicines in 2017, and in 2018 also launched it in Spain, Austria, and Bulgaria, and as the first generic pharmaceutical company in the Czech Republic, Romania, and the Baltic States. We added **Viavardis*** (vardenafil), our third medicine for the treatment of erectile dysfunction, to this class in 2018. We were the first generic manufacturer to launch it in Germany, Belgium, Portugal, in the Scandinavian countries, and several other markets. We were the leading generic manufacturer of vardenafil in Western Europe, and ranked among the leading generic manufacturers of tadalafil.

Our portfolio for the treatment of diseases of the urinary tract also comprises **Finpros** (finasteride), **Tanyz/Tanyz ERAS** (tamsulosin), and **Dutrys*** (dutasteride). They are indicated for the treatment of benign prostatic hyperplasia. We launched Dutrys* in 2017, and in the Republic of North Macedonia and Lithuania in in 2018. We recorded strong sales in Germany, where we were the leading generic manufacturer of dutasteride. We are also ranked as the top generic manufacturer in Slovenia.

Asolfena (solifenacin) and **Dulovesic*** (duloxetine) are two agents for the treatment of incontinence, and the latter is the leading duloxetine for this indication in the markets of Slovenia, Central, Eastern, and South-Eastern Europe.

Oncology Medicines

Meaxin* (imatinib) is our most important oncology medicine. In 2018, we launched orodispersible tablets, which improve patient compliance, because they make administration easier for patients who have difficulties with swallowing. We were the only supplier to launch imatinib orodispersible tablets in Germany, Belgium, and Austria. Meaxin* is the leading imatinib product in Croatia, Ukraine, Latvia, and Bosnia and Herzegovina, while in Germany, Austria, Romania, and certain other markets, it is among the leading generic varieties of imatinib.

Our range of oncology medicines has been supplemented by products containing other active ingredients. **Ecansya*** (capecitabine) is the topmost of all capecitabine products in Romania, Kazakhstan, Lithuania, and certain other markets. We also launched the medicine in Moldova and Montenegro.

Dexamethasone Krka tablets of high strengths may be used primarily in oncology and haematology, but also in other therapeutic areas. On many markets, we are the only manufacturer to supply dexamethasone 4 mg, 8 mg, and 20 mg tablets. In 2018, we started marketing these strengths in Austria and four Scandinavian countries. We extended the range with a new strength, 40 mg tablets, and launched them as the only manufacturer in Germany, Austria, Poland, and Ukraine.

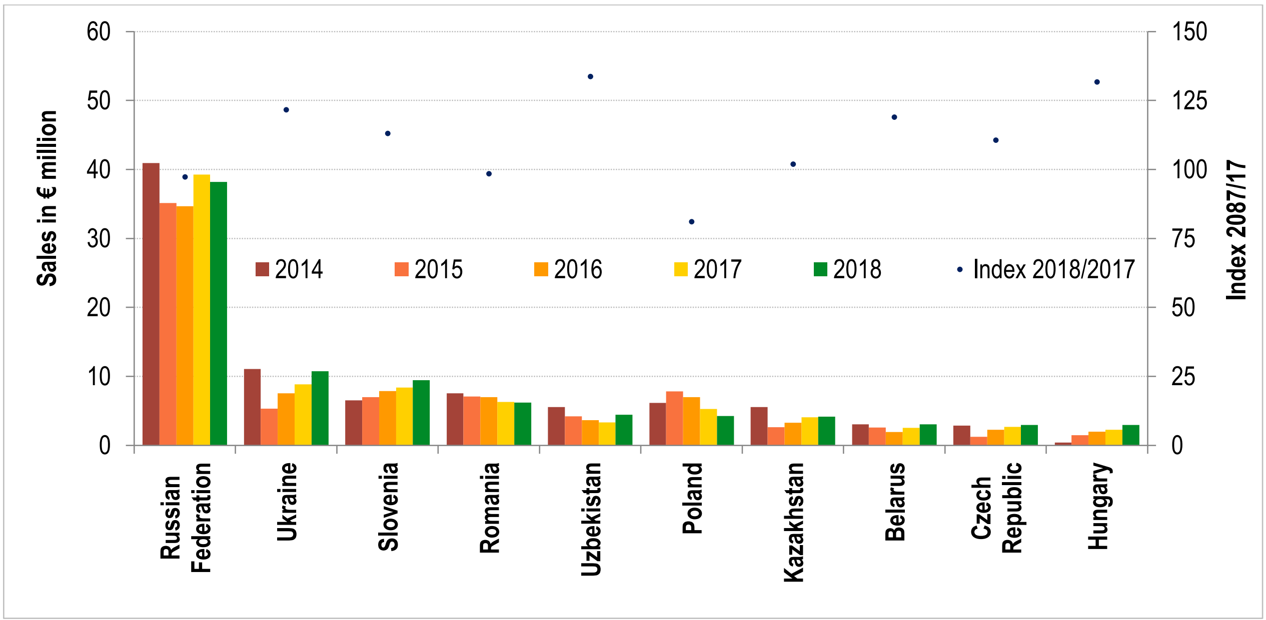
Non-Prescription Products

In 2018, the Krka Group sales of non-prescription pharmaceuticals totalled €123.2 million, a 4% increase compared to the year before. Among ten major markets, sales saw the highest growth in relative terms in Uzbekistan, Hungary, and Ukraine, and among other markets in Portugal, Montenegro, and Mongolia.

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

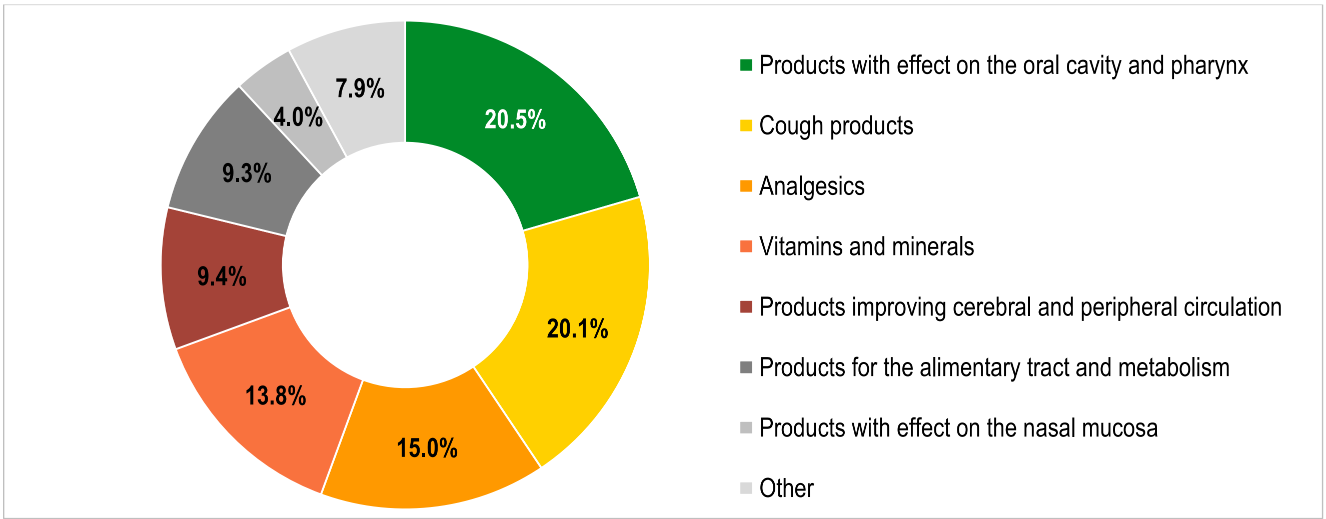
Septolete, Herbion*, Nalgesin*, and Bilobil* are our most important non-prescription product brand names in terms of sales.

Sales of Non-Prescription Products in Ten Major Markets



2018 sales revenues comply with the latest *IFRS 15*. 2017 sales revenue data have been adjusted accordingly, hence presented 2017 values differ from values stated in the *2017 Annual Report*.

Sales of Non-Prescription Products by Therapeutic Class in 2018



In 2018, **Septolete** was our leading non-prescription brand in terms of sales. **Septolete Total*** (benzydamine chloride/cetylpyridinium chloride) accounts for almost 90% of the brand sales value and is in the focus of our promotion. The product is available as lozenges or spray. In Slovenia, Lithuania, and Estonia, Septolete Total* was the top-selling non-prescription product with effect on the oral cavity and pharynx. In 2018, we launched it in our 35th market, in Albania. We started marketing elder-and-lemon flavoured lozenges on seventeen new markets, and the spray in Azerbaijan. We added lozenges with honey-and-lemon flavour to the Septolete Total* brand in the Russian Federation, Ukraine, Italy, Finland, and Portugal.

Herbion* was our second most important non-prescription brand. It is available on thirty-three markets. It includes herbal syrups for various kinds of coughs. **Herbion cowslip syrup** and **Herbion ivy syrup** facilitate expectoration, while **Herbion plantain syrup** relieves dry, irritating coughs. **Herbion Iceland moss syrup*** also relieves sore throat and hoarseness. We started marketing Herbion* Iceland moss syrup in Azerbaijan, and Herbion* ivy syrup in Albania. Herbion syrups are the leading natural syrups in the Russian Federation, Kazakhstan, Estonia and several other markets, while in Ukraine and Belarus they are among the most popular natural cough remedies.

Our third most important non-prescription brand (also available as a prescription pharmaceutical) is an analgesic **Nalgesin*** (naproxen). It has been the leading naproxen-containing product in the markets of Slovenia, Central, Eastern, and South-Eastern Europe for years. In 2018, we started marketing it in Montenegro.

Bilobil* contains the ginkgo leaf extract and is indicated for improvement of concentration and memory. We have been marketing it for more than 25 years. It is available in thirty markets of Europe and the Middle East. In Romania, Ukraine, Hungary and certain other markets, and in the complete area of South-Eastern Europe, it is the topmost of all products containing ginkgo leaf extracts. In 2018, Krka as the first manufacturer launched Bilobil* 120 mg ginkgo leaf extract tablets also in Portugal and Uzbekistan.

Flebaven* is one of the latest Krka non-prescription brands. It is also available as a prescription pharmaceutical. It is used for the treatment of chronic venous disease, and acute haemorrhoidal syndrome. Flebaven containing a combination of diosmin and hesperidine was first launched in 2016. In 2018, we also put it on the markets of Uzbekistan and Armenia. In the same year, we added another product to our Flebaven* brand, tablets of 500 mg or 1 000 mg diosmin. We launched them in Slovenia, Slovakia, Portugal, Bulgaria, and certain other countries of South-Eastern Europe. The share of Flebaven on the market of diosmin products in Slovenia is over 25%.

Pikovit* and **Duovit** are our brands of vitamins and minerals. Duovit products are intended for adults, while Pikovit* products are for children. In Uzbekistan, Azerbaijan and Kyrgyzstan, Pikovit* products are the leading vitamins and minerals for children in terms of sales.

The nasal decongestant **Septanazal*** (xylometazoline/dexpanthenol) is also among Krka's leading non-prescription products. It is available as a spray for adults and a spray for children. In 2018, we started marketing it in Belarus.

In 2017, we launched **Magnezij Krka 300*** water soluble granules in Slovenia, and a year later our food supplement took the first place among magnesium-containing products. In 2018, we started marketing it in the Russian Federation and the Republic of North Macedonia.

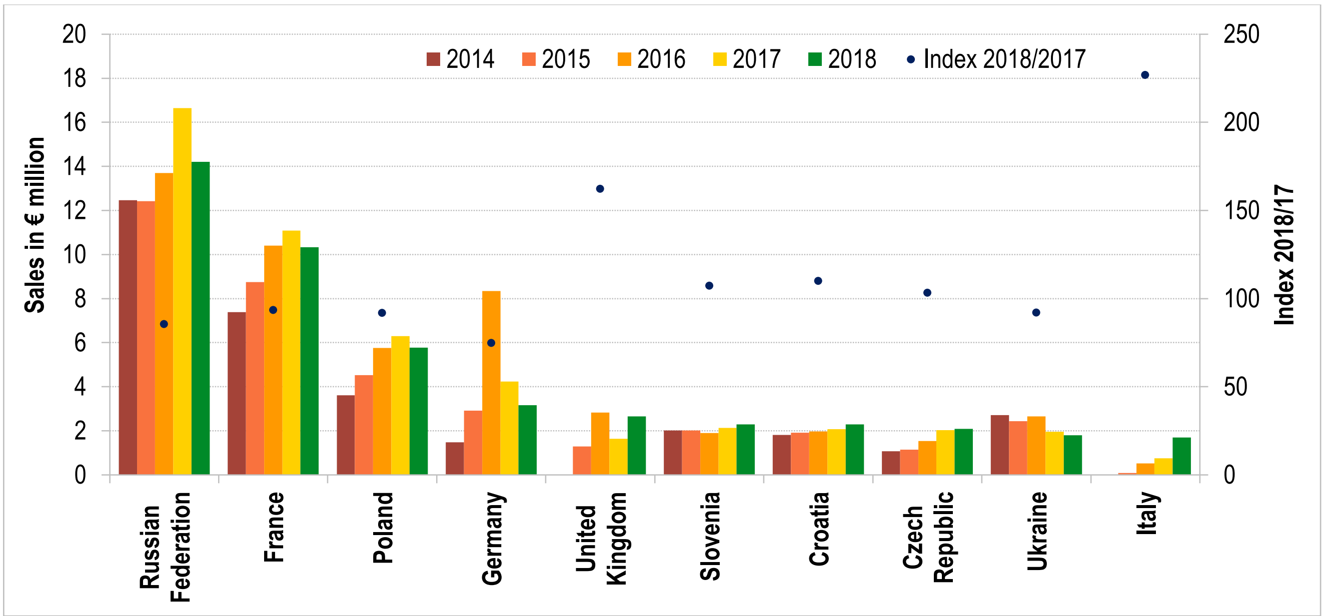
Animal Health Products

In 2018, the Krka Group sales of animal health products amounted to €63.2 million, which was comparable to the 2017 level. As far as our ten leading markets are concerned, sales in Italy, the United Kingdom, and Croatia increased the most in relative terms. Among other markets, the rise was most notable in Spain, Uzbekistan, and Kazakhstan.

We market our animal health products through our own sales-and-marketing network in Slovenia, Central, Eastern, and South-Eastern Europe. We have also extended it to Western Europe, and established it in Germany, the United Kingdom, Belgium, France, Italy, Portugal, and the Netherlands. In other Western European and overseas markets, animal health products are marketed through our partner companies.

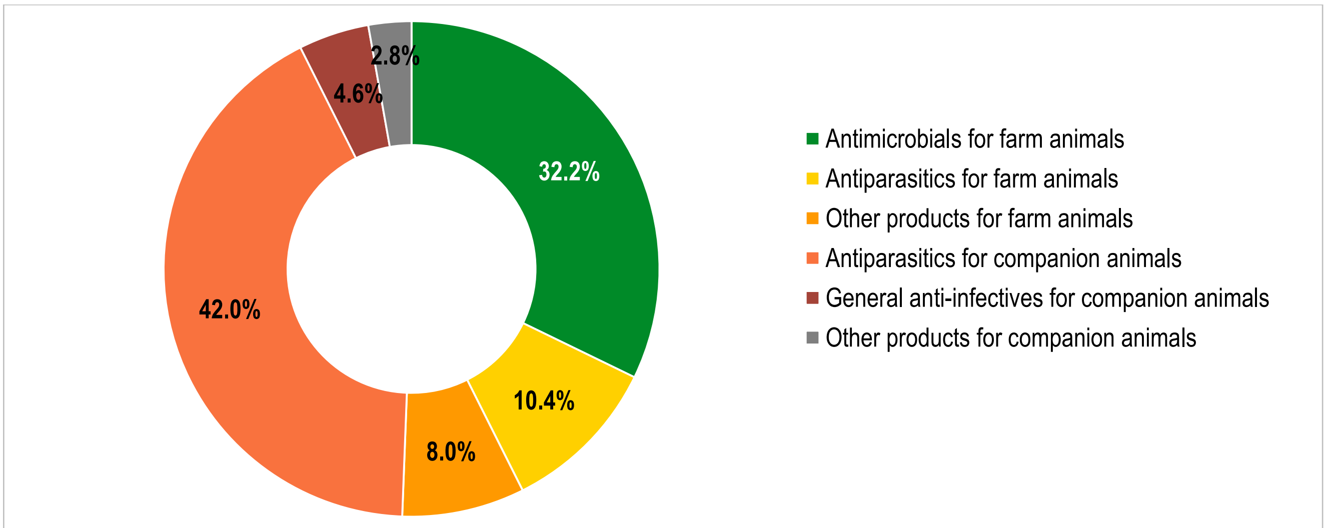
The milbemycin oxime/praziquantel combination (Milprazon*) was our most important animal health product in terms of sales in 2018. It was followed by fipronil (Fypryst*, Fypryst* Combo), enrofloksacin (Enroxil*), and florfenicol (Floron) products, and by pyrantel embonate/praziquantel combination products (Dehinel*, Dehinel* Plus).

Sales of Animal Health Products in Ten Major Markets



2018 sales revenues comply with the latest *IFRS 15*. 2017 sales revenue data have been adjusted accordingly, hence presented 2017 values differ from values stated in the *2017 Annual Report*.

Sales of Animal Health Products by Therapeutic Class in 2018



Krka produces animal health products for farm animals and companion animals. The market share of products for companion animals has been rising and reached close to 50% in 2018.

Our most important companion animal product is **Milprazon*** (milbemycin oxime/praziquantel), which is also our primary animal health product. It is indicated for the treatment of internal parasites in dogs and cats. It recorded highest sales figures in the United Kingdom, Germany, and the Russian Federation. In 2018, we started marketing it in Italy, France, and Finland, and as the first generic pharmaceutical company in Bosnia and Herzegovina. In Croatia, Serbia, and several other countries, it remained the only product containing that combination of active ingredients.

In 2018, the sales of spot-on solutions again saw an increase. Our most important spot-on products include products sold under the brand name of **Fypryst*** (fipronil) that also includes **Fypryst* Combo**, a combination of fipronil and S-methoprene (also available as cutaneous spray). We started marketing Fypryst* Combo in nine markets: in Germany, France, Italy, Poland, and elsewhere. On many markets, we were the first manufacturer to supply this combination.

Another antiparasitic for companion animals is **Ataxxa** (permethrin/imidacloprid) spot-on solution for dogs. The medicine combines two active ingredients acting against parasites in dogs and is available in four strengths. In 2018, we launched it in Western Europe, in Germany, France, Italy, and other countries. We have protected this innovative pharmaceutical dosage form with a patent application filed at the European Patent Office. In most countries, we are the only supplier of that combination medicine.

Another of our top-ranking animal health products for companion animals is the antiparasitic **Dehinel Plus*** (febantel/pyrantel embonate/praziquantel) tablets 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 embonate/praziquantel) tablets for cats. In 2018, we started marketing the products under Dehinel* brand name on new markets.

Our range of animal health products for companion animals also includes **Otoxolan** (marbofloxacin/clotrimazole/dexamethasone acetate) ear drops for the treatment of bacterial or fungal otitis externa in dogs. We first launched it in 2017, and in 2018 also started marketing it as the first generic pharmaceutical company in Ukraine, Serbia, and Bosnia and Herzegovina.

Antimicrobial agents and antiparasitic products are our most important animal health products for farm animals. **Enroxil*** (enrofloxacin) and **Floron*** (florfenicol) rank among our best-selling antimicrobial agents. Floron* is available in five pharmaceutical dosage forms: solution for injection, solution for injection for single application, oral solution, oral powder, and premix for medicated feed. In 2018, we launched Floron* single-dose solution for injection in Croatia and Spain.

Our antimicrobial agents for farm animals are supplemented with two antibiotics, **Amatib** (amoxicillin) and **Doxatib** (doxycycline), and a combined broad-spectrum chemotherapeutic, **Trisulfon** (sulfamonomethoxine/trimethoprim).

Our range of main animal health products for farm animals also includes **Flimabend*** (flubendazole) and **Toltarox*** (toltrazuril), two antiparasitic agents. In 2018, we added to our portfolio a broad-spectrum antiparasitic agent, **Santiola** (closantel) solution for injection, indicated for use in cattle and sheep. We started marketing it in Ireland, Croatia, Scandinavian countries and elsewhere, on nine markets in total.

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

Health Resort and Tourist Services

Sales revenues generated by our health resort and tourist services amounted to €37.6 million in 2018, accounting for a 5% year-on-year increase.

Terme Krka recorded 372,763 overnight stays in Šmarješke Toplice, Dolenjske Toplice, Strunjan, Otočec, and Novo mesto.

Foreign guests accounted for a third of all overnight stays in Terme Krka hotels. We recorded an increase in the number of guests from certain key markets (e.g. Serbia and other countries of the former Yugoslavia) and other markets (e.g. France, Israel, Switzerland, and the Netherlands).

We recorded annual occupancy rates as follows: Talaso Strunjan almost 82%, Terme Dolenjske Toplice 80%, Terme Šmarješke Toplice 71%, and Hoteli Otočec 43%. The average accommodation occupancy rate of Terme Krka exceeded 70%, similar to the year before.

Products Marketed under Different Brand Names in Individual Markets

Active ingredient	Brand names
Prescription pharmaceuticals	
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
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
escitalopram	Elicea, Ecytara, Escitalex, Anxila
esomeprazole	Emanera, Emozul, Escadra
etoricoxib	Roticox, Bericox, Etoxib, Etoriax
exemestane	Escepran, Etadron
ezetimibe	Ezoleta, Ezetad
galantamine	Galsya SR, Galnora
gliclazide	Gliclada, Glyclada
imatinib	Meaxin, Neopax, Meapax, Itivas, Yntam
ivabradine	Bravadin, Bixebra, Brivecor, Ivabalan
letrozole	Lortanda, Likarda
levofloxacin	Levalox, Levnibiot, Leviaben, Levaxela
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	Nalgesin, Analgesin, Naldorex
olanzapine	Zalasta, Zolrix
olmesartan	Olimestra, Olmecor
olmesartan/amlodipine	Olssa, Olmeamlo, Olmira
oxycodone/naloxone	Adolax, Oxycaloxon, Oxynador
pantoprazole	Nolpaza, Appryo
perindopril	Prenessa, Perineva
perindopril/amlodipine	Amlessa, Dalnessa, Tonarssa, Dalneva
perindopril/amlodipine/indapamide	Co-Amlessa, Co-Dalnessa, Co-Dalneva, Amlewel, Dalnecombi, Tonanda
perindopril/indapamide	Co-Prenessa, Co-Perineva, Prenewel
pregabalin	Pragiola, Pregabador, Pregabio
quetiapine	Kventiax, Quentiax
rabeprazole	Gelbra, Zulbex
ramipril	Ampril, Amprilan
ramipril/amlodipine	Rameam, Ramidipin
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/valsartan	Valarox, Ravalsyo
sildenafil	Vizarsin, Sildegra
tadalafil	Tadilecto, Tadagis
telmisartan	Tolura, Telmista
telmisartan/amlodipine	Telassmo, Tamloset, Teldipin
telmisartan/hydrochlorothiazide	Tolucombi, Telmista H
tramadol/paracetamol	Doreta, Tramabian
valsartan/amlodipine	Vamloset, Valodip
valsartan/hydrochlorothiazide	Valsacombi, Co-Valsacor, Valsacor H, Valsacor HD, Valsaden, Janartan
vardenafil	Viavardis, Vardegin
venlafaxine	Alventa, Olwexya
ziprasidone	Zypsilan, Zypsila, Ypsila
Non-prescription products	
benzydamine hydrochloride/cetylpyridinium chloride	Septolete Total, Septabene, Septolete Extra, Septolete Omni, Septolete Ultra, Septolete Duo, Septafar
diosmin; diosmin/hesperidin	Flebaven, Fladios, Flebazol, Flabien
ginkgo extract	Bilobil, Gingonin
Icelandic moss extract	Herbion Iceland mossMoss, Herbisland
ivy extract	Herbion ivyIvy sSyrup, Herbihelix
magnesium	Magnezij Krka 300, Magnesol B2
naproxen	Nalgesin S, Analgesin, Nalgedol, Ilgesin, Nalgesin Dolo, Nalgesin Mini, Nalgesin Relief
vitamins for children	Pikovit, Divakid
xylometazoline/dexpanthenol	Septanazal, Septanasal
Animal health products	
biocide	Ecocid, Oxicid
enrofloxacin	Enroxil, Enrox, Enroxal
febantel/pyrantel embonate/praziquantel	Dehinel Plus, Anthelmin Plus
fipronil	Fypryst, Amflee, Fyperix
fipronil/S-methoprene	Fypryst Combo, Amflee Combo, Fyperix Combo
florfenicol	Floron, Fenflor
flubendazole	Flimabend, Flimabo
marbofloxacin	Marfloxin, Quiflox, Quiflor
milbemycin oxime/praziquantel	Milprazon, Milquantel
praziquantel/pyrantel embonate	Dehinel, Anthelmin
toltrazuril	Toltarox, Tolzesya, Bovicox

Research and Development

Part of our vertically integrated business model is research and development. It enables us to design and maintain a competitive portfolio of products. Our development strategy has two key advantages, vertical integration and connectivity of development and production processes, and 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 careful monitoring of products throughout their life cycles.

We are able to respond quickly to development challenges, marketing requirements, potentials, and opportunities by following 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 develop the most optimal patent strategies and integrate them in research and development of new medicines. We use the vertically integrated model in order to manage patent, development, legislative, production, and marketing requirements. By managing the entire process, we are able to research, develop, evaluate, register, and produce incoming materials, our own active ingredients, and finished products. Our own development and effective integration of development and production phases guarantee that we deliver high-quality, effective, safe and competitive products to markets on time.

We have adopted the 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 draw up and manage complex registration documentation and obtain marketing authorisations for products on time. Regulatory requirements are growing more complex, so we keep introducing new, additional and improved approaches to development trials. We are constantly upgrading and using them in our research. We regularly introduce new products and maintain their competitiveness in over 70 countries across the world.

When entering new and technologically challenging areas, for example similar biological medicines, we establish connections with other companies and institutions. We have a special group of experts on recombinant technologies and products. They actively follow 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 relevant business cooperation. We conduct diligent expert and business reviews of particular products that serve as the basis for establishing business cooperation.

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

Investments and Achievements

Investments in research and development are essential for innovative approaches, introduction of new products, and maintenance of their competitiveness on all markets. As scientific and technological discoveries are rapidly advancing and markets are getting increasingly complex, we must constantly invest in equipment and knowledge to deliver products on time and maintain high quality.

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

Setting-up of Razvojno-kontrolni center 4 (Slovene abbreviation RKC 4, a laboratory building for product research, development and control) has entered its final stage and will extend our product development capacities. New premises will be equipped with state-of-the-art technological equipment enabling thorough research work in the initial development phases. Additional equipment at the pilot scale will allow for better and faster transfer of products to the industrial scale. We acquire new facilities in order to guarantee our independence, reduce costs of reference materials for analyses, and provide support for analytical research of new products.

Our Croatian plant in Jastrebarsko focuses on manufacturing, and research and development of oncology medicines. This will enable us to diversify our product portfolio in this therapeutic class also in the future.

We look for our own research-and-development solutions to develop new products and use them to successfully overcome patent obstacles and develop complex pharmaceutical forms with added value for patients (e.g. modified-release forms, dispersible tablets). We have introduced demanding technological procedures for double-layer tablet pressing to make new medicines that combine three active ingredients in one pharmaceutical form. As the first generic manufacturer, we put on the market a new medicine from which active ingredients are released by osmosis, providing for an even and prolonged release of the active ingredient from a pharmaceutical form. The medicine is taken once daily and has fewer adverse effects.

We introduced many new technologies and analytical techniques to achieve set goals, especially to develop innovative products with added value and enter new markets as the first generic pharmaceutical company. We introduced into the research-and-development stage the technology of coating tablet cores with an active ingredient and hot-melt extrusion for increasing the solubility of poorly soluble active ingredients, and complemented analytical evaluation with the automated sample preparation for analyses and other innovative techniques (e.g. coupled two-dimensional liquid chromatography and mass spectroscopy).

We also cooperate with external research-and-development institutions to mutually upgrade and extend our knowledge and development results. The department encourages innovations with advanced research-and-development processes and protects them by filing patent applications.

The achievements of our researchers have also been noticed by the wider community. Last year, we received highest awards for chemical synthesis of active ingredients and for developing finished dosage forms. We received highest awards at the state level: two gold awards from the Slovenian Chamber of Commerce and Industry, and five awards from the Chamber of Commerce of Dolenjska and Bela krajina. The Chamber of Commerce of Dolenjska and Bela krajina awarded our researchers for innovative solutions in development of several products. We received gold awards for most notable achievements, namely the development of a fast dispersible formulation comprising imatinib for the treatment of cancer; development of a solid dosage form comprising a combination of opioid analgesic and opioid antagonist for pain management; development of etoricoxib film-coated tablets and the procedure for preparing etoricoxib in crystalline form I; and development of a solid pharmaceutical composition comprising tadalafil co-precipitates and synthesis optimisation. We received a silver award for improving the process of rosuvastatin calcium manufacture.

The Slovenian Chamber of Commerce and Industry awarded us with gold awards for two innovations in the field of pharmaceutical dosage form development and finished product technologies, development of etoricoxib film-coated tablets and the procedure for preparing etoricoxib in crystalline form I, and development of fast dispersible formulation comprising imatinib for the treatment of cancer.

Protecting Our Know-How and Industrial Property

In 2018, we filed five patent applications for technological solutions we had developed and evaluated as inventions. Based on priority applications from 2017, we submitted four international patent applications. We were granted eight patents in various countries. Krka currently holds over 200 patents.

In Slovenia, we filed 67 trademark applications for protection of Krka trademarks. We also filed 34 international and 9 national trademark applications. All in all, we have registered more than 1,100 trademarks in various countries.

In addition to protecting of our own accomplishments, inventions, and trademarks, a part of the strategy for achieving most economical and at the same time acceptable technological solutions with respect to patent protection is also the use of available legal measures (nullity proceedings against invalid patents, defence of Krka's patent rights at patent oppositions). This contributes to high-level legal security. We won more than ten legal proceedings in 2018.

New Products and Marketing Authorisations of the Krka Group

In 2018, Krka introduced 23 new products in 52 pharmaceutical dosage forms and strengths.

We obtained marketing authorisations for sixteen products containing new active substances to supplement our portfolio of prescription pharmaceuticals, animal health products, and non-prescription products: **Eliskardia**/**Sigrada**/**Prasillt** (prasugrel), **Apleria**/**Enplerasa** (eplerenone), **Parnido** (paliperidone), **Lamegom**/**Agomaval** (agomelatine), **Noctiben**/**Calmesan**/**Dornite** (doxylamine), **Pemetrexed Krka** (pemetrexed), **Gefitad** (gefitinib), **Everofin** (everolimus), **Bortezomib Krka** (bortezomib), **Entecavir Krka** (entecavir), **febuxostat**, **KontrDiar** (nifuroxazide), **Tuloxxin**/**Tulaxa** (tulathromycin), **Catobevit** (butafosfan/cyanocobalamin), **Selehold**/**Selames** (selamectin) 60 mg/ml spot-on solution for cats and small dogs, **Selehold/Selames** (selamectin) 120 mg/ml spot-on solution for dogs.

We extended the portfolio of fixed-dose combinations for the treatment of cardiovascular diseases by three new medicines: **Roxiper**/**Triemma** (perindopril/indapamide/rosuvastatin), **Co-Vamloset** (valsartan/amlodipine/hydrochlorothiazide), **Sorvitimb**/**Sorvasta Plus**/**Co-Roswera**/**Rosazimib** (rosuvastatin/ezetimibe).

We introduced four products in new formulations and new strengths: **Awardix** (tramadol) oral drops, **Awardix**/**Olteron** (tramadol) prolonged release tablets, **Alprazolam Krka** (alprazolam) 2 mg tablets, **Amlessini**/**Dalnessa**/**Amlessa**/**Tonarssa**/**Preamlessa** (perindopril/amlodipine) 2.85 mg/2.5 mg and 5.7 mg/5 mg tablets.

Prescription Pharmaceuticals

In 2018, we introduced eighteen new prescription pharmaceuticals from various therapeutic classes.

We added new single-component and fixed-dose combination medicines to our key portfolio of medicines for the treatment of cardiovascular diseases.

Under the decentralised procedure we obtained marketing authorisations in the EU member states for **Eliskardia**/**Sigrada**/**Prasillt** (prasugrel) film-coated tablets in two strengths. Prasugrel inhibits platelet aggregation and formation of blood clots. In combination with acetylsalicylic acid, it is used for prevention of atherothrombotic events and is taken once a day.

We have obtained a marketing authorisation for **Apleria**/**Enplerasa** (eplerenone) film-coated tablets in two strengths. The medicine is used in combination with other medicines for the treatment of heart failure. The active substance is one of the new aldosterone receptor antagonists. The risk of adverse reactions is lower than with the older active substance, spironolactone.

We also introduced new fixed-dose combinations for the treatment of cardiovascular diseases. We obtained marketing authorisations for **Roxiper**/**Triemma** (perindopril/indapamide/rosuvastatin) film-coated tablets in four strengths. Perindopril and indapamide control increased blood pressure, and rosuvastatin controls elevated cholesterol levels. The new medicine combines three active substances in a single tablet for an effective and safe concomitant treatment.

In the Russian Federation, we were granted a marketing authorisation for **Co-Vamloset** (valsartan/amlodipine/hydrochlorothiazide) film-coated tablets in three strengths. This triple fixed-dose combination is used to control blood pressure in patients with severe hypertension.

Under the European decentralised procedure, we obtained marketing authorisations for **Sorvitimb**/**Sorvasta Plus**/**Co-Roswera**/**Rosazimib** (rosuvastatin/ezetimibe) film-coated tablets in five strengths. Rosuvastatin inhibits synthesis of cholesterol in the body, while ezetimibe reduces absorption of cholesterol in the intestine. They are used in combination in those patients whose target values cannot be reached by statin therapy alone.

We introduced two new strengths of **Amlessini**/**Dalnessa**/**Amlessa**/**Tonarssa**/**Preamlessa** (perindopril/amlodipine) 2.85 mg/2.5 mg and 5.7 mg/5 mg tablets used for the initial treatment of high blood pressure. We obtained marketing authorisations under the European decentralised procedure.

We extended our range of medicines for the treatment of diseases of the central nervous system.

We as the first generic pharmaceutical company obtained marketing authorisations under the European decentralised procedures for an antipsychotic agent, **Parnido** (paliperidone) prolonged release tablets in three strengths. The medicine is an atypical antipsychotic and is taken only once daily. We introduced the new laser technology, OROS, for production of tablets from which active ingredients are released by osmosis.

We registered an antidepressant, **Lamegom**/**Agomaval** (agomelatine) 25 mg film-coated tablets and the strength allows treatment with one tablet a day. It has a unique mechanism of action and provides for an additional option of treatment when other antidepressants are not effective.

We obtained our first marketing authorisation for **Noctiben**/**Calmesan**/**Dornite** (doxylamine) film-coated tablets in two strengths. It is used as a short-term treatment for occasional sleep problems in adults. It helps shorten the time to fall asleep and improves the quality of sleep.

We obtained a marketing authorisation for a new strength of **Alprazolam Krka** (alprazolam) 2 mg tablets and introduced other strengths in several other countries of Western Europe. The medicine is used for the treatment of anxiety and depression.

We extended our portfolio of oncology medicines.

Under the centralised procedure, we obtained marketing authorisations for **Pemetrexed Krka** (pemetrexed), powder for solution for infusion in two strengths. This is a medicine of choice used for the treatment of patients with locally advanced or metastatic non-small cell lung cancer.

We were granted a marketing authorisation for **Gefitad** (gefitinib) film-coated tablets. The medicine is used for the treatment of patients with locally advanced or metastatic non-small cell lung cancer. It inhibits the growth of cancer cells, reduces lung cancer symptoms, improves the quality of life, and prolongs the survival time.

We extended our range of oncology medicines by **Everofin** (everolimus) tablets in three strengths. The medicine decreases blood supply to a tumour and inhibits cancer cell growth and progression. It is indicated for the treatment of breast cancer and renal cancer. This is a medicine of choice for the treatment of certain types of neuroendocrine tumours.

We obtained marketing authorisations for **Bortezomib Krka** (bortezomib), powder for solution for injection in two strengths. The medicine interferes with the cell activity and growth killing cancerous cells. It can be used as monotherapy or in combination with other medicines for the treatment of adult patients suffering from multiple myeloma (bone marrow cancer). It is the only medicine for patients with previously untreated mantle cell lymphoma (cancer affecting the lymph nodes).

We also obtained marketing authorisations for an antiviral medicine **Entecavir Krka** (entecavir) film-coated tablets in two strengths. According to treatment guidelines, it is the medicine of choice for the chronic hepatitis B treatment.

In 2018, the procedure for introduction of **febuxostat** film-coated tablets in two strengths was in progress. Febuxostat is our first medicine for the treatment of gout caused by increased levels of uric acid in the body. It is also used for the treatment and prevention of high levels of uric acid in the blood, in initial chemotherapy for leukaemia. It can be used already from the earliest treatment stages in patients who do not tolerate allopurinol.

We obtained marketing authorisations under decentralised procedures for two new formulations of **Awardix** (tramadol) oral drops and **Awardix**/**Olteron** (tramadol) prolonged-release tablets. Tramadol is an opioid medication used for relieving moderate to severe pain. Oral drops are especially suitable for relieving pain in elderly patients.

We obtained marketing authorisations in selected Western European markets for **Naproxen 550** (naproxen) film-coated tablets. The medicine accounts for an important part of our analgesic range used to relieve various kinds of pain and inflammation.

We obtained a marketing authorisation for a new strength of an antipsychotic, **Arisppa**/**Aryzalera** (aripiprazole) 20 mg tablets, and extended our portfolio of medicines for the treatment of central nervous system. The medicine is now available in five strengths, which allows for the treatment to be adjusted to the needs of patients with complex mental disorders, for example schizophrenia.

In the European markets, we furthermore registered medicines for the treatment of cardiovascular diseases: **Atorvastatin Krka** (atorvastatin) film-coated tablets, **Valsartan Krka** (valsartan) film-coated tablets and fixed-dose combinations **Valsartan/Hydrochlorothiazide Krka** (valsartan/hydrochlorothiazide) film-coated tablets, **enalapril/hydrochlorothiazide** film-coated tablets, and **ezetimibe/simvastatin** tablets. We obtained marketing authorisations for an antipsychotic, **Kventiax SR/Quentiax SR/Quetiapin Krka** (quetiapine) prolonged-release tablets, and an antidepressant, **Sertralin Krka** (sertraline) film-coated tablets. We also introduced antiinfectives for systemic use, **Moxifloxacin Krka** (moxifloxacin) solution for infusion, and **Clarithromycin Krka** (clarithromycin) film-coated tablets. We also obtained marketing authorisations for a medicine used for the treatment of erectile dysfunction **Tadipah** (tadalafil) film-coated tablets, an antihistamine **Dasergin** (desloratadine) film-coated tablets, an oral antidiabetic agent for the treatment of type II diabetes **Gliclazid Krka** (gliclazide) prolonged-release tablets, and an antifungal medication used to treat local yeast infections **Fluconazol Krka** (fluconazole) capsules.

In Eastern Europe, we introduced established medicines from various therapeutic classes on new markets.

From the therapeutic class of medicines for the treatment of cardiovascular diseases, we obtained approvals in the Russian Federation for an antihypertensive **Telmista H** (telmisartan/hydrochlorothiazide) tablets in three strengths. We introduced **Lortenza** (losartan/amlodipine) film-coated tablets in Kyrgyzstan and Azerbaijan; **Vamloset** (valsartan/amlodipine) film-coated tablets, and **Pektrol** (isosorbide) prolonged-release tablets in Mongolia; **Valarox** (rosuvastatin/valsartan) film-coated tablets, **Atordapin** (amlodipine/atorvastatin) film-coated tablets, and **Niperten Combi** (bisoprolol/amlodipine) in Moldova; and **Bloxazoc** (metoprolol) prolonged-release tablets in Kazakhstan.

From the therapeutic class of medicines for the treatment of central nervous system, we obtained new marketing authorisations for **Zylaxera** (aripiprazole) tablets, **Elicea** (escitalopram) orodispersible tablets, and **Kventiax** (quetiapine) film-coated tablets in Ukraine, **Kventiax SR** (quetiapine) prolonged-release tablets and **Duloxenta** (duloxetine) hard gastroresistant capsules in Azerbaijan, **Elicea** (escitalopram) film-coated tablets, **Elicea Q-Tab** (escitalopram) orodispersible tablets, and **Alventa** (venlafaxine) prolonged-release capsules in Moldova.

In Eastern Europe, we increased the number of marketing authorisations for several antibiotics. We introduced **Betaklav** (amoxicillin/clavulanic acid) film-coated tablets and powder for oral suspension in Azerbaijan, Georgia, Turkmenistan and Mongolia, and **Azibiot** (azithromycin) powder for oral suspension in Ukraine, Kazakhstan, Mongolia, Azerbaijan and Georgia. We obtained new marketing authorisations for **Moflaxa** (moxifloxacin) solution for infusion in Azerbaijan, **Levaxela** (levofloxacine) film-coated tablets in Mongolia, and solution for infusion in Azerbaijan and Mongolia. We introduced **Hiconcil** (amoxicillin) capsules in Armenia and **Cefamezin** (cefazolin) powder for solution for injection in Mongolia.

We obtained marketing authorisations for analgesics **Doreta** (tramadol/paracetamol) film-coated tablets and **Doreta SR** (tramadol/paracetamol) prolonged-release tablets in Azerbaijan, and **Etoxib** (etoricoxib) film-coated tablets in Moldova.

A medicine for the treatment of HIV infections, **Emtricitabine/Tenofovir disoproxil Krka** (emtricitabine/tenofovir disoproxil) film-coated tablets, was approved in Kazakhstan and Azerbaijan.

In Moldova, we obtained a new marketing authorisation for **Zulbex** (rabeprazole) gastroresistant tablets.

We introduced corticosteroids **Flosteron** (betamethasone) suspension for injection in Azerbaijan and **Deksametazon Krka** (dexamethasone) tablets in Ukraine.

We introduced our medicines for the treatment of urological disorders, **Dutrys** (dutasteride) soft capsules in Ukraine, and **Tanyz** (tamsulosin) modified-release capsules in Mongolia. Also in Mongolia, we obtained a marketing authorisation for an antidiabetic agent for the treatment of type II diabetes, **Gliclada** (gliclazide) prolonged-release tablets.

In the markets of South-Eastern Europe, we increased the number of marketing authorisations for medicines from key therapeutic classes. We obtained new marketing authorisations for several medicines for the treatment of cardiovascular diseases: **Rameam** (ramipril/amlodipine) capsules in Serbia and Bosnia and Herzegovina, **Amlessa** (perindopril/amlodipine) tablets in Kosovo, Montenegro and Serbia, **Amlewel**/**Co-Amlessa** (perindopril/amlodipine/indapamide) tablets in Montenegro, Kosovo, and Albania, **Tenloris** (losartan/amlodipine) film-coated tablets in Montenegro, **Co-Olimestra** (olmesartan/hydrochlorothiazide) and **Olimestra** (olmesartan) film-coated tablets in Albania, **Wamlox** (amlodipine/valsartan) film-coated tablets in Albania, the Republic of North Macedonia, and Bosnia and Herzegovina, **Bloxazoc** (metoprolol) tablets in Bosnia and Herzegovina, and **Teldipin** (telmisartan/amlodipine) tablets and **Bixebra** (ivabradine) film-coated tablets in Serbia.

We increased the number of marketing authorisations for opioid analgesics, for **Adolax** (oxycodone/naloxone) prolonged-release tablets in Kosovo and the Republic of North Macedonia, and for **Tramadol Krka** (tramadol) capsules and solution for injection in Kosovo.

We introduced our analgesic **Doreta** (tramadol/paracetamol) film-coated tablets in Montenegro.

Also in Montenegro, we delivered our oncology medicine **Escepram** (exemestane) film-coated tablets.

We introduced our antiviral medicines for the treatment of HIV infection **Emtricitabine/Tenofovir disoproxil Krka** (emtricitabine/tenofovir disoproxil) film-coated tablets in the Republic of North Macedonia, and **Darunavir Krka** (darunavir) film-coated tablets in Serbia.

From our central nervous system medication range, we obtained marketing authorisations for a medicine for the treatment of depression and anxiety, **Dulsevia** (duloxetine) hard gastroresistant capsules in Serbia and an antidementia agent, **Yasnal** (donepezil) orodispersible tablets in Bosnia and Herzegovina.

We also obtained marketing authorisations for the following medicines from our range of antibiotics: **Azibiot** (azithromycin) powder for oral suspension in Kosovo, the Republic of North Macedonia, and Albania, **Furocef** (cefuroxime) film-coated tablets in Albania, **Betaklav** (amoxicillin/clavulanic acid) powder for oral solution and film-coated tablets in Kosovo and Bosnia and Herzegovina.

Our medicine for the treatment of erectile dysfunction, **Tadorsyo** (tadalafil) film-coated tablets, was approved in Serbia, and **Vizarsin** (sildenafil) in Bosnia and Herzegovina. In Albania, we also obtained a marketing authorisation for **Dutrys** (dutasteride) soft capsules.

We also obtained marketing authorisations for a non-steroidal anti-inflammatory agent **Etoxib** (etoricoxib) film-coated tablets in the Republic of North Macedonia, and Bosnia and Herzegovina, and **Aclexa** (celecoxib) hard capsules in Montenegro.

We obtained a marketing authorisation for a glucocorticoid **Deksametazon Krka** (dexamethasone) tablets in Albania, the Republic of North Macedonia, and in Bosnia and Herzegovina.

Our medicine for gastrointestinal disorder treatment, **Ulcamed** (bismuth subcitrate) film-coated tablets, was approved in Albania and Bosnia and Herzegovina.

Through partners, we obtained marketing authorisations for several new products in Region Overseas Markets.

From the group of medicines for the treatment of cardiovascular diseases, we introduced **Tolucombi** (telmisartan/hydrochlorothiazide) tablets, **Valsaden** (valsartan/hydrochlorothiazide) film-coated tablets, **Atoris** (atorvastatin) film-coated tablets, **Rawel SR** (indapamide) prolonged-release tablets, **Coryol** (carvedilol) tablets, and **Vasilip** (simvastatin) film-coated tablets.

We obtained marketing authorisations for our medicines for the treatment of diseases of the central nervous system as follows: **Rewisca**/**Pragiola** (pregabalin) hard capsules, **Marixino** (memantine) film-coated tablets, and **Elicea** (escitalopram) film-coated tablets.

We also obtained marketing authorisations for medicines used for controlling gastric acid, **Nolpaza** (pantoprazole) gastroresistant tablets and powder for solution for injection, and **Lanzul** (lansoprazole) capsules, an antihistamine **Aller Tec** (levocetirizine) film-coated tablets, and two medicines for the treatment of erectile dysfunction, **Vizarsin** (sildenafil) film-coated tablets and **Tadilecto** (tadalafil) film-coated tablets.

We also obtained marketing authorisations for antibacterial agents **Moloxin** (moxifloxacin) film-coated tablets, **Ciprinol** (ciprofloxacin) film-coated tablets, **Nolicin** (norfloxacin) film-coated tablets, and **Levolox** (levofloxacine) film-coated tablets.

We introduced glucocorticoid **Dexamethason Krka** (dexamethasone) solution for injection and **Aclexa** (celecoxib) capsules, a non-steroidal anti-inflammatory drug (NSAID).

In 2018, we obtained the largest number of medicine approvals in Trinidad and Tobago, Hong Kong, and Malaysia.

Non-Prescription Products

In 2018, we obtained the approval for our new medicine, **KontrDiar** (nifuroxazide) capsules in the Russian Federation. Nifuroxazide is an intestinal antimicrobial agent that acts locally and is used to treat acute bacterial diarrhoea. It acts on most bacteria causing infections in the intestine and does not destroy the normal intestinal flora, is poorly absorbed, and is considered to be a safe medicine. It is used to treat adults and children aged 3+ years.

We obtained marketing authorisations in new markets for **Septolete Total** (benzydamine chloride/cetylpyridinium chloride) lozenges in two flavours, elder and lemon, and honey and lemon. We introduced both products under the decentralised procedure in two Western European countries, and also introduced them in several countries of Eastern and South-Eastern Europe.

We obtained marketing authorisations in new markets for **Flebaven** brand products. Approvals for Flebaven 450 mg/50 mg (diosmin/hesperidin) film-coated tablets were granted in Azerbaijan, Kyrgyzstan, and Uzbekistan. We introduced Flebaven (diosmin) 500 mg film-coated tablets in Turkmenistan, Ukraine, Bosnia and Herzegovina, and the Republic of North Macedonia. We also obtained marketing authorisations for Flebaven (diosmin) 1 000 mg tablets in Ukraine, the Republic of North Macedonia, and Bosnia and Herzegovina.

We obtained notifications for **Magnezij Krka 300** water soluble granules (magnesium citrate/B_2 vitamin) in the Republic of North Macedonia and Hungary.

We obtained marketing authorisations for our products sold under the **Daleron** brand and vitamins for children, **Pikovit Unique** chewable tablets in Mongolia, and in Armenia for the medicine used to control gastric acid, **Nolpaza** (pantoprazole) 20 mg gastroresistant tablets.

In Region Overseas Markets, we obtained marketing authorisations for products sold under the **Bilobil**, **Herbion** and **Pikovit** brands.

Animal Health Products

In 2018, we obtained marketing authorisations for four new animal health products.

We extended our range of companion animal products by marketing authorisations for **Selehold**/**Selames** (selamectin). This 60 mg/ml spot-on solution for cats and small dogs is available in three different doses, and the 120 mg/ml spot-on solution for dogs is available in five different doses. Selamectin is an advanced medicine effective against external parasites, and internal gastrointestinal parasites, heart worms, and eye worms. It is indicated for the treatment of mixed infestations in cats and dogs. This medicine is based on our own patent-protected technological solution. Development of our new technological solution allowed us to launch the product before the expiry of the patent protection used by a competitor to protect other technological solutions.

We expanded our product portfolio for farm animals by the approval for **Tuloxxin**/**Tulaxa** (tulathromycin) 100 mg/ml solution for injection. We obtained a marketing authorisation as the first generic pharmaceutical company. Tulathromycin is an advanced antimicrobial used to treat bacterial infections of the respiratory tract in cattle and pigs and infectious pododermatitis (foot rot) in sheep.

We obtained marketing authorisations under the decentralised procedure for a fixed-dose combination **Catobevit** (butafosfan/cyanocobalamin) solutions for injection. It is used as supportive treatment and prevention of metabolic or reproductive disorders in cattle, horses, dogs, and cats.

We expanded marketing opportunities for our animal health product by obtaining new marketing authorisations for **Fyperix/Amflee/Fypermid Combo** (fipronil/S-methoprene) spot-on solution. It is used to treat parasitic skin infections and infestations and protect dogs, cats and ferrets from them. We obtained marketing authorisations for the product under the decentralised procedure and made it available as a non-prescription animal health product. We also obtained a marketing authorisation for this product in Moldova.

In the United Kingdom, we obtained the approval for **Fleascreen** (fipronil) spot-on solution.

In Eastern Europe in Moldova, we obtained marketing authorisations for **Fypryst Combo** (fipronil/S-methoprene) spot-on solution, **Otoxolan** (marbofloxacin/clotrimazole/dexamethasone) ear drops for dogs, **Fypryst** (fipronil) spot-on solution for dogs and cats, **Milprazon** (milbemycin oxime/praziquantel) film-coated tablets for cats and tablets for dogs, and **Marfloxin** (marbofloxacin) tablets for dogs and cats. In Kazakhstan, we obtained marketing authorisations for **Fyprist** (fipronil), a cutaneous spray for the treatment of and protection against external parasites in dogs and cats, and **Calfoset** solution for injection for the treatment and prevention of digestive disorders. In Georgia, we introduced **Rycarfa** (carprofen), a non-steroidal anti-inflammatory agent.

In Serbia, we obtained a marketing authorisation for **Dehinel** (pyrantel embonate/praziquantel) film-coated tablets for cats used to treat mixed infestations with roundworms and tapeworms.

We increased the number of marketing authorisations for medicines for the treatment of farm animals and strengthened the position of existing brands. In Moldova, we obtained a marketing authorisation for **Toltarox** (toltrazuril) oral solution used to treat *Coccidia* spp. infestations in different poultry species. In Azerbaijan, we obtained marketing authorisations for **Amatib** (amoxicillin) oral powder for the treatment of infections in pigs and poultry, and **Doxatib** (doxycycline) powder for use in drinking water. In Kazakhstan, we obtained marketing authorisations for **Tyavalt** (tiamulin) granules for the preparation of drinking water for pigs, chickens and turkeys.

Health Resort and Tourist Services

The vision of Terme Krka development focuses on the well-being of visitors. In 2018, we allocated approximately €2.5 million to the renovation, modernisation, development and extension of our healthcare services, accommodation, wellness, and catering.

In Terme Dolenjske Toplice, we finished preparatory works for the construction of a new outdoor swimming pool with thermal water and four roller coasters of various shapes and speeds. HVAC systems of Terme Šmarješke Toplice were refurbished. We renovated the apartments in Talaso Strunjan, built a new outdoor swimming pool at the Laguna hotel, and revamped the beach restaurant Pinija. In one of the Otočec Castle towers, we opened a wine bar, and put a new roof and façade on the Struga castle.

We invested in training of employees that provide services to our guests, and enriched the existing range of services. We are focused on experiential tourism, medical wellness, and programmes for maintaining and promoting health.

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 in all Krka Group companies and at other contractual production sites.

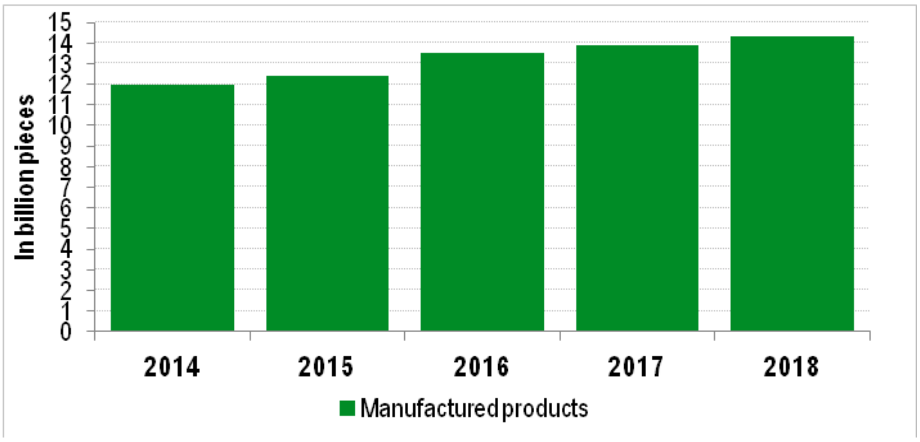
We comply with new product manufacturing requirements and relevant laws, so we promptly introduce advanced technological processes to pharmaceutical ingredient and finished product manufacturing. We have been increasing production capacities and improving the cost effectiveness of processes in Slovenia and in Krka subsidiaries. We control all stages of a product life cycle, and are therefore able to adapt to rising 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 2018. We carried out a reorganisation to improve cooperation between development and pharmaceutical production, and development and API production, which accelerated technological problem solving, optimised technological processes, and enabled uninterrupted production.

Planning

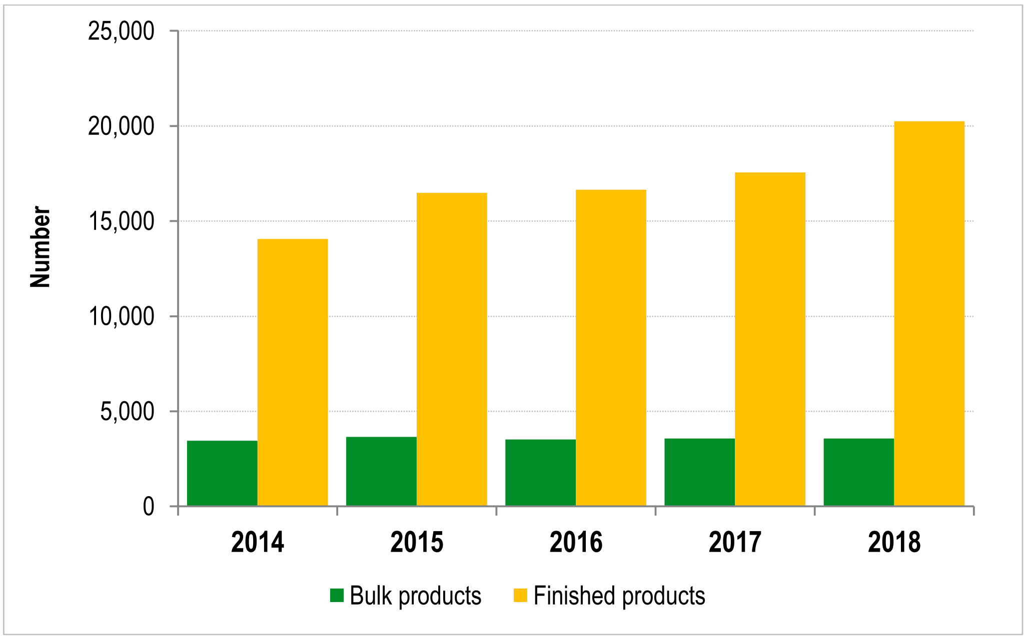
We have considerably reduced the average lead time from an order to delivery by continuous process improvements, and hence increased our responsiveness and flexibility of processes throughout the supply chain. We continue to optimise inventories of raw materials and finished products.

In 2018, we manufactured and packed a record quantity of 14.3 billion tablets and other pharmaceutical forms by optimal use of available resources in the controlling company and subsidiaries, and through cooperation with contractors. We once again reached the highest monthly and quarterly production volume ever.



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.

Growing Number of Krka Products



The number of Krka Group finished and bulk product codes. A larger number means optional range of products on offer.

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 also 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 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 continued to decrease in 2018, 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 also supplied finished products made by our contractual partners on time. We increased transparency of the process for purchasing raw and packaging materials. We also upgraded the system for managing purchasing agreements and coordination of raw material specifications with suppliers.

We aim to find and introduce further new alternative resources of active pharmaceutical ingredients, excipients and packaging of equal quality, but at more convenient prices. This helps mitigate risks due to changeable supply situation.

We closely followed foreign exchange rates and generated gains. 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 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 15% in 2018.

Production of Pharmaceutical Products

We have introduced advanced technological solutions in pharmaceutical production. The Notol 2 plant, which started operating at the end of 2015, represents an important part of production capacities. The plant employs cutting-edge technology, high level of automation and robotisation supported by advanced computerised systems. It won the 2018 factory-of-the-year award for the best industrial company in Slovenia. This approach helps us consolidate our competitive edge on demanding global markets.

In 2018, we also increased production in the newly built 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 more than two thirds of all our products intended for the Russian market.

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 our first product has already started.

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 2018, we successfully installed the equipment and upgraded production processes in compliance with the new directive and at the same time retained manufacturing capacities. We also completed all the required registration changes and received regulatory approvals for starting regular production.

Warehousing and Transport

We improved warehouse capacities by process optimisation, introduction of new computer system functionality, and optimisation of supplies in cooperation with other organisational units.

We increased the number of ecologically appropriate cargo vehicles for distribution of our products, augmented transport by sea, and introduced transport by rail in compliance with temperature requirements. We amplified sales volume and at the same time optimised routes of transport.

We also renewed the status of an authorised economic operator (AEO) and obtained all other relevant customs permits. This makes flow of goods faster and facilitates acquisition of customs clearance documents. We are also a registered exporter according to the REX system.

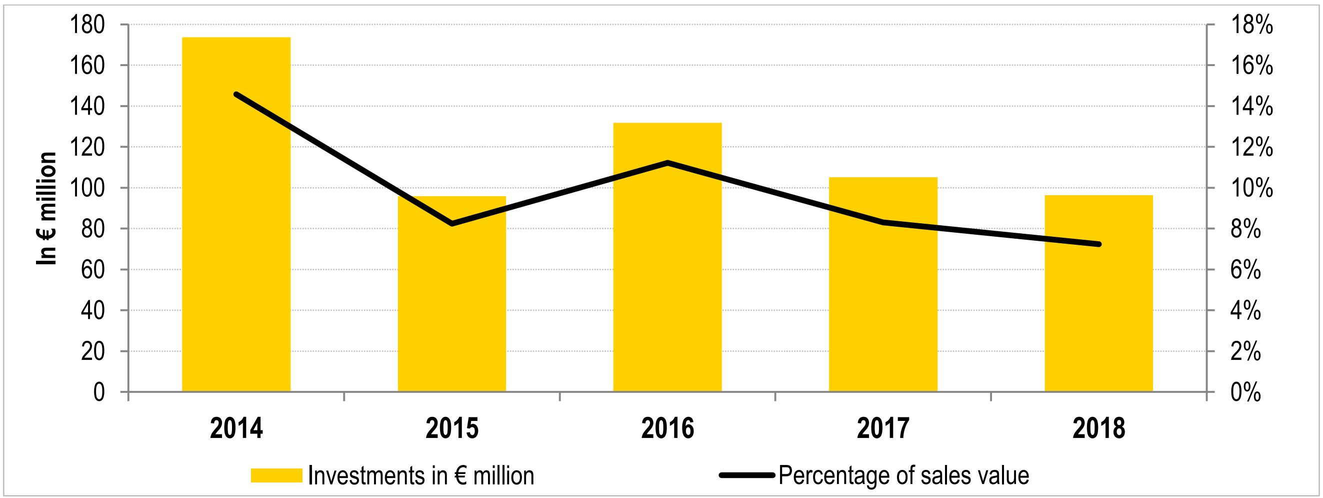
Investments

In 2018, the Krka Group allocated €96.3 million to investments, of which €78 million to the controlling company, and €18.3 million to subsidiaries. We invested primarily in the increase and technological upgrade of production and development, and in quality assurance. We also invested in our own production and distribution centres around the world.

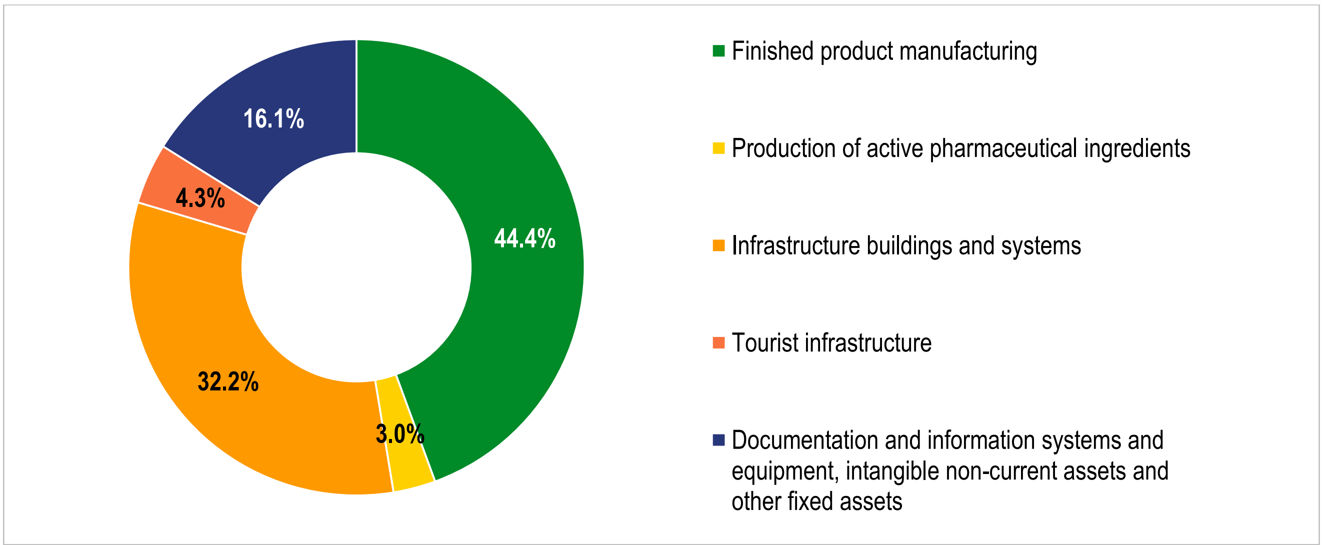
In Slovenia, Croatia, and the Russian Federation, numerous investments in new production equipment and modernisation of infrastructure were in progress, which additionally increased our production capacities and improved our quality.

We implement our environmental policy through various activities. All projects comply with environmental standards and take into consideration direct and indirect environmental impacts. The selected equipment matches the best available technology in the field of environmental protection and energy efficiency, and at the same time ensures safe and efficient operations.

Krka Group Investments from 2014 to 2018



Structure of Krka Group Investments in 2018



In 2018, we invested primarily in the production of finished products, and increasing and upgrading R&D infrastructure. Infrastructure buildings and systems, including the construction of the Razvojno-kontrolni center 4 (Slovene abbreviation: RKC 4, the laboratory facility for pharmaceutical development and control), will support business functions of the entire Krka Group. Investments accounted for 7.2% of sales revenues generated in 2018.

Razvojno-kontrolni center 4

Krka's key investment for the purposes of development and quality assurance in the following years is the €54 million product development and quality control facility, Razvojno-kontrolni center 4 (Slovene abbreviation: RKC 4), at the production site in Novo mesto.

At the end of 2016, the building with the total surface area of 18,000 m² was completed and glazed. Setting up of the laboratory rooms was finished in the summer of 2017. Additional furnishing of the rooms intended for development is in its final stage. Facilities for the purposes of Analytics Development in the connecting structure between the two buildings, RKC 3 and RKC 4, were ready for installation at the end of 2018, while the equipment will continue to be installed in the first half of 2019.

Multipurpose Warehouse for Finished Products, Raw and Packaging Materials

In October 2017, Krka started building a multipurpose warehouse at the same location to ensure additional storage room for incoming materials and finished products. This will increase the speed and flexibility of production as well as improve product availability and market supply

The construction has been split into two phases. The first phase includes a new facility with expanded handling areas next to the Raw Material Warehouse and the construction of laboratories and sampling rooms; the second phase involves the construction of a multipurpose warehouse and a connecting structure to the Raw Material Warehouse.

At the end of 2018, we passed a technical inspection of manipulation areas and laboratories; the sampling rooms are expected to be set up by the autumn of 2019.

In December 2018, we started setting up shelving racks in the new multipurpose warehouse. The building will be roofed in the spring of 2019. According to plan, the final connecting structure to the Raw Material Warehouse and weighing rooms should be finished in 2019, and the logistic system is expected to become operational in January 2020. The entire investment is estimated at €36 million.

Notol 2

Notol 2, the state-of-the-art facility for manufacturing solid dosage forms, which was named Slovenia's Factory of the Year in 2018, is also located in Ločna, Novo mesto. The plant became operational in 2015, and its main characteristics are vertical and horizontal integration of machines, and complete process automation.

In 2018, the manufacturing capacity of the plant was 3 billion tablets, while over 7 billion tablets were manufactured in total from when the production started until the end of 2018. In order to meet the increasing demand and manufacture new products, Krka purchases additional technological equipment. In 2018, this investment totalled €8.3 million. When the plant is fully equipped, it will be able to operate at its planned volume, i.e. 4.5 billion tablets, film-coated tablets, and capsules per year.

Increasing and Upgrading Manufacturing Capacities

In December 2018, a high-performance packaging line for large batches of products became operational in the Solid Dosage Form Production Plant (Slovene: Obrat trdnih oblik, OTO). The €3 billion investment provides sufficient capacities for critical products, which were packed on one line only up until now.

We are increasing manufacturing capacities for animal health products with biocidal effect in the Bršljin plant in Novo mesto. The investment is estimated at €4.6 million. Production with the new technological equipment started at the beginning of 2019.

Introducing New Technologies

In the Solid Dosage Form Production Plant, we introduced OROS (Osmotic-controlled Release Oral delivery System), a new laser technology for manufacturing tablets from which active ingredients are released by osmosis. In 2018, we installed and started up a laser drilling machine designed for coated tablets. We allocated €2.8 million for the equipment allowing us to manufacture medicines with an osmotic-controlled release of active ingredients.

In February 2019, the European Union introduced new rules regarding the protection of public health by preventing the entry of falsified medicinal products into the pharmaceutical supply chain (**Directive 2011/62/EU**). The Directive introduces obligatory safety features on the outer packaging of medicines, which prevent falsified medicines from reaching patients. In accordance with these requirements, we upgraded the technological equipment and manufacturing procedures on many levels. We have upgraded almost all our packaging lines with equipment that prevents folding boxes from being opened without any noticeable damage. The equipment allows connection of information systems at Krka with databases of the European Medicines Verification System.

Over the last three years, we allocated €20 million for the new anti-tampering technology, which also provides unique identifiers for folding boxes, €6 million of which was invested in 2018. Safety measures for packaging medicinal products required by Russian legislation are included in this investment.

Constructing a New Office Building

We are constructing a new office building for Marketing and Sales in Ljubljana. The four-storey building with over 200 parking spaces in the underground garage will extend over 12,000 m^2 in total. It will be connected to the current business premises at Dunajska Cesta 65 and is expected to be ready for use in mid-2019. The investment is estimated at over €10 million.

Installing Equipment at the New Plant in the Russian Federation

Krka-Rus plant, located in the industrial area of the town of Istra, north-west of Moscow, is one of the key investments in Krka's subsidiaries.

In 2017, we finished the second stage of technological equipment installation and thus increased the plant's capacity to 1.8 billion tablets and capsules a year. In 2018, we invested €1.5 million in purchasing laboratory equipment and increasing laboratory capacities for analytics. The building of a wastewater treatment plant is still in progress. The investment is estimated at €2.6 million.

We produce two thirds of products intended for the Russian market at Krka-Rus and we have the status of a domestic producer in the Russian Federation.

Extending Our Production Programme in Croatia

In 2017, investment in manufacturing and laboratory capacities for solid dosage oncology medicines was completed in Krka's production-and-distribution centre in Jastrebarsko, Croatia. Refurbishment of facilities and installation of technological equipment for manufacturing animal health products are also under way. The investment is estimated at €2 million.

Terme Krka

Several small investments are in progress in all business units of the Terme Krka subsidiary. Before the start of the 2018 tourist season, accommodation facilities were renovated in the Hotel Laguna and a smaller pool was built. In mid-December 2018, the Pinija restaurant was opened. With its location right by the sea in one of the most beautiful parts of the Slovenian coast, the restaurant is a very welcome addition to the coastal centre of Terme Krka.

The new water slides at Terme Dolenjske Toplice expanded the variety of activities for children, and after renovating the terrace at the Balnea Wellness Centre, the outdoor pool complex now offers top-quality services. Terme Šmarješke Toplice achieved energy savings after air-conditioning systems were replaced.

The Terme Krka subsidiary allocated more than €3 million to investments in 2018.

Ningbo Krka Menovo

In 2018, Krka and its Chinese partner Menovo established a joint venture Ningbo Krka Menovo. Krka and Menovo have productively collaborated in various projects for 15 years, and this proved a good starting point for the launch of our largest project in China so far.

In 2018, we paid in the initial capital, acquired the necessary equipment, and obtained a GMP certificate for leased production facilities. In 2019, we plan to continue our investments. Ningbo Krka Menovo intends to invest several million in fixed assets for production, which will enable further production and business growth of the company.

Commercial manufacture of the first product intended for markets outside China began at the end of 2018. At the same time, we filed all marketing authorisation documents required to sell the product in China. In 2018, we also produced some validation batches for other products. In 2019, we plan to file another five marketing authorisations for our products in China. Our product portfolio will be adapted according to market needs and regulatory opportunities.

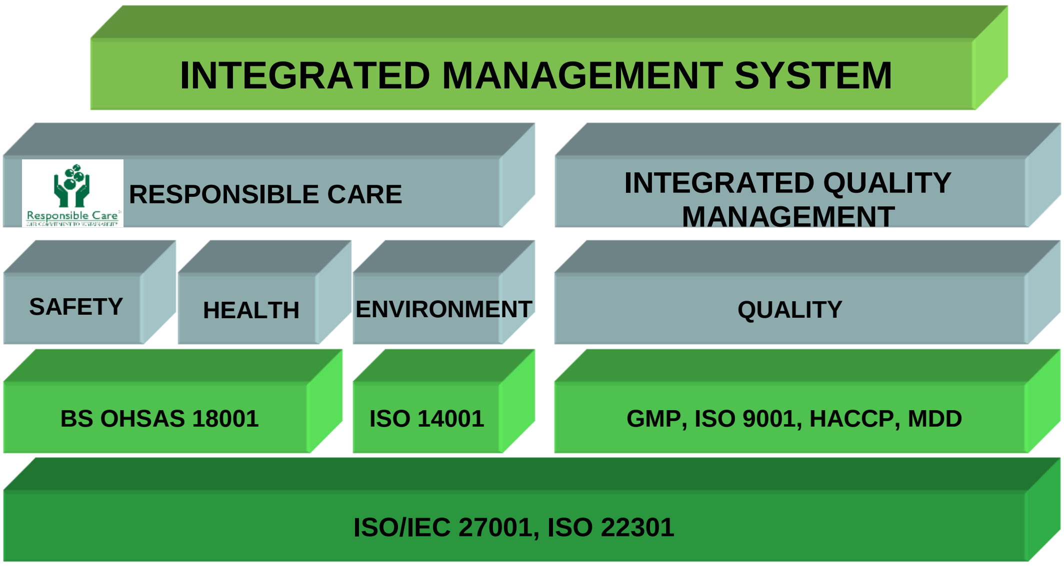
Integrated Management System and Quality

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 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 goals. We therefore deal with all quality-related risks and opportunities systematically in all processes. Our aim is to achieve sustainable development. Owing to constant advances in process development, we 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). The purpose of the IMS is to achieve 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. The IMS is structured according to the requirements of ISO 9001 standard, GXP and HACCP principles, Council Directive 93/42/EEC (*Medical Device Directive (MDD)*), ISO 14001; BS OHSAS 18001; ISO/IEC 27001, and ISO 22301 standards. In 2018, we continued to upgrade our management systems in accordance with the relevant legislation and guidelines. The compliance of the established management system was confirmed by renewing the certificates of good pharmaceutical practices. We also confirmed the validity of certificates of other management systems (ISO 9001, ISO 14001, ISO/IEC 27001, BS OHSAS 18001, MDD, and HACCP).

The performance of our IMS is supported by a centralised document management system, which we regularly upgrade by implementing digitalisation and other measures in order to shorten the time from the production of a document to its enforcement, and to provide easy access to documents and ensure their security. 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 our compliance with regulatory and legal requirements in foreign and Slovenian inspections and audits of our partners. We regularly follow legislative requirements and new developments related to good practices and systematically introduce them into our management systems and processes.



Continuous improvements dictated by standards, quality guidelines, and the PDCA (Plan-Do-Check-Act) approach are the driving force of progress and upgrades in all areas of the Krka Group operations. We systematically and consistently manage processes, from purchasing, research and development, production, distribution, marketing and sales, to monitoring customer satisfaction. Customer satisfaction and sustainable business success will remain our key objectives in the future.

Inspections and Audits of the Management and Quality System

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

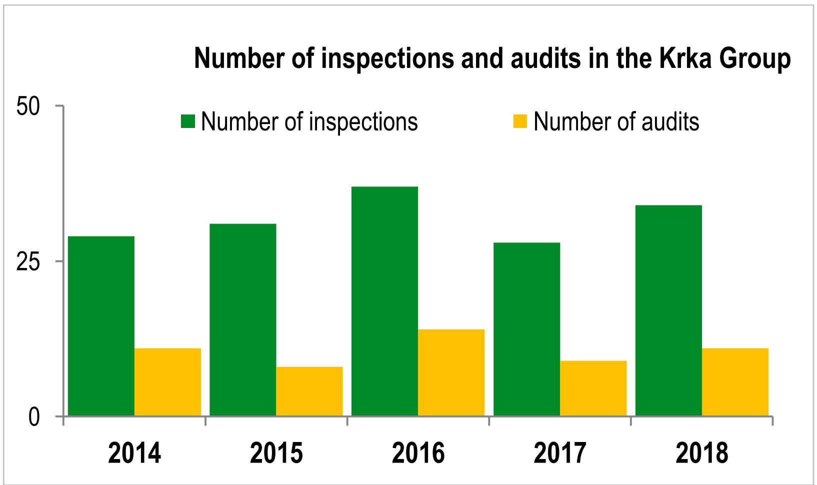
The IMS is certified by the Slovenian Institute of Quality and Metrology (SIQ) every year. SIQ is also a notified body for establishing the conformity of medicinal devices. It reviews Krka every year according to the EC certificate of conformity issued for the Septoaqua medical device. This was also the case in 2018.

Krka manufactures a variety of medicinal products and is therefore monitored 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 (UVHVVR) inspects feed additives and catering. The Metrology Institute of the Republic of Slovenia (MIRS) conducts supervisions of measuring devices used in manufacturing and trade, and prepacked products.

The number of inspections and audits increased in 2018. JAZMP regularly inspects medicinal products and API manufacturing processes, clinical trials, and the implementation of pharmacovigilance. In 2018, it carried out five inspections and three 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. We acquired GDP (Good Distribution Practice) certificates in 2018 for all of our warehousing and distribution sites.

As our medicinal products are also marketed in non-EU states, we were inspected by certain regulatory bodies from those countries. In 2018, a Russian inspection was conducted for animal health products, as the marketing authorisation status of existing animal health products and the submission of marketing authorisations for new animal health products are subject to obtaining a GMP certificate. We are regularly inspected by the Belarus body acting as the agency for medicinal products. Successful inspections are a prerequisite for submitting marketing authorisations for new products and renewing marketing authorisations for existing ones. The inspection of the Turkmenistan regulatory body was conducted to ensure that submissions for new and existing products may be made. 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.

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.



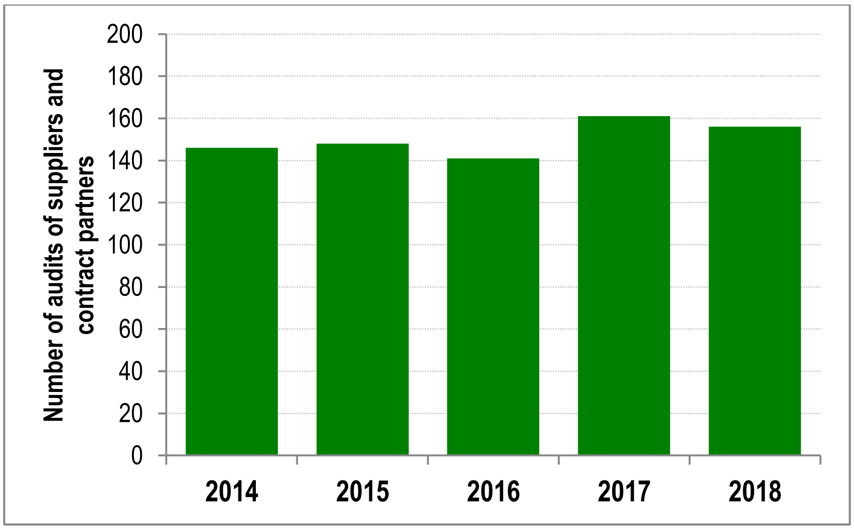
The Administration of the Republic of Slovenia for Food Safety, Veterinary and Plant Protection (UVHVVR) conducted two regular inspections of the operation of the HACCP system, and a phytosanitary control for packaging materials.

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 body 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 2018, Krka underwent eleven audits and passed all of them. Their findings confirm that Krka meets the requirements of all our partners.

Krka conducted further audits of quality management systems at our GXP partners in 2018. Auditors from the Krka Group focus on legislative requirements related to good manufacturing practice and other requirements of good pharmaceutical practice, environmental protection, human resources, and social responsibility. Based on 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.

We carry out a number of audits of our suppliers and contract partners every year.



Quality Assurance Processes

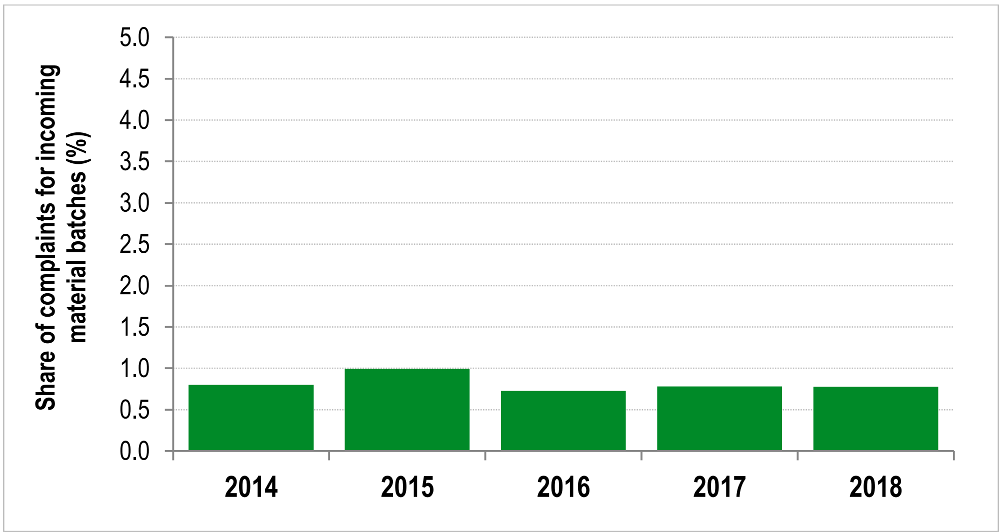
Underlying principles for the set-up and development of the quality system are defined in the *Quality Policy of the Krka Group*, the umbrella document on quality outlining the uniform quality policy for all Krka Group subsidiaries based on legislation, good practices and standards. Krka has introduced six key processes to implement its policies and attain strategic objectives. These are: company management; pharmaceutical research, development and production; API research, development, production and supply; marketing; sales; and engineering and technical services. Quality assurance processes are integrated into company management processes, and facilitate the implementation of the basic corporate rules of all process operations. Our permanent duty is to upgrade quality systems, which improves process efficiency, and the quality and competitiveness of products and services. To achieve this, it is vital that our employees undergo continuous training and constantly upgrade their knowledge in quality management. They cooperate with experts from various areas to identify possible improvements, and introduce new developments into company processes.

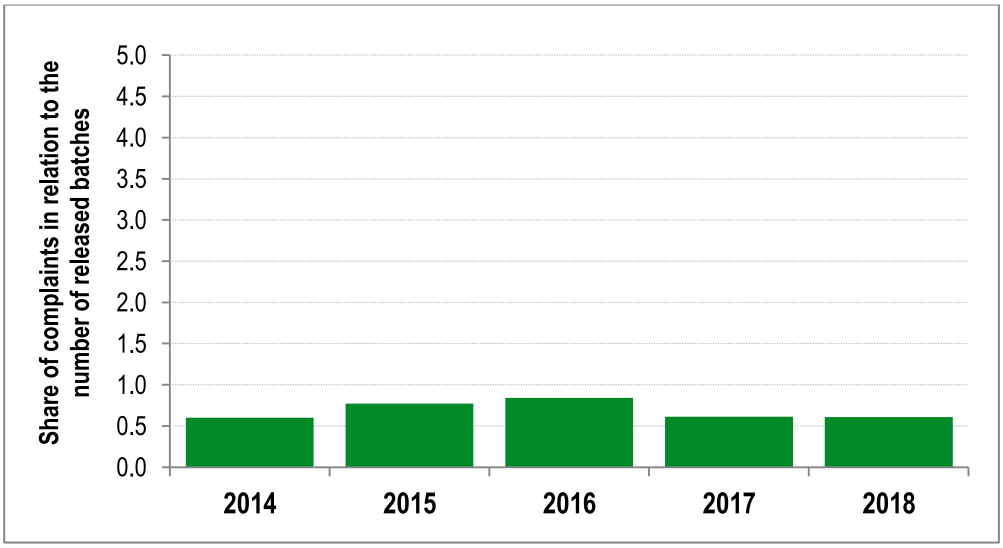
We maintain awareness of the importance of quality company processes at a high level. We encourage and solicit new innovative approaches on our corporate web site, and introduce them into work procedures.

To produce a high-quality, safe and effective product, quality is integrated into the earliest stages of research and development. We ensure that the quality of products and processes complies with the latest standards and requirements of international laws and regulations by introducing new knowledge and tools, an in-depth understanding of processes, and suitable resources.

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 are released in accordance with registration documents for the chemical and pharmaceutical production of medicines for human use and animal health products. We maintain the number of complaints related to batches at the lowest possible level.

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 indicator is set low, and multi-annual results show that the proportion of complaints in relation to the number of released batches is currently small and not increasing despite increased production volumes. This is an indication of the quality of our products.



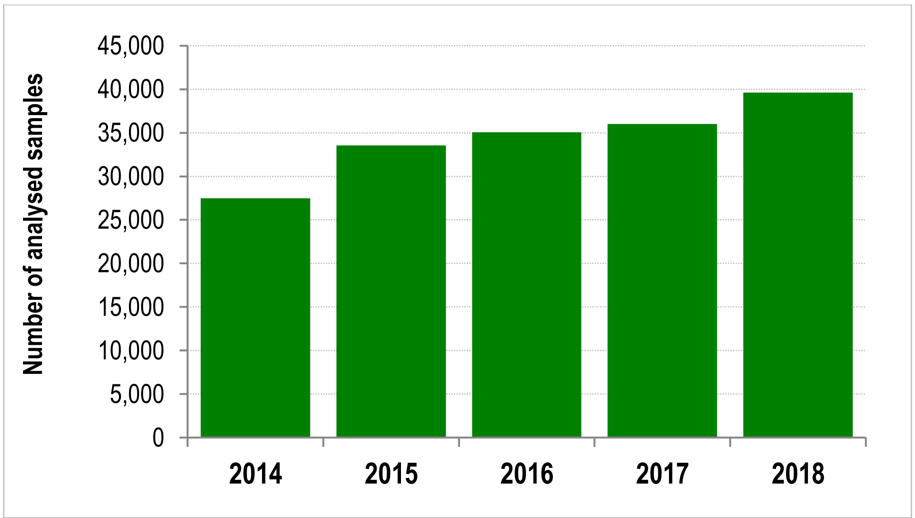


We have been upgrading the quality system with respect to good manufacturing and good distribution practices in Krka subsidiaries. We produce strategically important active ingredients in accordance with technological procedures developed through our research and development. Their production is located in our chemical production plants or at our contractual partners and covered by the quality assurance processes. We further improved these processes in 2018 and their suitability was confirmed with successful inspections by JAZMP ensuring an increased quality and reliability of supplies. We also enhanced our processes of quality assurance for finished products in order to improve customer satisfaction.

The qualifications and validations of investment and computer projects, production, 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. Process validations and packaging validations are intended to ensure the compliance of technological procedures applied in bulk product manufacturing and the packaging of finished products. We apply validation processes to confirm the suitability of transport conditions. 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.

We devote much attention to data integrity by ensuring compliance with regulatory requirements for data integrity and credibility that may affect the quality of finished products. The principle of data integrity is considered in the earliest stages of developing and implementing information systems. It is ensured through system validations, change control, and by managing potential deviations during process implementation. We manage existing laboratory systems and introduce new ones by consistently providing the integrity of data generated during development and quality control.

We apply laboratory control to examine the quality of products, bulk products and intermediate products, active ingredients, incoming materials, production rooms, equipment, and personnel, and production processes at all our production sites. We manage potential risks in all areas of our operations. We take all necessary measures to ensure the timely performance of analyses 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. We ensure the quality of work by educating employees and raising their awareness. We constantly implement improvements in quality control analytics relating to the impact of the human factor. The target for an acceptable impact of the human factor which was set according to the relevant European guidelines was achieved. Krka shares knowledge and analytical methods at the level of the Krka Group and with its contract partners to ensure the same quality of work and professional attitude.



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 as regards personnel, equipment and rooms as well as work processes.

We constantly upgrade our documentation and information systems in compliance with the process requirements to ensure the transparent and efficient use of information. Documents proving the quality of our products are arranged systematically and always available for review during inspections or partner audits.

In view of sales and production requirements, we plan and coordinate activities for the timely release of incoming materials, bulk products and finished products. The number of batches released to the market depends on sales requirements and the performance of production activities. We record batch release times in order to make products available for timely dispatch. Certain actions must be performed throughout manufacturing, quality control and product quality assessment cycles in order to release batches 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 qualified persons authorised to release 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 on good manufacturing practice that apply in the EU.

We monitor the quality of products in the market throughout their life cycle. We also follow the safety of medicines within the pharmacovigilance system. Data on the safety of a medicinal product are collected and evaluated throughout 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 ensure 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 good manufacturing practice and registration documents also reflect partner satisfaction.

Our Quality Committee periodically reviews all major processes with respect to our IMS and performance criteria, and proposes strategic guidelines for their further development. We regularly conduct monthly reviews of quality indicators for 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.

Krka places strong emphasis on environmental protection and health and safety at work (we also consider the requirements of ISO 14001, BS OHSAS 18001, and guidelines for responsible care), and on open and fair public relations. We regularly report to and inform the public of improvements. We upgraded the environmental management system over the past two years to further improve its effectiveness. We reviewed compliance of our occupational health and safety system with the new ISO 45001 standard in 2018, and in 2019 plan to implement some minor improvements in the system. 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 suggestions, and the environment). To promote quality, a series of professional and motivation articles is published 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 the field of quality and the impact of quality work on the results of the Krka Group.

Our permanent aim is to improve the flexibility of our operations, including insight into changes, 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 2018. We 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 quality requirements on the new markets and ensure our processes are adjusted accordingly. In 2018, Ningbo Krka Menovo actively pursued regulatory activities relating to market authorisations of Krka products in China and created conditions necessary to sell finished products in the European markets. In this way quality-specific processes have been further internationalised.

Information Security System

Our information security management system (ISMS) is ISO/IEC 27001 certified. We regularly assess information source risks. The ISMS is regularly reviewed in self-inspections, audits, and external security inspections. In 2018, we introduced measures required by the external security inspection in 2017, conducted the planned security inspection and implemented the recommendations. Our aim for 2019 is to make use of 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 consistently implement the personal data protection policy in compliance with EU legislation and national laws and regulations of countries where Krka subsidiaries operate, so that personal data protection is ensured throughout the Krka Group. Krka has concluded contracts on personal data processing with its subsidiaries. In 2018, we thoroughly reviewed and aligned our processes with the new EU regulation on data protection that entered into force on 25 May 2018.

Regular and continuous training courses for our employees and raising their awareness are key elements for successful implementation of the ISMS. In 2018, we devoted special attention to raising awareness of all Krka Group employees about phishing attacks.

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 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 %				
System	**2018**	**2017**	**2016**	**2015**	**2014**
Business system	99.9	99.9	99.9	99.9	99.8
Production system	99.8	99.9	99.9	99.9	99.7
Documentation system	99.3*	99.8	99.8	99.7	99.9
E-mail	99.9	99.9	99.8	99.9	99.8

* The actual availability is below the target due to a substantial system upgrade.

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 2018, we verified the feasibility of business continuity measures and partly updated our business continuity plans.

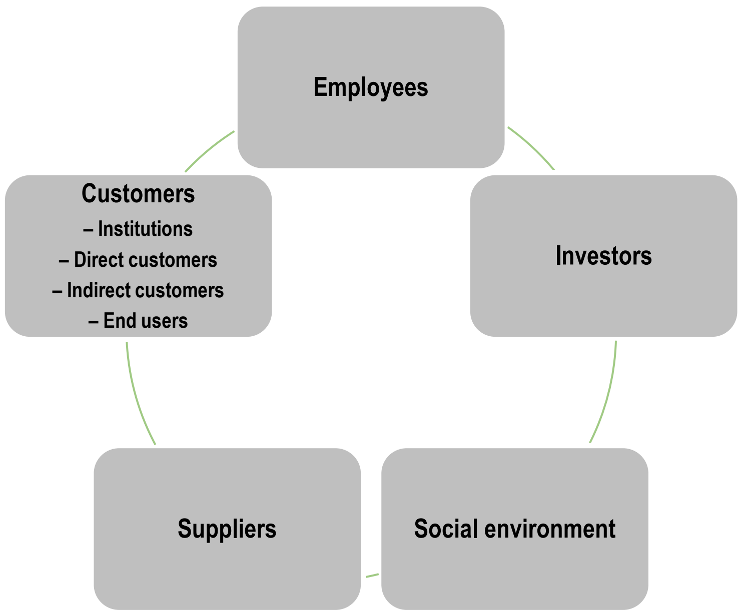
SUSTAINABLE DEVELOPMENT

Sustainable development is an area that embodies Krka's corporate mission the most. Through pharmaceutical development, we help improve and maintain health, in particular by providing high-quality products for accessible and efficient treatment. Our actions are socially and environmentally responsible in order to further improve our performance with regard to nature protection, health and safety, and to co-design our social environment. We consider these aspects in our research work, our actions to improve production processes, investments in technology and employees, and in providing a safe, healthy, stimulating, and pleasant working environment. We conduct operations in compliance with high ethical standards.

We attain 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.

The needs of our stakeholders and social environment as well as impacts of our business are dealt with in a constant, proactive dialogue, which improves interpersonal relations and allows us to rapidly adapt to market changes. Our stakeholders and key areas are specified and considered below.

Krka Group Key Stakeholders



Stakeholder Engagement	
Stakeholder group	**Engagement modalities**
Employees	– international conferences for employees (on various topics) – measuring organisational climate – Works Council – worker assemblies
Investors	– meetings with investors at Krka headquarters – meeting between Krka management and financial analysts – 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.)	– 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) Indirect customers (doctors, veterinarians, pharmacists)	– 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 – 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	– responsible, professional communication about products through various media, including social networks and digital channels
Local community and social environment	– 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	– cooperation in tenders and competitions – working meetings – auditing
Media	– 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

Responsibility to Employees

Company's success in a dynamic international environment largely builds on the contribution of its employees. We operate in diverse cultural settings as partners to achieve common company goals. Together, we encourage a culture of mutual trust, respect, cooperation and teamwork, lifelong learning, and responsible and efficient work. We strive to ensure that all our activities reflect responsibility towards the employees and Krka values. Our values – speed and flexibility, partnership and trust, creativity and efficiency – guide us in setting our goals, achieving results, cooperating and working with employees.

By working in various cultural environments, the employees broaden their horizons and understanding. 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 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 continuous 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.

The employees work in a culturally diverse international 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 areas of our operation: marketing, sales, technology, human resources, regulatory affairs, 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 every employee helps to create a working environment and an organisational climate and thus contributes to business results. By regularly measuring the organisational climate, we make sure that employees have the opportunity to express their opinions. Analyses of the findings are useful for preparing improvements, which contribute to an efficient and creative environment.

The company's competitiveness and performance are also maintained by improving internal processes and rapidly addressing market needs. In 2018, the number of Krka Group employees increased by 550, and we strengthened our presence in the Chinese market. 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 defined 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. As Krka is bound by high ethical standards, and all employees receive training on Krka's *Code of Conduct*. The *Code of Conduct* 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.

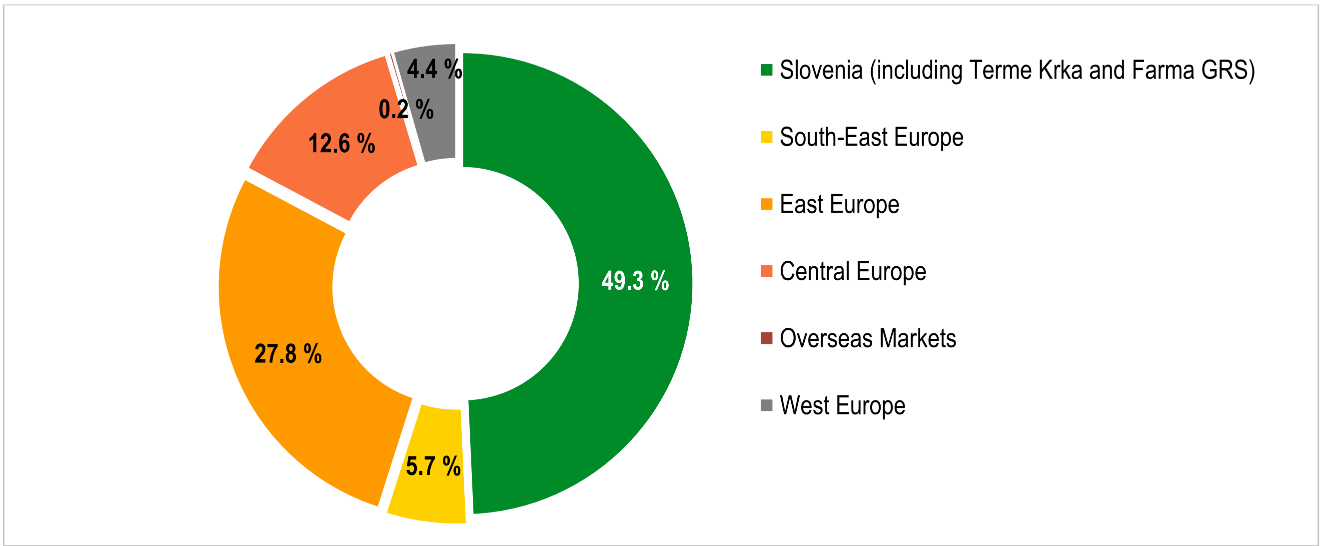
Key data about employees for 2018	
Number of employees	11,382 of which 49.3% in Slovenia
Average age	39.95 years
Female employees	62.84%
Female employees in management positions	43%
Permanent employees	89.1% (women 87.8% and men 91.1%)

Number of Employees as at 31 December 2018

	2018	2017	2016	2015	2014	Index 2018/17
Krka in Slovenia	4,995	4,514	4,343	4,292	4,256	111
Krka's representative offices outside Slovenia	501	506	546	506	482	99
Krka	**5,496**	**5,020**	**4,889**	**4,798**	**4,738**	**109**
Subsidiaries outside Slovenia	5,278	5,192	5,388	5,151	5,130	102
Terme Krka Group	580	584	576	578	585	99
Farma GRS*	36	36	36	37	46	100
Krka Group	**11,390**	**10,832**	**10,889**	**10,564**	**10,499**	**105**

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

Employee Structure by Region as at 31 December 2018



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 by providing extensive investments in development, complex technology and a high level of qualification of our experts. The proportion of the Krka Group employees with at least university-level qualifications amounts to 53.8%, or 6,118 employees. Of them, 187 employees hold a doctoral degree and 382 employees a master's degree or specialisation.

Educational Structure of the Krka Group Employees as at 31 December 2018

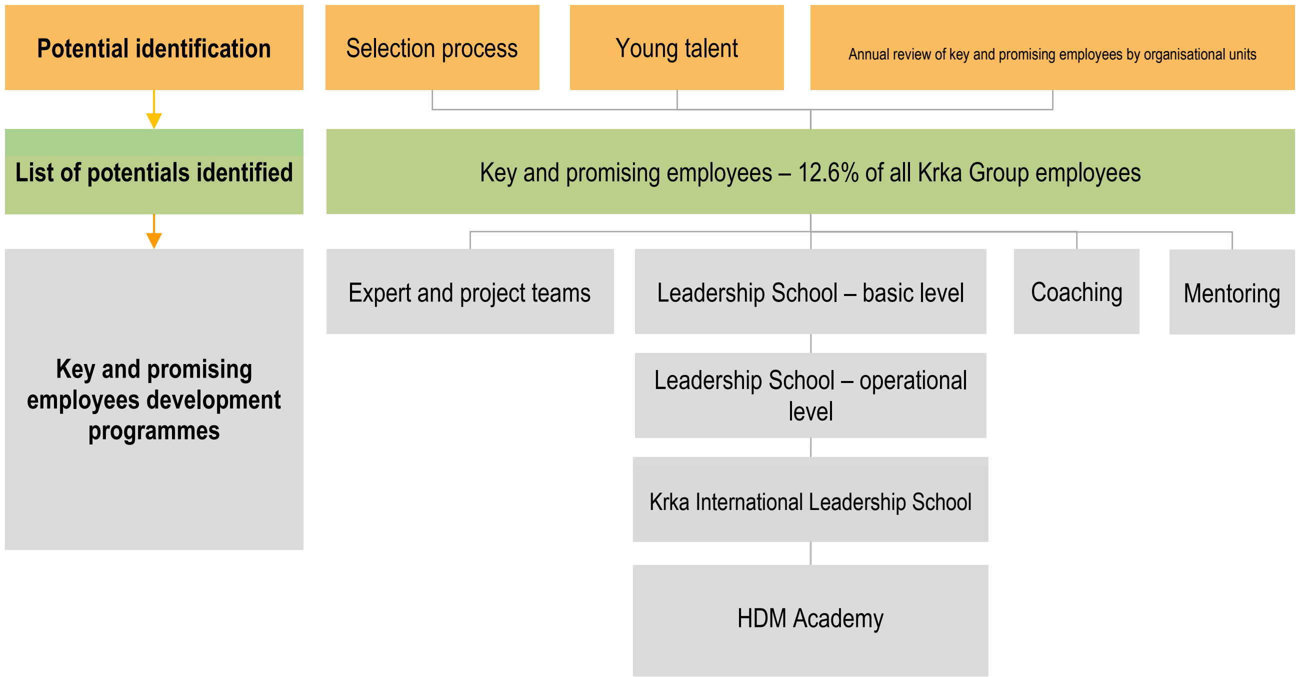
	2018	2017	2016	2015	2014	2013
Higher professional, university degree or higher (level VII or higher)	68%	69%	70%	68%	67%	65%
Vocational college degree (level VI)	2%	2%	2%	3%	3%	3%
Secondary school education (level V)	20%	18%	17%	17%	18%	19%
Other (less than level V)	10%	11%	11%	12%	12%	13%
Number of employees in the Krka Group	**11,390**	**10,832**	**10,889**	**10,564**	**10,499**	**10,048**

Employee Education and Development

Knowledge is highly valued at Krka. We systematically plan employee development and provide continuous education programmes where our employees can acquire relevant knowledge and experience in various fields, **develop professionally and personally**, and make progress.

Special attention is paid to 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 responsible tasks.

Identifying talented employees is of crucial importance and takes place early in their careers. The method we use for talent identification is devised as a workshop where participants carry out 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 noticeable during the selection process or at the beginning of their career at Krka. We also use this method to select candidates for challenging job positions and with internal transfers of employees to other job positions.

Competence-based system for various work areas serves as the basis to determine the needs for knowledge development and upgrading, and the development of 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 in-house 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 well-known 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. All employees of the Krka Group are involved in this appraisal system. Managers and employees use it to define objectives, discuss priorities and expectations relating to work and employee development, and on that basis plan the employees' 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 2018, 420 Krka employees were part-time students, of whom 53 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 2018, this training (level IV) was completed by 69 employees. In total, we have awarded 1,505 certificates since 2004: 1,458 to Krka employees and 42 to employees of other companies and pharmacies.

In its marketing-and-sales network, Krka employs more than 85 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.

In 2018, we gave 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 was the main message of these training sessions.

Key Data about Employee Education in the Krka Group for 2018	
Average number of trainings per employee	14
Average number of hours of training per employee	47.8
Proportion of revenues allocated for education (in %)	0.64

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 2018, Krka had 61 scholarship students, 13 of whom graduated. We also work with secondary schools and faculties in providing obligatory work placement. In 2018, 224 pupils and students acquired work experience at our company.

Quality of Life

Employees' quality of working and personal 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. Various sports activities are attended by more than 2,000 employees every week. 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 of the Company's locations.

We are also commited 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, or 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 a good work ethic 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 has been in place in Krka since 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, the 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 draw everyone's attention to the fact that every proposal is important and worth considering. For every employee who has submitted a useful proposal or improvement, the biggest reward 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 make useful suggestions and proposals for improvement.

In 2018, 627 useful suggestions and proposals for improvement were submitted. We awarded 596 suggestions that were put forward by 481 proposers.

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 actions 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 the topic of healthy lifestyle and the negative effects of psychoactive substances, healthy meals at our canteens, etc. In 2018, we modernised the health promotion plan and took effort to raise employees' awareness of the importance of promoting health for a high-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.

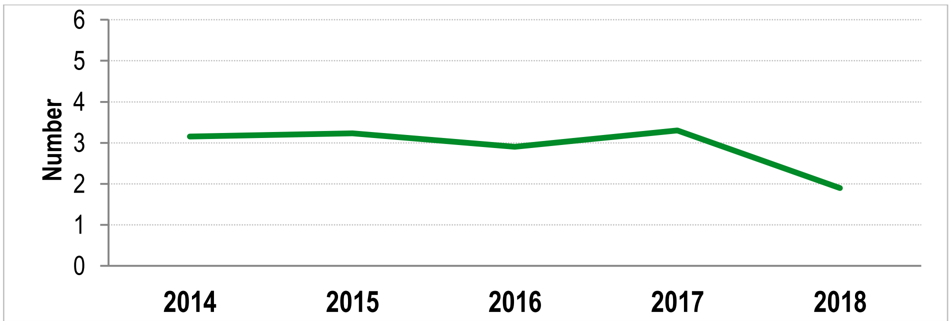
The Interpersonal Relations and Sick Leave project, which has helped reduce sick leave, has been in place for several years. In 2018, 6.8% of employees were on sick leave and 3.9% were on maternity leave.

The total of 5.4% 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. Apart from preventive and curative care, we guarantee our employees will 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 complies with the BS OHSAS 18001:2007 standard and is incorporated into Krka's integrated management system. 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 that prepares key objectives and programmes, submitting them to the Management Board for approval.

We continually monitor data on workplace accidents. The LTAR (Lost Time Accident Rate) indicator in the graph below indicates the number of accidents in the workplace requiring three or more days of sick leave per million hours of work. In 2018, the LTAR reached 1.9, which is 57.6% less than in 2017. We dealt with one severe accident, which was thoroughly examined and corrective measures were taken to prevent any similar accidents from happening.

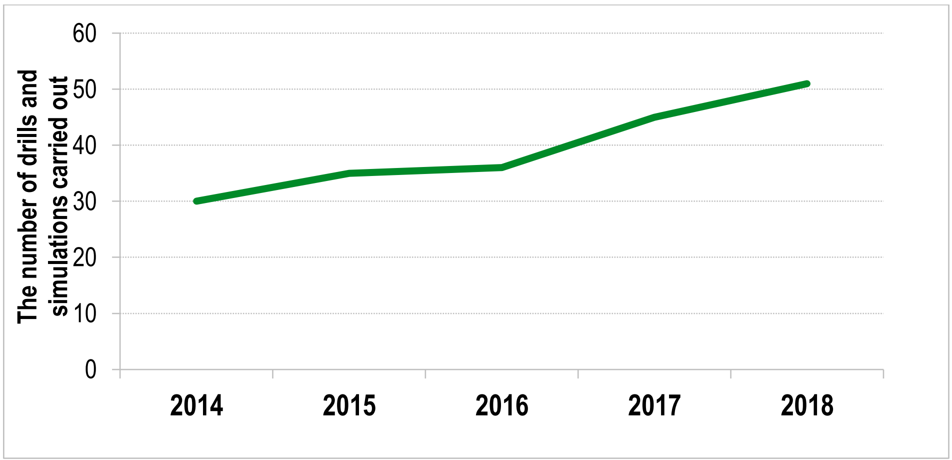
Workplace Accidents Requiring Three or More Days of Sick Leave per One Million Hours of Work (LTAR)



We recorded five initial fire incidents in 2018. They were successfully resolved through actions by employees at the site, the Fire Protection Department, and the Industrial Fire Service Crew. One of them caused material damage and took place in a small-scale laboratory. It was caused by a faulty electricity installation and was quickly extinguished owing to the integrated active fire protection system.

The Fire Protection Department and the Industrial Fire Service Crew are responsible for any emergency interventions. In 2018, we conducted 51 emergency drills, among them six were major, to be better prepared for emergency events. In these six drills, we worked hand-in-hand with the Novo Mesto Fire and Rescue Service and emergency medical service teams. We included local fire brigades at the drills in dislocated organizational units. Realistic emergency scenarios were evaluated and employees were always included, both in case of extinguishing and in fast and safe evacuation.

The Number of Drills and Simulations Carried out to be Better Prepared for Cases of Emergency



Communicating with Employees

We promote open, regular, responsible and ethical communication at all levels, between employees and the management team as well as between the Krka Group employees. This is how we 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 employees and the Company management. 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 by way of our internal weekly bulletin ***Bilten***, which is available in print and electronic form, and via our monthly magazine ***Utrip***. ***Utrip*** contributes to a better understanding of Company's vision, mission and values, as well as objectives and strategies. News is also published on our intranet site **Krkanet**. We provide our employees with the latest information via the electronic 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 Group 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 suggestions 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 two years to raising awareness about prevention and a healthy life style. Every year, we organise over fifteen 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, long-standing 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 companies 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.

In September 2018, we organised our third Car-Free Day as part of the European Mobility Week. We encouraged our employees to go to work on foot, by bike or public transport and do something good for their health and environment. Krka employees from subsidiaries and representative offices abroad also participated in the event.

Responsibility to Investors

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

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

Quality communication with investors and analysts is an important aspect 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. The information that we provide to investors is mainly related to our business results and the Group's future strategy. We comply with the information disclosure policy at all times.

The main communication objectives are to:

- achieve a fair market valuation for Krka;
- gain easier and cheaper access to financial sources; and
- create a reasonable level of liquidity in Krka shares.

We meet these objectives through:
- meetings with investors at the company's headquarters;
- meetings between Krka's management and financial analysts at the company's headquarters;
- participation in various investor conferences;
- road shows in financial centres around the world;
- conference calls with financial analysts after releasing business results;
- publications for investors (the *Utrip prihodnosti* magazine, presentation and promotional materials);
- Annual General Meetings;
- press conferences about business results; and
- communication with financial media.

Krka's business results are available in Slovenian and English on SEOnet (*http://seonet.ljse.si*) of the Ljubljana Stock Exchange, ESPI of the Warsaw Stock Exchange, and 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*.

Responsibility to 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).

Responsibility to Institutions

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 attain 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.

Responsibility to Direct Customers

The direct customers who buy our products are wholesalers, pharmacy chains, hospitals, and other pharmaceutical companies. Their satisfaction with our sales and post-sales services provides the foundation for successful and growing business operations, and we are endeavouring for it. That is why we conduct annual opinion polls to check customer 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 2018, we conducted an online opinion poll and recorded an 89% response rate, the highest one so far. A 90% overall satisfaction index confirmed our efforts in providing a high level of customer satisfaction.

Responsibility to Indirect Customers

Indirect customers, known as the professional public, are one of our biggest and most important customer groups. They include the doctors, veterinarians and pharmacists who prescribe, recommend, and dispense Krka products, and who represent a link with the end customers 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, exchange opinions and experience, and establish contacts. Meetings take place in various countries where Krka is present. In addition to many local events, we organised several international symposia in 2018 held to coincide with large international congresses. They were attended by almost 500 participants from 22 countries. To accompany international professional events in Slovenia, which were attended by almost 1,000 participants from 21 countries, an additional professional programme was organised.

In communicating with the professional public, we act responsibly and in accordance with the laws and other regulations related to business operations, including product marketing and personal data protection regulations, and comply with good business practice, the European Medicines Agency's recommendations, and ethical promotion code. The advertising of pharmaceutical products is subject to strict regulation and control.

Medical representatives are regularly professionally trained to inform the professional public about latest treatment guidelines and provide accurate and current information about therapeutic classes and our products. We also make sure that they have appropriate communication skills and are familiar with legal and other regulations, and standards of work. For this purpose, modern, well-established learning and testing methods are put in place, including our uniform and user-friendly e-learning and training tool.

We also inform the professional public through digital content, tools, and channels, which meet the needs of modern users. Our digital portfolio was, therefore, expanded with advanced interactive content, including a 360-degree interactive animation of production processes in Notol 2 in multiple language versions, and presentations of disease progression and treatment, and results of clinical studies. We follow guidelines on content-driven communication and develop versatile educational channels and digital contents such as awareness-raising videos, thematic websites, social media content, and interactive mobile web applications.

Feedback and opinions obtained through daily contact and independent market research are important. In Poland, our second largest market, according to IQVIA data, we are among the most visible companies with medical specialists from 21 specialist areas of medicine and general practitioners, our key group of medical experts. In Ukraine, Proxima research data show that we are the most visible company with general practitioners and rank second with cardiologists and gastroenerologists. In terms of the frequency of prescribing, we are the leading company with cardiologists, whereas general practitioners and gastroenterologists rank us second.

We are one of the few generic pharmaceutical companies whose products have had clinical efficacy demonstrated in several international clinical trials. Nearly 350,000 patients from 27 countries have participated so far in over 130 clinical trials with our medicinal products. In 2018, the results of the Treasure international clinical trial in 313 patients with back pain from four countries were evaluated. The patients received tramadol/paracetamol fixed-dose combination (Doreta*). Efficacy analysis showed that the combination significantly reduces back pain and improves the quality of life. As regards non-prescription medicines, the Double international clinical trial was concluded which was conducted with 154 patients with acute rhinitis and patients after nasal surgery or nasal cavities surgery. The trial compared the efficacy and safety of the xylometazoline/dexpanthenol combination (Septanazal*) spray for adults and a xylometazoline monoproduct, and showed that Septanazal* relieves nasal congestion as early as on the third day of its application. Another international clinical trial, i.e. Precious, is still ongoing and in 2018 included more than 60% of the planned number of patients with moderate to severe arterial hypertension from seven countries. The trial aims to evaluate the effect of perindopril/amlodipine combination (Amlessa*) and perindopril/amlodipine/indapamide combination (Co-Amlessa*) on blood pressure and pulse wave velocity. In 2018, we compiled documents for three additional clinical studies on the treatment of cardiovascular disease, diseases of the central nervous system, and symptoms of chronic venous disease. All clinical studies conducted by Krka comply with good clinical practice, applicable laws on pharmaceutical products, clinical trials, and personal data protection, the Helsinki Declaration, and standard operating procedures. We pay special attention to the protection of personal data related to the participants in clinical trials. All participants enter trials voluntarily and are informed about data processing. Their identity is kept highly confidential and revealed only to the doctor. Data that could be used to identify an individual are pseudonymised within the clinical institution.

Responsibility to 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, so we put all our efforts into ensuring the high quality of our products and services. The quality of active ingredients, excipients, and all incoming materials 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 develop digital channels and promotion tools 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. Our promotional activities include channels and tools that follow the latest communication standards, among others social media channels and marketing automation techniques, to maximise the efficiency of communication and make it as modern as possible.

Responsibility to 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's 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.

Responsibility to 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 2018, we allocated 0.29% of sales revenues for sponsorships and donations, and helped over 800 non-profit institutions, associations, and organisations achieve their goals.

Caring for a Healthy Society

We contribute to a healthy society by promoting various sports activities, mostly by supporting local clubs and associations. In 2018, 17 sports and cultural clubs and associations appeared under the name of Krka, and Krka also supported activities of institutions in the wider local community. They included almost 3,000 young people under 18 years of age who were coached and motivated by 365 professional workers. The clubs and associations organised and conducted 910 sports and cultural events, and their members won numerous trophies and medals in national and international competitions. They competed for Krka and Slovenia in 25 countries across the globe.

The 12th annual meeting was attended by 180 representatives of clubs and associations, among them 110 young sportsmen, musicians and other creative individuals. We set new goals and considered possibilities for further cooperation. For the third year in a row, special attention was given to young talents by presenting them three awards.

Talent-of-the-year award winners

Trim Klub Krka plays an essential role in promoting employee sports activities and comprised 2,280 members in 2018. The club mostly provided regular sports activities for employees, held competitions and meetings, and organised events attended by Krka's athletes outside the company. **Regular weekly sports activities were attended by more than 2,000 Krka employees.** Increased popularity of sports activities over the past years may be attributed to a greater awareness of how regular exercise benefits health and to the variety and range of recreational activities for participants from all age groups.

To honour the anniversary of the birth of Leon Štukelj, we supported our local community through sponsorship for the Leon Štukelj Year, which included the **donation for new gymnastics equipment for all primary schools in Novo mesto**.

In 2018, 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 Slovenian Mountaineering and Climbing Association to signpost and carry out maintenance work on fifteen hiking trails around Slovenia. We conducted a campaign to promote walking for good physical and mental health. More than 30,000 mountaineers took part in the campaign for collecting mountain stamps 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 2018, we worked hand in hand with the Alpine Association of Slovenia and mountaineering clubs to carry out maintenance work on signposted hiking trails and to signpost **two new Krka hiking trails**.

Krka Retirees Society has been active since 2000. It organises trips and 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 and for training healthcare workers in order to comply with the relevant legislation. Our cooperation with the Slovenian Association for Preterm Infant Support resulted in the donation of two modern incubators to the Neonatal Intensive Care Unit of the Division of Gynaecology and Obstetrics at the University Medical Centre Ljubljana.

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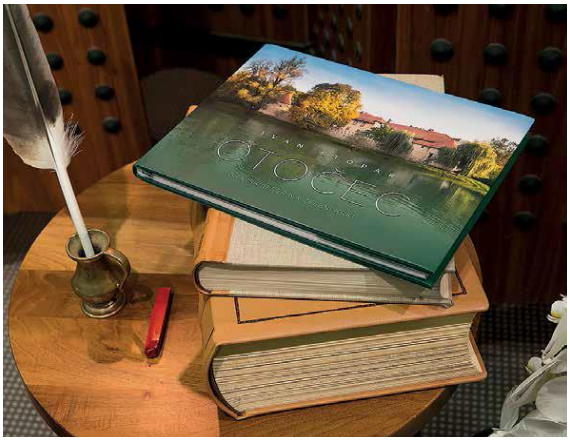
Supporting Cultural Creativity

Krka's Culture and Arts Society organised the 41st Dolenjska Book Fair, the fair with the longest book fair tradition in Slovenia. The fair contributes to the promotion of the reading culture, and to the importance of books and knowledge by organising supporting events and hosting important Slovenian authors as guests.

In 2018, 18 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 nine 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) has performed at over 550 events so far and in 2018 continued its performances and concerts thus building good connections with the local audience and other performers.

Krka's book collection was expanded to six titles. The new addition *Otočec: a Pearl of a Castle on the Green Krka River* was written by Ivan Stopar, a renowned Slovenian art historian and expert on castles in Slovenia. The book was issued in the Slovenian, English, and Russian versions to honour the Slovene Cultural Holiday.



The Galerija Božidarja Jakca Gallery in Kostanjevica hosted the 12th Krka Cultural Evening with the performance by the Voca People ensemble from Israel. Every year, the event offers performances by great artists from Slovenia and abroad.

Krka 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 also 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 *Življenje z umetnostjo* (Life with Art), a monograph written by Milček Komelj, and the exhibition showcasing art works by the renowned Croatian sculptor Ivan Meštrović at the Cankarjev Dom Cultural and Congress Centre in Ljubljana. Our cooperation with the Slovenia-Russia Association and the Tone Pavček Fund continued in 2018 as well.

Charity

We allocated 0.14% of sales revenues 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**. Three 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 64 years, it has become an inseparable part of its organisational culture. Many employees are active volunteers. We have held **Krka's Week of Charity and Volunteering** since 2012, and more than 7,000 Krka employees have participated in this charitable campaign over the past seven years.

In 2018, Krka's Week of Charity and Volunteering brought together **1,100 Krka employees**, 110 among them for the first time. We recorded 300 blood donors. At various Krka locations in Slovenia, our employees collected four tonnes of clothes, toys, footwear, food, books and other consumables for adults and children. We collected 350 tonnes of pet food. We kept company to residents at 31 retirement homes, users at ten occupational activity centres and schools for children with special needs, and prepared various workshops and presentations for them. Krka employees from more than 20 subsidiaries and representative offices abroad also participated in the event.

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) or 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 seventh year in a row, we have presented awards to Krka's best volunteers and thanked 137 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. We support the operation of several occupational activity centres and retirement homes. In 2018, we also donated to the Red Cross and Karitas. We helped individuals facing difficult situations, the disabled, and when natural disasters struck in Slovenia and abroad. We donated to the Red Cross, People in Need Fund and several school funds that provide additional activities and help children from socially disadvantaged backgrounds. Our donation to the Jernej Šugman Fund helped young acting talents, and our cooperation with the Slovenian Association of Friends of Youth gave 12 secondary school students an opportunity to continue their studies.

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 Krka hotels. We supported the purchase of these devices in 2018, too.

We provided material and financial support to 93 fire departments and fire fighting agencies in Slovenia. Through our contribution, fourteen new fire engines and four defibrillators were purchased, and seven fire stations were acquired or renovated.

A-class female fire-fighters of the Krka Volunteer Industrial Fire Service won the national championship title with a new national record.

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, biochemistry, biotechnology, microbiology, animal science, and other related sciences. Many of the 2,751 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 2018, five Krka Grand Prizes and 25 Krka Prizes were presented to 30 graduate and postgraduate students for their research work, while 66 secondary school students received 37 Krka Prizes and recognitions for their research papers.

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.

We supported the Association for Technical Culture of Slovenia in organising the **16th European Union Science Olympiad in 2018**, where 156 young students from 25 countries displayed their scientific capabilities.

Krka contributed to the unveiling of a plaque to mark the establishment of the Novo mesto Grammar School in 1746 when the Empress Maria Theresa of Austria signed its founding charter. The plaque also honours the achievements in education in Novo mesto.

Caring for the Environment

Responsibility to the natural environment is an integral part of Krka's business activities at all levels and in all fields of operation.

To preserve the environment, we have been utilising renewable sources of energy since autumn 2010. We installed a new solar power station on the rooftop and the façade of the new packaging material warehouse to generate green energy. An important aspect of our responsible care is electric vehicles. Following global trends that demonstrate a rapid development of electric vehicles, we have installed the first 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 development of sustainable mobility. Last year, we organised **Krka Car-Free Day** for the third time. We encouraged our employees to go to work on foot, by bike or public transport.

We have added activities for developing sustainable mobility to Krka's Mobility Plan. It encourages the use of alternative and less environmentally harmful ways of commuting. We inform our employees about the issue in articles published in the internal magazine and via Mobility intranet site.

We supported the project to set up an automated bicycle rental system, called GONM, which promotes cycling in Novo mesto. Our donation was made for one bicycle docking station with five bikes and ten bike docks. Such actions are our contribution to sustainable development and healthy environment.

Members of the Krka Volunteer Industrial Fire Service have been in charge of the fire protection of Krka employees and local residents for over four decades.

Responsibility to the Natural Environment

In 2018, we remained dedicated to our values and goals of sustainable development in order to protect and preserve natural heritage for future generations and all living things. As our operations affect people, the community and the natural environment, we seek to reduce their environmental impact in order to provide a clean 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 production. The environmental certificate ISO 14001, which we obtained in 2001, and the integrated environmental protection permit oblige us to 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, as well as in the entire product life cycle.

Our environmental objectives include holistic control of the environmental management system, sustainable development, and continuous improvement in all fields of environmental protection. Such approach fosters a positive and responsible attitude to the environment with all the employees. Our actions to attain the objectives are well-thought-out and planned. Operational tasks are conducted by Environmental Protection, whereas the environmental management system includes all employees. We monitor sustainable development indicators closely to obtain a clear picture of our environment-related operations. They also provide the basis for recognising environmental standards and setting goals, and strengthen environmental awareness of all employees.

Our environmental policy clearly defines our responsibility to the natural environment and requires us 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 technologies 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 the 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 goals and programmes systematically to improve the current state of the environment; and
- implement the applicable environmental policy in Krka subsidiaries abroad.

Compliance with environmental legislation and environmental protection permits is checked with regular monitoring of emissions into air and water, noise monitoring, and waste assessment. We regularly check reservoirs and equipment which contains ozone depleting substances. In 2018, 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 several environmental inspections at Krka, and their findings fully confirmed that Krka's operations comply with relevant legislative requirements. The Inspectorate issued no decisions nor imposed any fines or other sanctions. In environmental audits conducted by SIQ or 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 2018

- The consumption of river water used to supply cooling towers was reduced by 1.5% and replaced with a clean rinse-water from production.
- Total environmental load units (ELU) of waste water were reduced by 5%.
- The quantity of sludge from the waste water treatment plant was lowered by 41.3%.
- A total of 96 tonnes of aluminium and 146 tonnes of plastic were recovered from 259 tonnes of waste composites.
- The quantity of waste for disposal in landfills was reduced by 9%.
- Energy efficiency in the compressed air preparation was improved by over 35% after the introduction of a frequency-controlled compressor.

Costs of Environmental Protection

We allocated €6.7 million to environmental protection in 2018. Indirect costs of environmental protection totalled €5.1 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 €1.6 million. Investing in equipment and technologies ensures 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 our 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 the changing climate cause shortage of fresh water resource availability. Slovenia being one of the richest European countries in water resources has good quality drinking water on the whole; however, we should be aware that its water resources are vulnerable because of the Karst hinterland and an uneven distribution of water supplies. Pharmaceutical industry is among less intensive industries as regards water consumption but among demanding ones regarding water quality. Water consumption is a very important element of environmental protection, so we consistently plan, monitor and control it. Many of our activities are aimed at maintaining the quality of 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

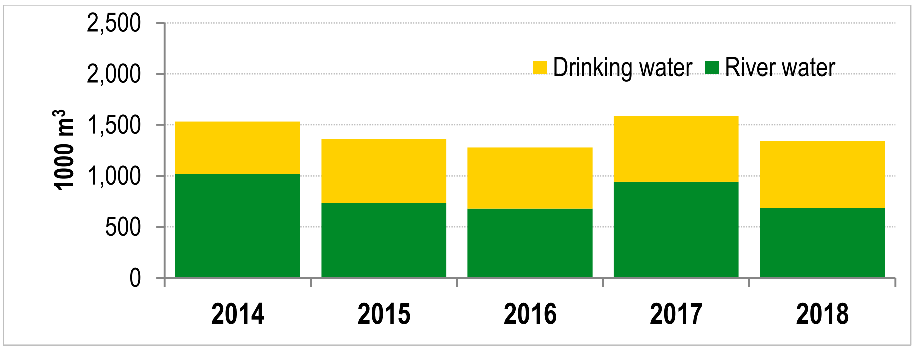
Krka’s main water sources are:

- 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 2018, the consumption of drinking water for the preparation of pharmaceutical waters was similar to the 2017 level.

More than 44% of the river water is used for cooling by various heat exchangers, especially in API production, while the remaining 56% is used in the preparation of technological waters for energy supply and production. In 2018, we reduced the river water consumption by more than 30% compared to 2017. River water temperature during the summer was below average resulting in a reduced water consumption for cooling systems compared to 2017.

Consumption of Drinking and River Water



Consumption of drinking and river water		2018	2017	2016	2015	2014
Total water consumption	*m^3*	**1,341,333**	**1,588,474**	**1,279,065**	**1,362,297**	**1,531,957**
Drinking water	*m^3*	655,837	644,577	600,781	628,770	513,375
River water	*m^3*	685,496	943,897	678,284	733,527	1,018,582

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	2018	2017	2016	2015	2014
Energy (total)	961,319	935,484	910,031	889,239	836,284
Electric power	344,983	330,274	313,560	308,585	292,895
Natural gas	595,739	588,121	569,831	559,010	523,837
Liquid petroleum gas	20,214	17,029	22,975	20,083	19,395
Fuel oil (extra light)	383	60	3,665	1,561	157

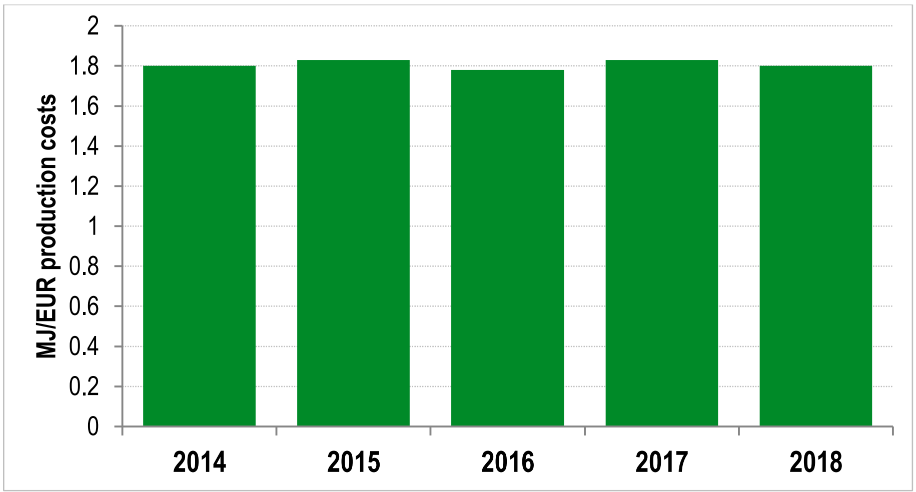
The electric power supply comes from the public utility electricity grid, from Krka's own generators powered by renewable sources such as the solar power station, and from the cogeneration plant operating on natural gas.

Generated electric power – alternative sources in GJ	2018	2017	2016	2015	2014
Solar power plant	223	258	238	241	223
Cogeneration	46,686	45,756	49,617	48,180	48,989

Specific Use of Energy

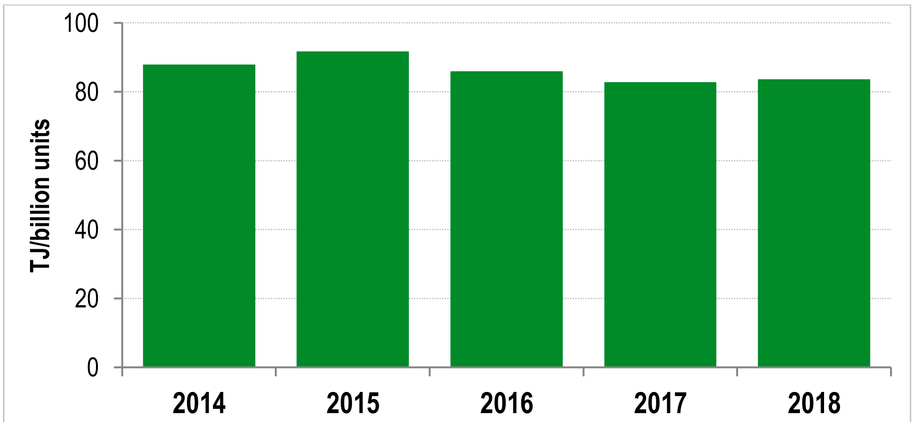
Specific use of energy is represented in relation to production costs and the physical volume of production.

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 2017.



		2018	2017	2016	2015	2014
Specific use of energy	MJ/€	1.80	1.83	1.78	1.83	1.80

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 organisational activities, efficient energy use, investments in energy efficiency, and energy-efficient maintenance.



		2018	2017	2016	2015	2014
Specific use of energy	TJ/billion units	83.6	82.8	85.9	91.7	87.9

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.

It 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 internal rules. 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.

We are constantly upgrading our sustainable energy management system on three levels:
- energy efficiency in the production of energy media and purified water;
- efficient energy and water use by end users; and
- appropriate design and consistent adherence to the energy efficiency principle in investments, reconstructions and maintenance.

The main energy management objectives are:
- to continuously improve specific use of energy at Krka;
- to prevent any adverse environmental impact; and
- to ensure sustainable energy supply and reliable, excellent and cost-efficient provision of primary energy sources, energy media and industrial water in production and other processes.

Regular energy audits are also a part of the energy management system. In 2018, a comprehensive energy review project at all Krka sites in Slovenia ended and we started implementing various measures set out in the action plan.

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. The system was upgraded in 2018 by adding a diagnostic module that improves the reliability and quality of input data required for monitoring performance indicators of individual energy consumers. Additional measurements were added to the system to increase transparency of mass and energy flows in Krka.

Replacement of Low Pressure Air Compressor

By replacing low pressure air compressor at the compressor station with a frequency-controlled compressor, energy efficiency in compressed air preparation was improved by over 35%. In addition, the heat generated when air is compressed may be utilised for other purposes. The resulting reduction of CO_2 emissions may be compared to the amount of CO_2 converted into O_2 by 100 trees in one year.

Optimisation of Air-Conditioning System Operation

The design, planning, 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 are planning to strengthen the control of operating parameters to further increase energy efficiency. We regularly perform hydraulic balancing of distribution systems and heating and cooling consumers. Cooling chiller in Gotna vas was also upgraded by installing a waste heat utilisation system. As waste heat is used to warm up the air during air dehumidification in the summer, hot-water boiler does not need to be used in this process any more.

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.

With an above-standard biodiversity, Slovenia is a habitat for around 26,000 species, including 800 animal and 66 plant endemic species, which is more than 1% of all known living creatures on Earth. Such a high number of species on such as a small area places our country among the most naturally diverse areas in Europe and even in the world. By signing the *Convention of Biological Diversity*, Slovenia undertook to comply with international recommendations and guidelines on the protection of species and ecosystems.

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 is a European network of special protection areas in EU member states. In Slovenia, it was created in 2004 and updated in 2013. The basic aim of the network that represents 37.9% 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 entire Krka watercourse.

All Krka industrial buildings are concentrated within their respective sites and do not extend into ecologically sensitive areas. We closely follow the strictest measures to protect the environment in existing buildings and newly planned ones. The capture of river water and discharge of treated waste water from our water treatment plant do not threaten the preservation of water and riparian areas or the conditions for connecting these areas. With a positive attitude to environmental protection, we ensure an ecological, biotic and landscape preservation of natural wonders.

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 Vipap wastewater treatment plant in Krško so that we do not endanger biodiversity with our emissions.

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 1.2% (also by using thermal power units in trucks). We supply products to distant markets by sea, air or rail. In 2018, we transported products by rail under required temperature-controlled conditions from China to the European Union for the first time. We are increasing the share of shipping.

In 2018, we organised transport for 9,565 shipments of finished products, raw materials and packaging materials. Krka's vehicles made over 1.85 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 of 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 ensure appropriate conditions for 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, and traction control system) that only add to better traffic safety. Dispatch and transport processes were modernised by installing new software for an improved transport planning and control.

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 strive to preserve long-term water quality at all 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 (BAT) 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 2018, we treated 755,753 m^3 of waste water, or 15,816 m^3 less than the year before. We generated 298,137 m^3 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 are treated at the municipal wastewater treatment plant in Novo mesto. In 2018, we generated a total of 21,573 m^3 of waste water.

Our plant in Šentjernej generates industrial and municipal waste water. Effluents are discharged by the public sewerage system and treated at the common municipal wastewater treatment plant in Šentjernej. In 2018, we generated a total of 13,700 m^3 of waste water.

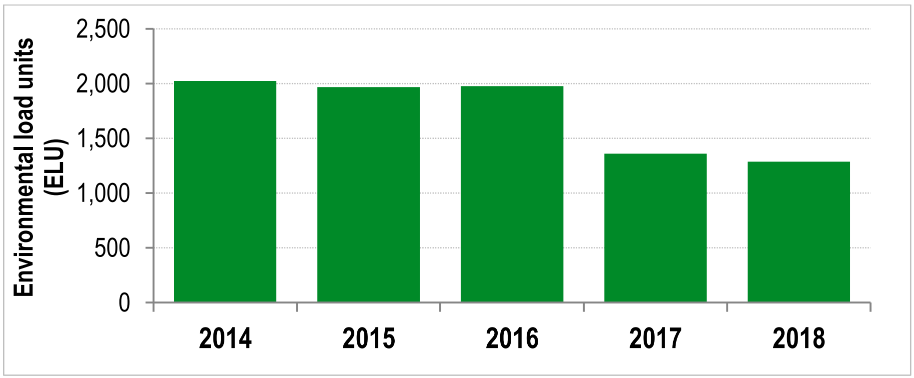
Our plant in Ljutomer generates industrial and municipal waste water. Effluents are discharged by the public sewerage system and treated at the municipal wastewater treatment plant in Ljutomer. In 2018, we generated a total of 32,695 m^3 of waste water.

Our plant in Krško generates industrial, municipal and energy supply waste water. Effluents are discharged by the public sewerage system and treated at the Vipap wastewater treatment plant in Krško. In 2018, we generated a total of 28,720 m^3 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 lower wastewater load and the effective cleaning in wastewater treatment plants, we reduced the total environmental load units (ELU) by 5% in comparison to 2017.

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 pharmaceutical active substances 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 waste water treatment with risk assessments for individual active 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, additional measures and the procedure for handling waste are prescribed according to the calculated risks based on ecotoxicological and toxicological data for each active ingredient and data on the familiar water environment. Complex analytical methods for monitoring substance concentrations in waste water were developed together with our external partners for several active ingredients that present an increased risk for the environment.

Waste Water Management



Environmental load units (ELU) are the prescribed mathematical calculation of pollution from all waste water outlets in Slovenia (Ločna, Šentjernej, Bršljin, Ljutomer, and Krško). The calculation takes into account the annual waste water rate of discharge; organic pollution; nitrogen, phosphorous, and suspended solids load; and the impact of waste water 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.

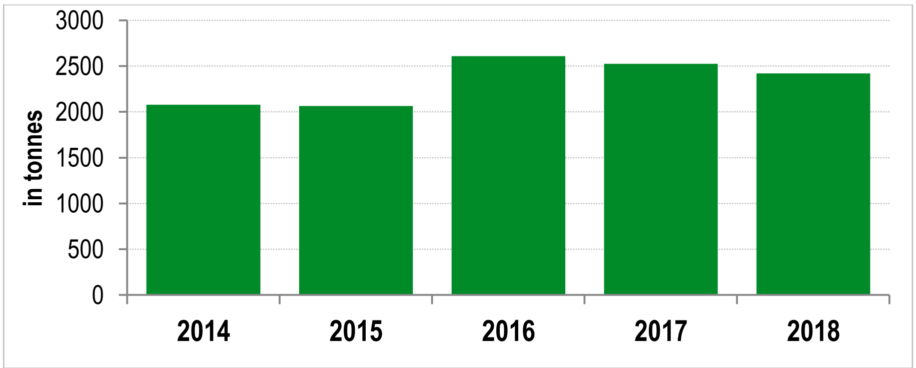
By constantly improving the waste management system and increasing the quantity of separately collected waste materials, we have achieved the set goals. We reduced the amount of waste disposed at landfills by 9% compared to 2017.

In 2018, we joined an innovative project for separated collection of aluminium and plastic composite materials. We separately collected 259 tonnes of waste and handed it over to a waste processing plant, which recovered 96 tonnes of aluminium and 146 tonnes of plastic for further processing. In doing so, we contributed to the circular economy in waste management.

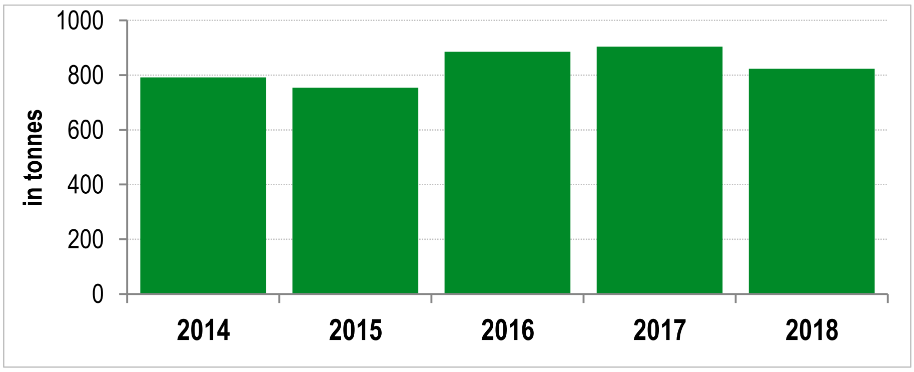
By effectively applying the technology for aerobic stabilisation of sludge, we reduced the quantity of sludge generated in wastewater treatment by 41.3%. This also resulted in the reduction of emissions generated in the transport and final disposal of sludge.
Based on the identified risk in the management of hazardous waste, we expanded our warehousing capacity for waste solvents and started cooperating with new 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 is also providing regular training on waste management.

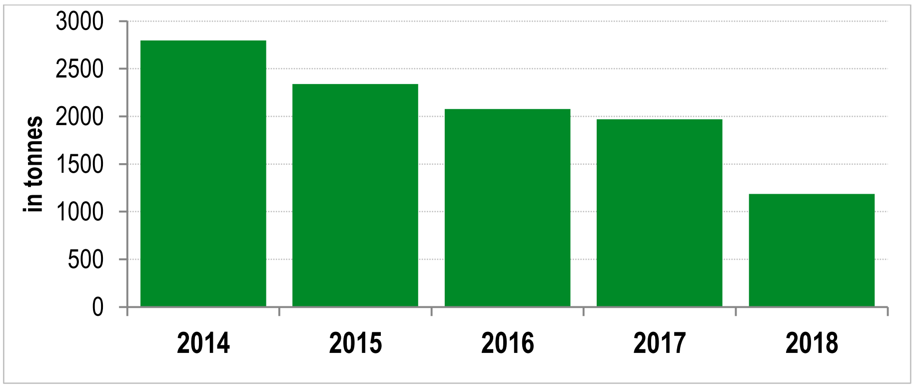
Recyclable Waste



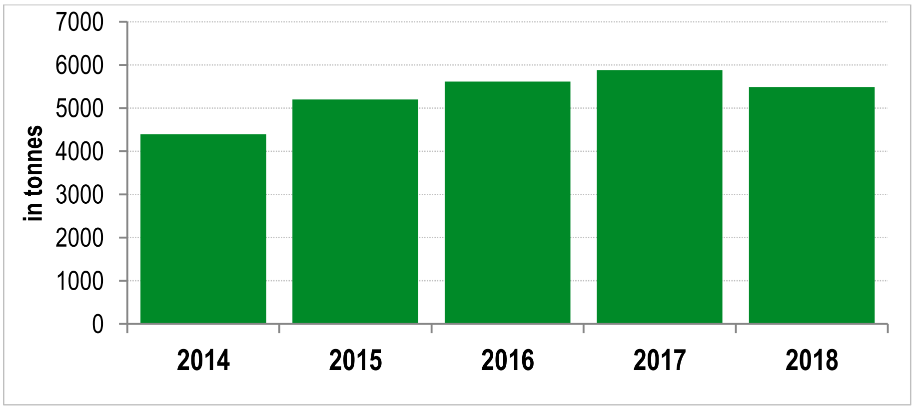
Waste Disposed at Landfills



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 reduce noise emissions as much as possible 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. This ensures that measurement results are within legally defined limits.

Air Emissions

Air quality is one of the most important aspects of environmental pollution with greater impact on health and quality of life as other environmental factors. Therefore, we have included air emission limitation among our environmental protection priorities. 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 oxidisation of waste air ensure high efficiency in eliminating organic materials, and the least possible emissions of these materials into the air. Air pollution from PM_{10} 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 PM_{10} particles.

		2018	2017	2016	2015	2014
Air emissions						
Energy related CO_2 – direct	t CO_2-eq	34,242	33,603	33,227	32,288	30,147
Energy related CO_2 – indirect	t CO_2-eq	45,710	43,761	43,115	42,430	40,273
TOTAL CO_2	**t CO_2-eq**	**79,952**	**77,364**	**76,342**	**74,718**	**70,420**

We generate direct emissions of CO_2 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 CO_2 emissions remained comparable to 2017 levels.

Environmental Protection at Krka Subsidiaries outside Slovenia

Krka complies with high environmental standards which must be applied by all EU member states globally and also strives 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 2018, Krka started building 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. We transfer good practices in the rational use of energy and water to subsidiaries.

We have included our Terme Krka subsidiary in the energy management system. We have provided further exchanges of good practices and organised internal trainings on energy efficiency. We have also completed an energy audit in two hotels, whereas an audit is still ongoing in Terme Dolenjske Toplice. With organisational and small-scale investment measures, we decreased energy consumption and costs, and achieved return on investment in less than a year and a half.

An overall reconstruction of the energy system at Terme Šmarješke Toplice has been completed. We are currently in the process of replacing existing air-conditioning systems with low-temperature air-conditioning systems with improved energy efficiency. This enables even more efficient generation of heat by combining industrial heat pumps and thermal water. By expanding and upgrading the waste water treatment system, we have significantly improved the quality of the treated waste water.

Environmental Communication

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 and wastewater management but also on comprehensive environmental management. In the period from 2014 to 2018, 1,183 employees attended the environment-related trainings. 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 which is vital to achieve corporate goals of sustainable development. Articles on environmental protection are published in internal media, while short notices and suggestions related to the environment are published on internal web pages. In this way, we constantly encourage our employees to treat the environment responsibly and build awareness 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 2017, 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.

Krka's Sustainable Development Indicators for 2018

ENVIRONMENTAL DATA		2018	2017	2016	2015	2014
Total water consumption	m³	**1,341,333**	**1,588,474**	**1,279,065**	**1,362,297**	**1,429,239**
Drinking water	m³	655,837	644,577	600,781	628,770	513,375
River water	m³	685,496	943,897	678,284	733,527	1,018,582
Total energy consumption	GJ[1]	**961,319**	**935,484**	**910,031**	**889,239**	**836,284**
Electric power	GJ	344,983	330,274	313,560	308,585	292,895
Natural gas	GJ	595,739	588,121	569,831	559,010	523,837
Liquid petroleum gas	GJ	20,214	17,029	22,975	20,083	19,395
Fuel oil (extra light)	GJ	383	60	3,665	1,561	157
Generated electric power – alternative sources (total)	GJ	**46,909**	**46,014**	**49,855**	**49,212**	**48,421**
Solar power plant	GJ	223	258	238	241	223
Cogeneration	GJ	46,686	45,756	49,617	48,180	48,989
Energy intensity						
Specific use of energy	MJ/€	1.80	1.83	1.78	1.83	1.80
Specific use of energy	TJ/billion units	83.6	82.8	85.9	91.7	87.9
Waste water (total)	m³	**1,150,578**	**1,376,629**	**1,123,735**	**1,277,944**	**1,320,903**
Cooling water	m³	298,137	509,091	315,987	458,522	558,862
Industrial wastewater	m³	852,441	867,538	807,748	819,422	762,041
– Suspended solids load	t	16.1	24.3	25.9	15.8	21.7
– Biochemical oxygen demand	t	5.0	5.8	3.7	4.7	5.3
– Chemical oxygen demand	t	38.4	43.6	67.4	74.1	80.8
– Nitrogen	t	4.8	3.9	4.1	3.7	3.1
– Phosphorus	t	0.6	0.6	0.7	0.3	0.3
Environmental load units (ELU)[3]	ELU	1,286	1,359	1,977	1,969	2,024
Waste (total)	t	**10,312**	**11,541**	**11,472**	**10,640**	**10,303**
Hazardous waste (total)	t	5,491	5,879	5,611	5,198	4,394
– Solid waste	t	670	718	735	704	608
– Liquid waste	t	4,821	5,161	4,876	4,494	3,786
Non-hazardous waste (subtotal)	t	4,821	5,662	5,816	5,442	5,909
Disposal at landfills (subtotal)	t	824	905	886	755	792
– Mixed waste (disposal)	t	824	905	886	755	792
– Biomass (disposal)	t	0	0	0	0	0
Mixed waste (energy use)	t	371	246	228	272	233
Biomass (composting)	t	1,187	1,971	2,077	2,341	2,797
Recycling waste (total)	t	2,422	2,524	2,610	2,063	2,079
– Paper	t	1,191	1,097	1,038	1,018	1,021
– Plastics	t	432	392	295	273	301
– Glass	t	125	132	118	86	119
– Metal	t	201	193	436	159	126
– Wood	t	473	710	723	527	512
Electric and electronic equipment	t	17	16	15	11	8

		2018	2017	2016	2015	2014
Air emissions						
Energy related CO_2 – direct	t CO_2-eq[4]	34,242	33,603	33,227	32,288	30,147
Energy related CO_2 – indirect	t CO_2-eq	45,710	43,761	43,115	42,430	40,273
Energy related SO_2	t	1	1	1	1	1
Energy related NO_x	t	27.6	27	28	26	24
Ozone-depleting substances and fluorinated greenhouse gases	t CO_2-eq	1954	2267	2366	1298	1421
Compliance						
Extraordinary events related to environment		3	0	0	0	0
Environmental protection (total)	**In € thousand**	**6,738**	**6,585**	**6,004**	**7,010**	**6,531**
Environmental protection costs	In € thousand	5,107	4,882	4,540	4,361	4,154
Investments in environmental programmes	In € thousand	1,631	1,703	1,464	2,649	2,377
SOCIETY						
Number of employees		**5,496**	**5,020**	**4,889**	**4,798**	**4,738**
Slovenia		4,995	4,514	4,343	4,292	4,256
Representative offices abroad		501	506	546	506	482
Health and safety						
Sick leave rate	%	6.8	6.3	5.8	5.6	5.1
Number of accidents		18	27	21	23	22
Lost time accident rate (LTAR)		1.9	3.3	2.9	3.1	3.2
Proportion of disabled employees	%	5.4	5.5	5.1	5.0	5.1
Education and training						
Number of education and training hours	hour/employee	42	42	37	60	42
Education and training costs	€/employee	881	862	854	745	741

[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 CO_2 was based on the emission factors published on the website of the Slovenian Environment Agency.

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2018 FINANCIAL REPORT

KRKA

Living a healthy life.

CONTENTS

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 Krka and the Krka Group are presented in euros, rounded to the nearest thousand. They are an integral part of the *2018 Annual Report*, which is published via the SEOnet electronic announcement system of theLjubljana Stock Exchange, via the ESPI system of the Warsaw Stock Exchange and on the Krka website (http://www.krka.si/sl/za-vlagatelje/financna-porocila/).

Each section of the financial statements was audited by ERNST & YOUNG Revizija, poslovno svetovanje, d. o. o., and two separate reports as individual 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 2018.

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 Company 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, 26 March 2019

Management Board
Krka, d. d., Novo mesto

CONSOLIDATED FINANCIAL STATEMENTS OF THE KRKA GROUP

Consolidated statement of financial position

In € thousand	Notes	31 Dec 2018	31 Dec 2017
Assets			
Property, plant and equipment	12	839,448	864,842
Intangible assets	13	110,329	110,992
Loans	14	10,810	9,543
Investments	15	9,389	8,815
Deferred tax assets	16	40,376	38,475
Other non-current assets		459	341
Total non-current assets		**1,010,811**	**1,033,008**
Assets held for sale		41	41
Inventories	17	365,149	310,671
Contract assets		395	0
Trade receivables	18	438,291	500,735
Other receivables	18	26,370	27,302
Loans	14	21,491	1,426
Investments	15	4,720	0
Cash and cash equivalents	19	117,801	45,948
Total current assets		**974,258**	**886,123**
Total assets		**1,985,069**	**1,919,131**
Equity			
Share capital	20	54,732	54,732
Treasury shares	20	-52,076	-40,588
Reserves	20	104,062	111,477
Retained earnings	20	1,430,817	1,361,107
Total equity holders of the controlling company		**1,537,535**	**1,486,728**
Non-controlling interests	20	2,735	971
Total equity		**1,540,270**	**1,487,699**
Liabilities			
Provisions	22	100,989	98,075
Deferred revenue	23	9,798	10,953
Deferred tax liabilities	16	12,271	12,154
Total non-current liabilities		**123,058**	**121,182**
Trade payables	24	136,806	108,340
Income tax payable		3,842	16,142
Current contract liabilities	25	110,225	-
Other current liabilities	26	70,868	185,768
Total current liabilities		**321,741**	**310,250**
Total liabilities		**444,799**	**431,432**
Total equity and liabilities		**1,985,069**	**1,919,131**

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction with them.

Consolidated income statement

In € thousand	Notes	2018	2017
Revenues		**1,331,858**	**1,266,392**
- revenue from contracts with customers	5	1,327,190	-
- other revenues		4,668	-
Cost of goods sold		-561,131	-538,540
Gross profit		**770,727**	**727,852**
Other operating income	6	12,806	10,433
Selling and distribution expenses		-344,701	-340,455
- of that net impairment and write-down of receivables		-238	-
R&D expenses		-130,700	-125,864
General and administrative expenses		-75,446	-73,225
Operating profit		**232,686**	**198,741**
Financial income	10	5,935	24,041
Financial expenses	10	-36,048	-46,608
Net financial result		**-30,113**	**-22,567**
Profit before tax		**202,573**	**176,174**
Income tax	11	-28,565	-23,598
Net profit		**174,008**	**152,576**
Attributable to:			
– equity holders of the controlling company		174,585	152,600
– non-controlling interests		-577	-24
Basic earnings per share (in €)	**21**	**5.46**	**4.74**
Diluted earnings per share (in €)	**21**	**5.46**	**4.74**

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction with them.

Consolidated statement of other comprehensive income

In € thousand	Notes	2018	2017
Net profit		**174,008**	**152,576**
Other comprehensive income for the year			
Other comprehensive income reclassified to profit or loss at a future date			
Translation reserve	20	-19,510	-8,378
Change in fair value of financial assets	20	568	-1,345
Deferred tax effect	20	-108	256
Net other comprehensive income reclassified to profit or loss at a future date	**20**	**-19,050**	**-9,467**
Other comprehensive income that will not be reclassified to profit or loss at a future date			
Restatement of post-employment benefits	22	-520	-235
Deferred tax effect	22	76	-6
Net other comprehensive income that will not be reclassified to profit or loss at a future date		**-444**	**-241**
Total other comprehensive income net of tax		**-19,494**	**-9,708**
Total comprehensive income net of tax		**154,514**	**142,868**
Attributable to:			
– equity holders of the controlling company		155,093	142,892
– non-controlling interests		-579	-24

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction with them.

Consolidated statement of changes in equity

In € thousand	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	Total equity holders of the controlling company	Non-controlling interests	Total equity
			Reserves						Retained earnings					
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														
Formation of other profit reserves under the resolution of the Management and Supervisory Boards	0	0	0	0	0	0	0	0	38,216	-38,216	0	0	0	0
Transfer of previous period's profits 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.

			Reserves						Retained earnings					
In € thousand	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	Total equity holders of the controlling company	Non-controlling interests	Total equity
At 1 Jan 2017	**54,732**	**-29,690**	**29,690**	**105,897**	**14,990**	**30,000**	**-11,802**	**-59,097**	**1,102,165**	**107,670**	**98,833**	**1,443,388**	**1,056**	**1,444,444**
Net profit	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**152,600**	**152,600**	**-24**	**152,576**
Total other comprehensive income net of tax	**0**	**0**	**0**	**0**	**0**	**0**	**-721**	**-8,378**	**0**	**-609**	**0**	**-9,708**	**0**	**-9,708**
Total comprehensive income net of tax	**0**	**0**	**0**	**0**	**0**	**0**	**-721**	**-8,378**	**0**	**-609**	**152,600**	**142,892**	**-24**	**142,868**
Transactions with owners, recognised in equity														
Formation of other profit reserves under the resolution of the Management and Supervisory Boards	0	0	0	0	0	0	0	0	27,007	-27,007	0	0	0	0
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0	0	0	0	98,833	-98,833	0	0	0
Repurchase of treasury shares	0	-10,898	0	0	0	0	0	0	0	0	0	-10,898	0	-10,898
Formation of reserves for treasury shares	0	0	10,898	0	0	0	0	0	0	0	-10,898	0	0	0
Acquisition of a stake in Golf Grad Otočec	0	0	0	0	0	0	0	0	0	-10	0	-10	-61	-71
Dividends paid	0	0	0	0	0	0	0	0	0	-88,644	0	-88,644	0	-88,644
Total transactions with owners, recognised in equity	**0**	**-10,898**	**10,898**	**0**	**0**	**0**	**0**	**0**	**27,007**	**-16,828**	**-109,731**	**-99,552**	**-61**	**-99,613**
At 31 Dec 2017	**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**

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction with them.

Consolidated statement of cash flows

In € thousand	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		**174,008**	**152,576**
Adjustments for:		**130,325**	**136,751**
– amortisation/depreciation	12,13	110,594	107,897
– foreign exchange differences		-6,750	-1,667
– investment income		-7,978	-25,276
– investment expenses		3,806	30,328
– interest expense and other financial expenses		2,198	1,871
– financial income		-110	0
– income tax	11	28,565	23,598
Operating profit before changes in net current assets		**304,333**	**289,327**
Change in trade receivables		61,863	11,834
Change in inventories		-54,478	-30,018
Change in trade payables		29,634	-13,222
Change in provisions		852	5,605
Change in deferred revenue		-1,155	-1,205
Change in other current liabilities		-8,326	-23,399
Income tax paid		-42,771	-11,095
Net cash from operating activities		**289,952**	**227,827**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		470	922
Proceeds from sale of current investments		0	2
Dividends received		975	15
Proceeds from sale of property, plant and equipment		1,526	1,283
Purchase of intangible assets	13	-6,984	-5,385
Purchase of property, plant and equipment	12	-86,259	-106,507
Acquisition of subsidiaries and a share of minority interests net of financial assets acquired		0	-70
Non-current loans		-2,881	-2,386
Proceeds from repayment of non-current loans		1,086	1,372
Acquisition of non-current investments		-153	-152
Proceeds from sale of non-current investments		27	41
Payments for/Proceeds from current investments and loans		-22,681	8,353
Payments for derivative financial instruments		-2,737	-27,094
Proceeds from derivative financial instruments		3,255	9,474
Net cash from investing activities		**-114,356**	**-120,132**
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		-657	-444
Dividends and other profit shares paid		-92,811	-88,749
Repurchase of treasury shares		-11,488	-10,898
Proceeds from payment of non-controlling interests		2,343	0
Net cash from financing activities		**-102,613**	**-100,091**
Net increase in cash and cash equivalents		**72,983**	**7,604**
Cash and cash equivalents at beginning of year		45,948	38,630
Effect of foreign exchange rate fluctuations on cash held		-1,130	-286
Closing balance of cash and cash equivalents		**117,801**	**45,948**

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 2018 relate to the Krka Group consisting of the controlling company and its subsidiaries in Slovenia and abroad.

The Krka Group engages 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 Management Board of Krka on 4 March 2019.

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. 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 of the controlling company to make judgements, estimates and assumptions that affect the carrying amounts of assets and liabilities of the Group as well as the reported income and expenses for the period.

The 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 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 the estimates. In accounting estimates, the management makes judgements in consideration of 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 of

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 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 Group expects to be entitled in exchange for those goods or services, while considering specific terms and conditions of an individual contract. In determining the variable consideration, the Group considers returns separately, taking into consideration contractual terms and conditions for the sale of products and services to customers, legally prescribed provisions and business practices in a given environment. To estimate the amount of the variable consideration, the Group applies either the most likely amount method or the expected value method (whichever best predicts the amount of variable consideration to which the Group will be entitled).

  Considering a large number of contracts concluded he Group determined that the expected value method was the appropriate method to use in estimating the variable consideration for the sale of products with rights of return. In estimating the variable consideration for the sale of products with volume rebates, the Group determined that using a combination of the most likely amount method and expected value method was the most appropriate. The selected method that best predicts the amount of variable consideration was primarily driven by the number of volume thresholds contained in the contract, legally prescribed provisions, and established business practices in different environments. The most likely amount method is used for contracts with a single volume threshold, while the expected value method is used for contracts with more than one volume threshold.

  Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration were not constrained based on its historical experience, business forecast, and the current economic conditions.

  The Group sells products for which payment terms extend over the period of 12 months on certain markets where it operates. Hence, the Group recognises financial income and expenses on those sales by application of relevant discount rates.

- 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 management of the controlling company to assess estimated future cash flows from each cash generating unit, and 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 they 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 a 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 assessment, 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 Group. The Management Board of the controlling company continually assess contingent liabilities to determine whether an outflow of resources embodying economic benefits has become probable. In this case, a provision is recognised in the financial statements of the period in which the change in probability occurs.

- Note 25 *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.

2. Significant accounting policies

The Krka Group applies the same accounting policies in all periods presented in the accompanying consolidated financial statements.

The Krka Group companies apply uniform accounting policies. Accounting policies applied by subsidiaries have been changed where necessary and adjusted to the policies applied by the Group.

The accounting policies and calculation methods used are consistent with those applied in the previous year, except for application of the newly adopted standards and interpretations as noted below and which have been applied if relevant events occurred in the Group in the reporting period.

New standards and interpretations effective from 1 January 2018

IFRS 9 – Financial Instruments

The final version of *IFRS 9 Financial Instruments* reflects all phases of the financial instruments project and replaces *IAS 39 – Financial Instruments: Recognition and Measurement* and all previous versions of the *IFRS 9*. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

The *IFRS 9* introduces a revised model of financial asset impairment, which is based on expected losses rather than on past losses. The management has assessed the impact of the amendments of the standard on the financial statements and considers that, given the nature of the Krka Group financial assets and the method of determining impairments, the amendments will not have a significant impact on the amount of impairments.

The classification and measurement requirements of the *IFRS 9* did not have a significant impact on the financial statements of the Krka Group. The following are changes in the classification of the Krka Group financial assets:

- Listed equity investments previously classified as available-for-sale financial assets are classified and measured as financial assets at fair value through other comprehensive income.
- Equity investments in non-listed companies previously classified as available-for-sale financial assets are classified and measured as financial assets at fair value through other comprehensive income.
- Loans previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as financial assets at amortised cost.

Categories of financial assets measured under the *IAS 39* (as reported in the financial statements of previous periods) and under the *IFRS 9* (as reported in the 2018 financial report) for the financial year 2017, are presented below:

		31 Dec 2018 under IFRS 9		
In € thousand	**31 Dec 2017 under IAS 39**	**Fair value through profit or loss**	**Amortised cost**	**Fair value through OCI**
Loans and receivables				
Trade and other receivables	528,037	0	528,037	0
AFS financial assets				
Investments in listed companies	7,434	0	0	7,434
Investments in non-listed companies	1,381	0	0	1,381
Total	**536,852**	**0**	**528,037**	**8,815**

The Krka Group applied the *IFRS 9* for the first time for the period for which the financial statements have been compiled. The Group applied the simplified method and has not restated the comparative information. No cumulative effect of the retained earnings opening balance adjustment occured on the transition to the new standard.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 establishes a five-step model that will apply to revenue earned from contracts with customers (with limited exceptions), regardless of the type of revenue transaction or the industry. The requirements of the standard also apply to the recognition and measurement of gains and losses on the sale of certain non-financial assets that are not an output of the entity's ordinary activities (e.g., sale of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations relating to the sale of assets or services; changes in contract asset and liability account balances between periods and key management judgements and estimates.

Revenue from contracts with customers is earned from the sale of human health products (prescription pharmaceuticals, non-prescription products) and animal health products, and material, and health-resort and tourist services. The performance obligation is fulfilled when the goods are dispatched or accepted by the customer. The performance obligation from contracts for rendering services is fulfilled when the relevant service is performed. Based on the result of an analysis performed, the management has assessed the impact of the standard on the financial statements and considers that the *IFRS 15* has no significant impact on the timing of the recognition or the amount of revenue recognised under these circumstances.

The Krka Group applied the *IFRS 15* for the first time for the period for which the financial statements have been prepared, applying the modified retrospective approach. No cumulative effect of the retained earnings opening balance adjustment occurred on the transition to the new standard.

As the Group applied the modified approach, the 2017 comparative data in the statements of financial position and profit and loss were not restated. The following reclassification of comparative data was made as at 1 January 2018 due to the amendments to the *IFRS 9* and *IFRS 15*):

Income statement

In € thousand	**2017**	**Effect of IFRS 15**	**Effect of IFRS 9**	**Effect of the new IFRSs at 1 Jan 2018**
Net sales	1,266,392	-996	-	1,265,396
Other operating income	10,433	-996	-1,845	9,584
Operating costs	-1,078,084	-	-1,845	-1,076,239

Statement of financial position

In € thousand	**31 Dec 2017**	**Effect of IFRS 15**	**Effect of IFRS 9**	**1 Jan 2018**
Non-current assets				
AFS financial assets	8,815	-	-8,815	-
Financial assets at fair value through OCI (equity instruments)	-	-	8,815	8,815
Current operating liabilities				
Trade payables	108,340	-3,294	-	105,046
Current contract liabilities	-	129,900	-	129,900
Other current liabilities	185,768	-126,606	-	59,162

Clarifications to IFRS 15 – Revenue from Contracts with Customers

The objective of the *Clarifications* is to clarify the IASB's intentions when developing the requirements in the *IFRS 15 – Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the 'separately identifiable' principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The *Clarifications* also provide additional practical expedients for entities that either apply the *IFRS 15* fully retrospectively or that elect to apply the modified retrospective approach.

The management has assessed the impact of the clarifications and believes they will have no significant impact on the consolidated financial statements of the Krka Group.

Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions

The *Amendments* provide requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and modifications to the terms and conditions of share-based payments that change the classification of the transaction from cash-settled to equity-settled.

The management has assessed the impact of the *Amendments* and believe they will have no impact on the consolidated financial statements of the Krka Group.

Amendments to IAS 40 – Transfers of Investment Property

The *Amendments* clarify when an entity should transfer property, including property under construction or development into or out of investment property. The *Amendments* state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of a change in use. A mere change in management's intentions for the use of a property does not provide evidence of the change in use.

The management has assessed the impact of the *Amendments* and believe they will have no significant impact on consolidated financial statements of the Krka Group.

IFRIC Interpretation 22 – Foreign Currency Transactions and Advance Consideration

The *Interpretation* clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The *Interpretation* covers foreign currency transactions when an entity recognises a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The *Interpretation* states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transaction for each payment or receipt of advance consideration.

The management has assessed the impact of the *Amendments* and believe they will have no significant impact on the consolidated financial statements of the Krka Group.

Annual improvements to standards and interpretations; 2014–2016 cycle

The IASB has issued the *Annual Improvements to IFRSs 2014–2016 Cycle*, which is a collection of amendments to *IFRS*s.

IFRS 1 – First-time Adoption of International Financial Reporting Standards

The improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits, and investment entities applicable to first time adopters.

IAS 28 – Investments in Associates and Joint Ventures

The *Amendments* clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The management has assessed the impact of the improvements and believe they will have no impact on the consolidated financial statements of the Krka Group.

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, currently exercisable or exchangeable potential voting rights 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 Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the prevailing exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date when the fair value was determined. Foreign currency differences are recognised in profit or loss, except for differences arising on the translation of 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 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 characteristics of contractual cash flows of financial assets and the business model of the Group for managing them. With the exception of trade receivables that do not contain a significant financing component, or for which the Group has applied the practical expedient, the Group initially measures a financial asset at fair value plus, in 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 Group has applied the practical benefit are measured at the transaction price determined under *IFRS 15*. Refer to the accounting policies in section 'Revenue from contracts with customers'.

In order to classify and measure financial assets at amortised cost or fair value through OCI, a financial asset 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 business model of the Group for managing financial assets refers to how the Group 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 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 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);
- financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

According to the SSPI test, loans issued by the 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.

Also included in the category of financial assets at amortised cost are 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 revaluation and impairment losses or reversal are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at cost. The remaining fair value changes are recognised directly in other comprehensive income. 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)

Upon initial recognition, the Krka Group classified its investments in equity securities as financial assets at fair value through other comprehensive income. The Group elected to irrevocably classify all its equity investments (listed and non-listed) into this category. 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.

Subsequent to initial recognition, they are measured at fair value. The fair value changes are recognised directly in other comprehensive income. Upon derecognition, the associated gains or losses are recycled 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 consolidated financial statements of the Group in the period in which they are declared by the Annual General Meeting.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (see the accounting policy 'Impairment').

Costs include expenditures that are directly attributable to the acquisition of an asset. The costs of a self-constructed asset include the costs of materials and direct labour, any other directly attributable costs of making the asset ready for its intended use, and (if applicable) costs of dismantling and removing the items and restoring the site on which they are located, as well as capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined as the difference between proceeds from disposal and the carrying amount of property, plant and equipment and are recognised within other 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 costs of an item of property, plant and equipment of the Krka Group. If borrowings raised by the Group are 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 were not settled in the accounting period. The pro-rata amount of costs increases the costs 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 costs of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its costs 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 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 date. As from 1 January 2013, the TAD Pharma trademark is recognised as an intangible asset with 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 Group are recognised in profit or loss as incurred.

Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses (see the 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 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 trademark.

Inventories

In the statement of financial position, inventories are measured at the lower of cost or net realisable value. Net realisable value is the estimated selling price at the reporting date less selling expenses and other possible administrative expenses, which are usually connected with the sale.

An inventory unit of raw materials and materials, as well as ancillary and packaging materials is valued at cost including all direct cost of purchase. Inventories of material are carried at moving average prices. Inventories of finished products and work in progress are carried at standard cost, which in addition to direct costs of material includes also costs of production, such as: direct labour costs, direct costs of depreciation, direct costs 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 goods is valued at cost including cost of purchase, import duties and all costs directly attributable to the acquisition, decreased by discounts. Inventories of goods are carried at moving average prices.

Impairment

Financial assets

The 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 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 (ECLs) 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 Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The 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.

Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient (contracts agreed for a period of one year or shorter) are measured at the transaction price determined under *IFRS 15*, less any impairment losses. The Group applies a simplified approach in calculating expected credit losses (ECLs). Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. 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 non-financial assets of the Group are reassessed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset 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 with respect to 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 with respect to goodwill is not reversed. With respect to 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 carrying amount of an asset 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 situated, the Group is liable to pay to its employees anniversary bonuses and termination benefits upon retirement. Provisions are set aside for these obligations. The Group has no other pension obligations.

Provisions are determined by discounting, at the reporting date, the estimated future benefits with respect to 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 costs of interest are recognised in the profit or loss, whereas restatement of post-employment benefits or unrealised actuarial profit or loss is recognised in other comprehensive income.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Provisions for lawsuits

The Group discloses provisions for lawsuits related to alleged patent infringements. The eligibility of provisions formed with regard to 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.

Revenue from contracts with customers

The Krka Group engages 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 Group expects to be entitled in exchange for those goods or services, while considering specific terms and conditions of each 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 the services are performed. The normal credit term is 30 to 120 days.

The Group considers whether there are other promises in the contract 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 Group considers the effects of variable consideration and the existence of significant financing components.

Variable compensation

If the consideration in a contract includes a variable amount, the Group estimates the amount of the 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 recognized 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 the 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 Group uses the expected value method to estimate the value of goods that will not be returned because this method best predicts the amount of the variable consideration to which the Group will be entitled. The requirements of the *IFRS 15* on constraining estimates of the variable consideration are also applied in order to determine the amount of the variable consideration that can be included in the transaction price. For goods that are expected to be returned instead of revenue, the Group recognises a refund liability. The right of return asset (and corresponding adjustment to costs of sales) is also recognised for the right to recover products from a customer.

Bonuses and volume rebates

The 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 Group considers the terms and conditions of the contract, including criteria and elements that provide the basis for recognition of bonuses and volume rebates.

The Group provides volume rebates to governments, various ministries and insurance companies based on public tenders issued in individual countries. The amount depends on agreed tender conditions and contractual provisions, as well as on the actual volumes supplied.

Significant financing component

In certain cases the Group receives short-term advances from its customers. Using the practical expedient under the *IFRS 15.63*, the Group does not adjust the promised amount of the 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 shorter.

Contract balances

Contract assets

A contract asset is the right to an amount of the consideration in exchange for goods or services transferred to the customer. If the Group transfers goods or services to a customer before the consideration or payment by the customer is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the right of the Group to an amount of the consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets, section 'Initial recognition and measurement'.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration due) from the customer. If a customer pays consideration before the Company 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 Group performs under the contract.

Right of return assets

Right of return assets represents the right of the Group to recover the goods expected to be returned by a 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 the returned goods. The 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 a part of or total consideration received (or receivable) from the customer. It is measured at the amount the Group ultimately expects to return to the customer.

The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period. Refer to the above accounting policy on variable consideration.

Government grants

Revenues from government grants are initially recognised when there is a reasonable assurance that the grant will be received and that the Group will comply with the conditions associated with the grants. Revenues that compensate the expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the revenue is recognised. Revenues that compensate an entity for the costs of an asset are recognised in profit or loss under other operating revenues 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 which 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 with respect to 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: 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 they will not be reversed 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 against which the deferred tax asset can be utilised will be available. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Earnings per share

The Krka Group presents basic and diluted earnings per share (EPS) data. EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS equals the basic EPS, as all shares of the Krka Group belong to the same class of ordinary no-par value shares.

Segment reporting

An operating segment is a distinguishable component of the Group that engages in providing products or services within a particular geographically defined economic environment. Segments differ in terms of risks and returns. Segment reporting of the Krka Group is based on the Group's internal reporting system applied by the management of the controlling company in the decision-making process.

The segments include: the European Union (all member states), South-East Europe (Serbia, Bosnia and Herzegovina, the Republic of North Macedonia, Montenegro, Kosovo, Albania) and East 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 costs 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 become effective by the financial statement preparation date and will be applied in the future periods. The Krka Group did not apply any amended standards or interpretations prior to their effective date. The Krka Group will apply the new and revised standards and interpretations when they become effective.

IFRS 16 – Leases

The *IFRS 16* is effective for annual periods beginning on or after 1 January 2019. The *IFRS 16* sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognise most leases in their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

Due to changes in the treatment of leases by lessees, the *IFRS 16* will affect Krka's financial statements. Under the amended standard, leases will be recognised in the statement of financial position as a financial liability and an asset that is the lessee's right to use the asset. The Krka Group will apply the *IFRS 16* standard when it comes into effect (1 January 2019) and recognise a cumulative effect of transition to the new standard as a modified opening balance of retained earnings with no retrospective restatement of the comparable data. The management has assessed that the standard will have no impact on the opening balance of retained earnings as liabilities for leases and assets that represent the right to use are recognised in equal amounts. The Group will apply the expedient in the standard for leases whose life period is less than 12 months of the date of initial use and for leases of low value assets. Operating lease liabilities of the Krka Group as at 31 December 2018 are disclosed in Note 30.

On application of *IFRS 16*, a part of the lease costs currently recognised as operating expenses, will in the future be recognised as interest expense. Consequently, cash flows from operations will become cash flows from financing. Considering the level of operating lease commitments and assuming there is no change in the interest rate, the management of Krka expects the following impact of the revised standard:

In € thousand	**Impact on income statement for FY 2019**
Amortisation and depreciation	2,640
Lease liability	-3,063
Operating profit	424
Financial expenses	738
Profit before tax	-315

In € thousand	**Impact on statement of financial position as at 31 Dec 2018**
The right to use assets	**25,486**
Current liabilities	2,849
Non-current liabilities	22,637
Impact on equity	**0**

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 acknowledge inconsistency between the requirements in the *IFRS 10* and those in the *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. The IASB has postponed the effective date of the *Amendments* indefinitely pending the outcome of its research project on the equity method of accounting. The *Amendments* have not yet been endorsed by the EU.

The management has assessed the impact of the *Amendments* on the financial statements of the Krka Group and believe they will have no impact on its consolidated financial statements.

Amendments to IFRS 9 – Prepayment Features with Negative Consideration

The *Amendments* are effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. 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 'negative compensation') to be measured at amortised cost or at fair value through OCI.

The management has assessed the impact of the *Amendments* on the financial statements of the Krka Group and will apply them when they enter into force.

Amendments to IAS 28 – Investments in Associates and Joint Ventures

The *Amendments* are effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. 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 the *IFRS 9*, *IAS 28* or a combination of both. The *Amendments* clarify that an entity applies the *IFRS 9 – Financial Instruments*, before it applies the *IAS 28*, to such long-term interests for which the equity method is not applied. In applying the *IFRS 9*, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying the *IAS 28*. The *Amendments* have not yet been endorsed by the EU.

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.

IFRIC Interpretation 23 – Uncertainty over Income Tax Treatments

The *Interpretation* is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. The *Interpretation* addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of the *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.

Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement

The *Amendments* are effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. The *Amendments* require entities to use updated actuarial assumptions to determine current service costs 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 *Amendments* have not yet been endorsed by the EU.
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 *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 yet been endorsed by the EU.

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 *Amendments* have not yet been endorsed by the EU.

The management has assessed the impact of the *Amendments* on the financial statements of Krka and will apply them when they come into force.

Annual improvements of 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 *IFRS*s. The *Amendments* are effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. The improvements have not yet been endorsed by the EU.

The management has assessed the impact of the *Interpretations* and believes they will have no significant impact on the consolidated financial statements.

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 – Joint Arrangements 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.

The Amendments to IAS 12 – Income Tax clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits have been recognised.

The Amendments to IAS 23 – Borrowing Costs 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.

3. Determination of fair value

A number of accounting policies and disclosures of the Krka Group 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 Group reports in terms of certain geographical segments. Revenues generated by individual segments are presented in terms of customers' geographical location.

Segment reporting

	European Union		South-East Europe		East Europe		Other		Disposals		Total	
In € thousand	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenues from external customers	**795,646**	**768,804**	**71,942**	**62,391**	**413,797**	**388,220**	**50,473**	**46,976**	**0**	**0**	**1,331,858**	**1,266,392**
- revenues from contracts with customers	792,489	-	71,801	-	412,955	-	49,945	-	0	0	1,327,190	0
- other revenues	3,157	-	141	-	842	-	528	-	0	0	4,668	0
Sales between group companies	**203,309**	**229,510**	**39,672**	**32,875**	**234,195**	**236,191**	**20**	**0**	**-477,196**	**-500,012**	**0**	**0**
Other operating income	8,877	6,356	29	155	3,892	3,923	8	0	0	0	12,807	10,433
Operating costs	-692,573	-664,576	-51,089	-46,869	-335,454	-339,053	-32,862	-27,585	0	0	-1,111,979	-1,078,084
Operating expenses to Group companies	-354,817	-378,715	-44,872	-37,612	-470,332	-445,788	-765	-7	870,786	862,122	0	0
Operating profit	**111,950**	**110,583**	**20,881**	**15,677**	**82,235**	**53,090**	**17,620**	**19,391**	**0**	**0**	**232,685**	**198,741**
Interest income	200	200	1	4	263	717	5	0	0	0	470	922
Interest income from Group companies	267	675	0	0	1	3	0	0	-268	-678	0	0
Interest expense	-50	-188	0	0	-597	3	0	0	0	0	-648	-186
Interest expense to Group companies	-312	-275	0	0	-63	-292	0	0	375	567	0	0
Net financial result	-2,971	1,345	-367	540	-27,079	-24,201	305	-251	0	0	-30,112	-22,567
Income tax	-13,013	-12,926	-2,159	-1,800	-11,959	-7,243	-1,434	-1,629	0	0	-28,565	-23,598
Net profit	**95,966**	**99,003**	**18,355**	**14,418**	**43,197**	**21,646**	**16,490**	**17,511**	**0**	**0**	**174,008**	**152,576**
Investments	90,152	100,782	377	327	5,381	3,979	382	0	0	0	96,293	105,088
Depreciation of property, plant and equipment	73,170	67,477	2,222	1,932	27,187	30,420	693	408	0	0	103,272	100,237
Amortisation of intangible assets	4,562	4,704	318	289	2,233	2,463	209	204	0	0	7,322	7,660
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Total assets	**1,552,922**	**1,461,851**	**48,132**	**40,855**	**367,867**	**405,694**	**16,148**	**10,731**	**0**	**0**	**1,985,069**	**1,919,131**
Goodwill	42,644	42,644	0	0	0	0	0	0	0	0	42,644	42,644
Trademark	37,530	38,163	0	0	0	0	0	0	0	0	37,530	38,163
Total liabilities	**325,099**	**327,324**	**10,877**	**9,453**	**84,514**	**77,273**	**24,309**	**17,382**	**0**	**0**	**444,799**	**431,432**

5. Revenue from contracts with customers

Breakdown of revenue from contracts with customers

In € thousand	2018	2017*
Revenue from contracts with customers (products)	1,289,155	1,225,202
Revenue from contracts with customers (health-resort and tourist services)	37,592	35,696
Revenue from contracts with customers (materials)	443	682
Total revenue from contracts with customers	**1,327,190**	**1,261,580**

**Comparative figures for 2017 under* IFRS 15

Revenue from contracts with customers by region

In € thousand	2018	2017*
Slovenia	51,280	49,569
South-East Europe	176,206	160,963
East Europe	412,945	386,885
Central Europe	318,259	303,582
West Europe	287,076	285,321
Overseas Markets	43,389	38,882
Total	**1,289,155**	**1,225,202**

**Comparative figures for 2017 under* IFRS 15

Revenue from contracts with customers by product group

In € thousand	2018	2017*
Prescription pharmaceuticals	1,102,802	1,043,469
Non-prescription products	123,184	118,517
Animal health products	63,169	63,216
Total	**1,289,155**	**1,225,202**

**Comparative figures for 2017 under* IFRS 15

Contract balances

Trade receivable data are explained in Note 21; liabilities from contracts with customers are explained in Note 25, while contract assets are reported in the consolidated statement of financial position.

Right of return assets and liabilities

The Group recognised right of return liabilities in contracts that include the right of return (due to past use-by date), and accrued volume discounts on products sold to other customers.

Performance obligations

The Krka Group engages 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 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, the transfer occurs when the customer accepts the goods in accordance with INCOTERMS 2010 or when 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 had no outstanding performance obligations or costs incurred on acquisition or fulfilment of contracts with customers.

6. Other operating income

In € thousand	2018	2017
Reversal of non-current provisions	2,180	82
Deferred revenue reversal	1,441	1,481
Gains on sale of property, plant and equipment and intangible assets	2,152	1,235
Reversal of receivable allowances	-	1,845
Collected written-off receivables	-	0
Other operating income	7,018	5,790
Total other operating income	**12,806**	**10,433**

Detailed information on non-current provisions reversal is included in Note 22.

7. Costs by nature

In € thousand	2018	2017
Cost of goods and materials	329,301	344,257
Cost of services	249,490	250,071
Employee benefits	379,151	352,064
Amortisation and depreciation	110,594	107,897
Inventory write-offs and allowances	28,016	17,482
Receivable impairments and write-offs (net)	238	-
Receivable impairments and write-offs	-	4,310
Formation of provisions for lawsuits	2,145	4,345
Other operating expenses	39,271	37,333
Total costs	**1,138,206**	**1,117,759**
Change in the value of inventories of products and work in progress	-26,228	-39,675
Total	**1,111,978**	**1,078,084**

8. Employee benefits

In € thousand	2018	2017
Gross wages and salaries and continued pay	295,977	273,081
Social security contributions	23,199	21,307
Pension insurance contributions	39,948	38,181
Payroll tax	1,050	1,138
Post-employment benefits and other non-current employee benefits	4,680	4,894
Other costs of labour	14,297	13,463
Total employee benefits	**379,151**	**352,064**

Post-employment benefits and other non-current employee benefits are explained in detail in Note 22. Other employee benefits included primarily the vacation bonus and commuting allowances.

9. Other operating expenses

In € thousand	2018	2017
Grants and assistance for humanitarian and other purposes	1,833	1,605
Environmental protection expenditure	3,891	4,039
Other taxes and levies	28,392	24,558
Loss on sale of property, plant and equipment and intangible assets	1,070	2,950
Other operating expenses	4,085	4,181
Total other operating expenses	**39,271**	**37,333**

Other levies included €24,292 thousand of various taxes and levies paid on pharmaceuticals and fees paid to associates in individual foreign countries (2017: €20,083 thousand).

10. Financial income and expense

In € thousand	2018	2017
Interest income	470	922
Gains on disposal of securities	0	2
Derivatives income	5,339	22,144
- realised revenue	3,255	9,474
- fair value change	2,084	12,670
Income from dividends and other shares of the profit	17	973
Other financial income	109	0
Total financial income	**5,935**	**24,041**
Net foreign exchange differences	-30,758	-17,263
Interest expense	-648	-185
Derivatives expenses	-2,737	-27,378
- incurred expenses	-2,737	-27,094
- fair value change	0	-284
Other financial expenses	-1,905	-1,782
Total financial expenses	**-36,048**	**-46,608**
Net financial result	**-30,113**	**-22,567**

11. Income tax

Adjustment to effective tax rate

In € thousand	2018	2017
Income tax	30,625	30,884
Deferred tax	-2,060	-7,286
Total income tax	**28,565**	**23,598**
Profit before tax	**202,573**	**176,174**
Income tax calculated at the rate of 19-percent (the same as in 2017)	38,489	33,473
Increased expenses	-1,215	-1,324
Non-exempt expenses	4,300	-1,132
Tax incentives	-15,990	-14,513
Revenues decreasing the tax base	-300	-308
Revenues increasing the tax base	746	424
Effect of different tax rates	-81	2
Other	2,616	6,976
Total income tax	**28,565**	**23,598**
Effective tax rate	**14.1%**	**13.4%**

Major share of tax incentives represented investments in R&D and investment relief.

12. Property, plant and equipment

In € thousand	31 Dec 2018	31 Dec 2017
Land	39,996	38,863
Buildings	390,638	409,682
Equipment	352,931	375,115
Property, plant and equipment being acquired	52,359	36,650
Advances for property, plant and equipment	3,524	4,532
Total property, plant and equipment	**839,448**	**864,842**

The largest investment of the controlling company Krka in 2018, in the amount of €12,138 thousand, was construction of the laboratory facility for pharmaceutical development and control (Development and Control Centre 4, Slovene abbreviation: RKC 4); (2017: €26,114 thousand). Investment in construction of a multipurpose warehouse amounted to €9,455 thousand (2017: €2,210 thousand); investment in the establishment of packaging facilities (packaging plant 2) at the Notol 2 plant reached €5,706 thousand (2017: €230 thousand); €5,639 thousand was spent on construction of offices in Ljubljana (2017: €1,666 thousand); while €2,736 thousand was invested in expansion of the packaging capacities at the OTO plant (a plant for production of solid dosage forms). The latter is a new project introduced in 2018 and thus no comparable data for 2017 exist. A total of €3,581 thousand (2017: €3,246 thousand) was spent on various information technology and telecommunication projects.

Major investments in subsidiaries included investment in theTerme Krka subsidiary in total of €3,350 thousand (2017: €4,354 thousand). An additional €3,001 thousand was invested in the Krka-Rus subsidiary in the Russian Federation (2017: €557 thousand); €1.767 thousand was invested in the Krka-Farma Zagreb subsidiary (2017: €2,093 thousand); €678 thousand was invested in the Farma GRS subsidiary (2017: €3,613 thousand); and €341 thousand was invested in the TAD Pharma subsidiary (2017: €108 thousand).

Movement in property, plant and equipment (PP&E)

In € thousand	Land	Buildings	Equipment	PP&E being acquired	Advances for PP&E	Total
Cost						
At 1 Jan 2017	**36,575**	**776,308**	**1,000,233**	**84,635**	**6,243**	**1,903,994**
Additions	0	0	0	101,385	-1,683	99,702
Capitalisation – transfer from PP&E under construction	2,393	39,278	107,630	-149,301	0	0
Disposals, deficit, surplus	-25	-3,111	-12,457	0	0	-15,593
Translation reserve	-35	-4,813	-3,262	-95	0	-8,205
Transfers, reclassification	-45	774	-150	26	-28	577
At 31 Dec 2017	**38,863**	**808,436**	**1,091,994**	**36,650**	**4,532**	**1,980,475**
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**
Accumulated depreciation						
At 1 Jan 2017	**0**	**-373,051**	**-656,843**	**0**	**0**	**-1,029,894**
Depreciation	0	-26,535	-73,702	0	0	-100,237
Disposals, deficit, surplus	0	632	12,055	0	0	12,687
Transfers, reclassification	0	-473	299	0	0	-174
Translation reserve	0	673	1,312	0	0	1,985
At 31 Dec 2017	**0**	**-398,754**	**-716,879**	**0**	**0**	**-1,115,633**
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**
Carrying amount						
At 1 Jan 2017	**36,575**	**403,257**	**343,390**	**84,635**	**6,243**	**874,100**
At 31 Dec 2017	**38,863**	**409,682**	**375,115**	**36,650**	**4,532**	**864,842**
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**

No borrowing costs referred to the items of property, plant and equipment in 2018.

The carrying amount of the items of property, plant and equipment, which are temporarily not used, amounted to €1,443 thousand at 31 December 2018 (2017 year-end: €835 thousand).

Of total property, plant and equipment in use as at 31 December 2018, 31% was fully depreciated (2017 year-end: 27%). The share of fully depreciated property, plant and equipment was calculated in consideration of their cost. Land was excluded from the calculation.

13. Intangible assets

In € thousand	31 Dec 2018	31 Dec 2017
Goodwill	42,644	42,644
Trademark	37,530	38,163
Concessions, trademarks and licences	26,345	26,644
Intangible assets being acquired	3,810	3,541
Total intangible assets	**110,329**	**110,992**

The item of goodwill refers to the purchase of the company TAD Pharma and the item of trademark relates to TAD Pharma.

Movement of intangible assets (IA)

In € thousand	Goodwill	Trademark	Concessions, trademarks and licences	IA being acquired	Total
Cost					
At 1 Jan 2017	**42,644**	**42,403**	**115,754**	**3,672**	**204,473**
Additions	0	0	0	5,386	5,386
Transfer from IA being acquired	0	0	5,517	-5,517	0
Disposals, deficit, surplus	0	0	-336	0	-336
Translation reserve	0	0	-145	0	-145
At 31 Dec 2017	**42,644**	**42,403**	**120,790**	**3,541**	**209,378**
At 1 Jan 2018	**42,644**	**42,403**	**120,790**	**3,541**	**209,378**
Additions	0	0	0	6,980	6,980
Transfer 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**
Accumulated amortisation					
At 1 Jan 2017	**0**	**-3,392**	**-87,570**	**0**	**-90,962**
Amortisation	0	-848	-6,812	0	-7,660
Disposals, deficit, surplus	0	0	155	0	155
Translation reserve	0	0	81	0	81
At 31 Dec 2017	**0**	**-4,240**	**-94,146**	**0**	**-98,386**
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**
Carrying amount					
At 1 Jan 2017	**42,644**	**39,011**	**28,184**	**3,672**	**113,511**
At 31 Dec 2017	**42,644**	**38,163**	**26,644**	**3,541**	**110,992**
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**

Of total intangible assets in use as at 31 December 2018, 64% was fully amortised (58% as at 31 December 2017). 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 TAD Pharma subsidiary.

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 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 8.7% was applied in the projection for the TAD Pharma cash generating unit and 8.4% for Krka. Cash flows over five (5) years were extrapolated using the average annual growth of 2.0% for both cash generating units. Other significant assumptions used and set in the business strategy, included sales growth and profitability rates, as well as the planned launch of 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 the carrying amount and therefore no goodwill impairment is required.

The controlling company found no indications of goodwill impairment. The carrying amount of goodwill of €42,644 thousand has not changed compared to the previous year. The Company also made impairment test of the TAD Pharma trademark and found that the carrying amount of the trademark was €37,315 as at 31 December 2018 (2017 year-end: €38,163 thousand).

14. Loans

In € thousand	31 Dec 2018	31 Dec 2017
Non-current loans	**10,810**	**9,543**
– loans to others	10,810	9,543
Current loans	**21,491**	**1,426**
– portion of non-current loans maturing next year	1,468	1,330
– loans to others	20,023	94
– current interest receivable	0	2
Total loans	**32,301**	**10,969**

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 0.589% and 0.667% in 2018 (2017: between 0.592% and 0.726%). The maximum repayment period is 15 years.

Current loans to others include bank deposits of total €20,000 thousand maturing in more than 90 days (no deposits maturing over 90 days were placed at banks in 2017).

15. Investments

In € thousand	31 Dec 2018	31 Dec 2017
Non-current investments	**9,389**	**8,815**
- Financial assets at fair value through OCI (equity instruments)	9,389	8,815
Current investments including derivatives	**4,720**	**0**
- Financial assets at fair value through profit or loss	2,920	0
- Derivatives	1,800	0
Total investments	**14,109**	**8,815**

Financial assets at fair value through other comprehensive income (OCI) amounting to €773 thousand were investments in shares and interests in companies in Slovenia (2017 year-end: €810 thousand), and €8,616 thousand of investments in shares of companies located abroad (2017 year-end: €8,005 thousand).

Movement in financial assets at fair value through OCI

In € thousand	Financial assets at fair value through OCI
At 1 Jan 2017	**10,138**
Addition	22
Adjustment to market value	-1,345
At 31 Dec 2017	**8,815**
At 1 Jan 2018	**8,815**
Addition	6
Adjustment to market value	568
At 31 Dec 2018	**9,389**

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 €568 thousand in 2018 (2017: -€1,345 thousand).

16. Deferred tax assets and liabilities

	Assets		Liabilities	
In € thousand	2018	2017	2018	2017
Investments, property, plant and equipment and intangible assets	360	481	12,650	12,633
Financial assets at fair value through OCI (equity instruments)	1,727	1,727	1,236	1,128
Inventories	23,876	21,446	191	151
Receivables/liabilities	4,111	3,682	0	0
Dividends	0	182	0	0
Provisions for post-employment benefits and other non-current employee benefits	10,687	11,071	0	0
Transfer of tax loss	1,421	1,644	0	0
Total	**42,182**	**40,233**	**14,077**	**13,912**
Offsetting	**-1,806**	**-1,758**	**-1,806**	**-1,758**
Net	**40,376**	**38,475**	**12,271**	**12,154**

In € thousand	At 1 Jan 2017	Recognised in profit or loss	Translation reserve	Recognised in OCI	At 31 Dec 2017	Recognised in profit or loss	Translation reserve	Recognised in OCI	At 31 Dec 2018
Investments, property, plant and equipment and intangible assets	**-12,890**	738	0	0	**-12,152**	-120	-18	0	**-12,290**
Financial assets at fair value through OCI (equity instruments)	**343**	0	0	256	**599**	0	0	-108	**491**
Inventories	**14,010**	7,283	2	0	**21,295**	2,410	-20	0	**23,685**
Receivables/liabilities	**5,216**	-1,223	-311	0	**3,682**	456	-27	0	**4,111**
Dividends	**0**	182	0	0	**182**	-182	0	0	**0**
Provisions for post-employment benefits and other non-current employee benefits	**10,329**	565	183	-6	**11,071**	-281	-179	76	**10,687**
Transfer of tax loss	**1,904**	-259	-1	0	**1,644**	-223	0	0	**1,421**
Total	**18,912**	**7,286**	**-127**	**250**	**26,321**	**2,060**	**-244**	**-32**	**28,105**

Unrecognised deferred tax on account of tax losses of subsidiaries amounted to 1,435 thousand at the end of 2018 (€1,849 thousand as at the end of 2017).

17. Inventories

In € thousand	31 Dec 2018	31 Dec 2017
Material	152,087	119,775
Work in progress	94,964	77,743
Products	99,835	102,211
Goods	8,203	8,070
Advances for inventories	10,060	2,872
Total inventories	**365,149**	**310,671**

Inventory write-offs and allowances amounted to €28,016 thousand in 2018 (2017: €17,482 thousand).

18. Trade and other receivables

In € thousand	31 Dec 2018	31 Dec 2017
Current trade receivables	438,291	500,735
Other current receivables	26,370	27,302
Total receivables	**464,661**	**528,037**

Net receivable impairments and write-offs recorded within operating expenses amounted to €238 thousand in 2018.

Current trade receivables

In € thousand	Gross value	Receivable allowances	Net value at 31 Dec 2018	Net value at 31 Dec 2017
Domestic customers	11,845	110	11,735	11,028
Foreign customers	451,883	25,327	426,556	489,707
Total current trade receivables	**463,728**	**25,437**	**438,291**	**500,735**

Of the total amount, 70% of trade receivables was insured with the SID – Prva kreditna zavarovalnica, d. d. (2017 year-end: 65%).

Other current receivables

Other current receivables referred mostly to receivables due by the State. Income tax credits amounted to €1,835 thousand in 2018 (2017 year-end: €1,988 thousand), while the remaining amount of €19,162 thousand related to other receivables due by the State (2017 year-end: €18,115 thousand).

Advances for services reached €3,828 thousand (2017 year-end: €4,893 thousand).

19. Cash and cash equivalents

In € thousand	31 Dec 2018	31 Dec 2017
Cash in hand	75	120
Bank balances	117,726	45,828
Total cash and cash equivalents	**117,801**	**45,948**

The Krka Group concluded contracts with three banks on the authorised overdraft limit on bank accounts in total of €5,867 thousand (in 2017, contracts in total of €14,500 thousand were concluded with three banks). No negative balances were recorded on these bank accounts as at 31 December 2018 as no overdraft facilities were used.

Cash and cash equivalents included €9,739 thousand of bank deposits with maturity up to 90 days (2017 year-end: €21,368 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 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 was represented by 32,793,448 ordinary no-par value shares. There is solely one class of shares, whereas 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 the Company's share capital, i.e. 3,279,344 shares, whereby the total amount is inclusive of shares already held by the Company as at the date.

Based on this authorisation, the Company is allowed to acquire treasury shares on the regulated market at respective market prices. The Company 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 according to the merger-and-acquistion 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 2018

	Number of shares	**Weighted average share price** (in €)	**Value of treasury shares** (in € thousand)
At 31 Dec 2017	**691,717**		**40,588**
Repurchases in 2018	201,730	56.95	11,488
At 31 Dec 2018	**893,447**		**52,076**

The repurchases of treasury shares in 2018 referred to repurchases recorded in books of accounts in 2018. Due to the delay in postings, the number of shares differs from that actually repurchased in 2018, which was announced by the Company on the Ljubljana Stock Exchange website. Subscription fee was included in the weighted average price of shares.

The 2018 repurchases of treasury shares by days are illustrated within Enclosure 1 to the Financial Statements of the Krka Group and Krka, d. d., Novo mesto.

Reserves

The Krka Group reserves comprised reserves for treasury shares, the share premium, legal and statutory reserves, fair value reserve, and translation reserves.

Reserves for treasury shares amounted to €52,076 thousand as at the reporting date and increased by €11,488 thousand based on their formation due to an additional repurchase of treasury shares.

The share premium is to be used under the terms and for purposes defined by the applicable act. The share premium was reported at €105,897 thousand as at 31 December 2018 and consistsed of the general equity revaluation adjustment (€90,659 thousand) that was included in share premium upon transfer to the *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 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 2018, the value of reserves remained unchanged.

Legal reserves may form up to 30% of the share capital. They amounted to €14,990 thousand as at 31 December 2018 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 may be 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 increased by €605 thousand and amounted to -€11,918 thousand as at 31 December 2018. The cumulative change was due to: a €568 thousand increase in the fair value of financial assets through OCI (equity instruments); a €108 thousand decrease of the impact of deferred taxes in connection with the change in the value of these investments; a €69 thousand increase due to the restatement of post-employment benefits; and a €76 thousand increase of the impact of deferred taxes due to the restatement of post-employment benefits.

Compared to the *previous period, translation reserves* decreased by €19,508 thousand and amounted to -€86,983 thousand as at 31 December 2018. The decrease resulted from exchange rate losses occurring during the translation of individual items in financial statements of foreign operations into the reporting currency.

Retained earnings

Retained earnings grew by the majority shareholder's profit of €174,585 thousand. They, on the other hand, decreased due to allocation of accumulated profit to dividend payment (€92,798 thousand), in accordance with the resolution adopted by the 24th Annual General Meeting held on 5 July 2018, and an additional formation of €11,488 thousand of reserves for treasury shares by the controlling company in 2018.

The amount of the dividend payout shown in the statement of cash flows differs from the figure confirmed by the Annual General Meeting and included in the statement of changes in equity by dividend payouts for prior periods of €13 thousand (2017: €105 thousand).

Dividends per share

In 2018, the declared gross dividend per share was €2.90 (2017: €2.75).

Non-controlling interests

	Non-controlling interest		Equity attributable to non-controlling interest		Net profit for the year attributable to the non-controlling interest	
In € thousand	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Interest held by minority shareholders in Golf Grad Otočec*	28.9%	28.9%	846	881	-35	-37
Interest held by minority shareholders in Farma GRS, d. o. o. **	0.3 %	0.3 %	100	90	10	13
Interest held by minority shareholder in Ningbo Krka Menovo Pharmaceutical Co. Ltd.***	40.0%	0.0%	1,789		-552	
Total			**2,735**	**971**	**-577**	**-24**

*Terme Krka has a 71.10-percent holding in Golf Grad Otočec, d. o. o.; the remaining shareholders include IMP *PROMONT-ELEKTRO d. o. o. (3.05%), Abanka Vipa d. d. (6.10%), Trimo, d. d. (6.10%), Lesnina inženiring, d. d. (6.10%), Telekom Slovenije, d. d. (4.50%), and IMP PROMONT, d. o. o. (3.05%)*

*** Krka has a 99.7-percent holding in Farma GRS, d. o. o., and Metronik d. o. o., Iskra Pio d. o. o. and Gospodarska zbornica Dolenjske in Bele krajine are each holding 0.1%.*

**** Krka has a 60-percent holding in Ningbo Krka Menovo Pharmaceutical Co. Ltd., while Ningbo Menovo Pharmaceutical Co, Ltd. keeps a 40-percent holding. As the company was established on 1 January 2018, no comparable data exists.*

21. Earnings per share

Basic earnings per share amounted to €5.46 in 2018 and increased by 15.2% over the previous year, when it stood at €4.74. The calculation of earnings per share took into account net profit for the period attributable to the controlling interests in the amount of €174,585 thousand (2017: €152,600 thousand). The weighted average number of shares was accounted for in the calculation for both years, i.e. 32,002,066 shares for 2018 and 32,215,595 shares for 2017. 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

In € thousand	At 31 Dec 2017	Formation	Utilisation	Reversal	Translation reserve	At 31 Dec 2018
Provisions for lawsuits	4,507	2,145	-369	-2,052	-14	4,217
Provisions for post-employment benefits and other non-current employee benefits	92,710	6,732	-4,541	-83	-24	94,794
Other provisions	858	1,558	-393	-45	0	1,978
Total provisions	**98,075**	**10,435**	**-5,303**	**-2,180**	**-38**	**100,989**

The amounts of provisions for lawsuits related 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 lawsuits related 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 nine (9) lawsuits related to intellectual property were filed against Krka and its subsidiaries totalling €10,400 thousand, as well as twenty-two (22) lawsuits related to other areas (labour legislation, civil lawsuits) totalling €505 thousand. Based on its familiarisation with the content of lawsuits and based on legal opinion of external experts, the management of Krka assessed that €2.100 thousand of additional provisions should be set aside for above lawsuits related to intellectual property, and €2,000 thousand of existing provisions should be reversed. A total €117 thousand of provisions was set aside for lawsuits related to other areas.

Provisions for obligations to employees arising from post-employment and other non-current benefits were based on actuarial calculation using the following assumptions:

- the discount rate depends on the average duration of liability per company. The controlling company selected discounted interest rate of 2.31-percent annually, which equals the return on 15-year corporate bonds with high credit rating in the euro area at the end of November 2018 (2017: 1.83-percent). Discount rate applied to subsidiaries was 1.88-percent annually, which equalled the return on 10-year corporate bonds with high credit rating in the euro area at the end of November 2018 (2017: 1.83-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% (2017: 1.80%).

Provisions for post-employment benefits

In € thousand	2018	2017
At 1 Jan	76,308	**73,521**
Employee benefit costs (CSC)	3,416	3,623
Interest expense (IC)	1,573	1,371
Post-employment benefits paid	-2,957	-2,442
Actuarial surplus/deficit, of that:	520	235
- change in financial assumptions	-2,347	-716
- experience	2,867	951
At 31 Dec	**78,860**	**76,308**

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 in € thousand	-4,570	5,056	5,045	-4,604

23. Deferred revenue

In € thousand	At 31 Dec 2017	New deferred revenue received	Deferred revenue reversal	At 31 Dec 2018
Grants received from the European Fund for Regional Development and Republic of Slovenia budget for the production of pharmaceuticals in the new Notol 2 plant	2,117	0	-267	1,850
Grants received from the budget for the Dolenjske and Šmarješke Toplice health resorts and Golf Grad Otočec	3,785	0	-140	3,645
Grants from the European Regional Development Fund – development of new technologies (FBD project)	242	0	-91	151
Grants from the European Regional Development Fund for setting up the energy supply IT system (GEN-I)	10	0	-4	6
Grants from the European Regional Development Fund for the Slovenian economy development centres	4,752	0	-631	4,121
Subsidy for acquisition of electric drive vehicles	7	0	-1	6
Property, plant and equipment received for free	31	3	-16	18
Emission coupons	9	20	-28	1
Other deferred revenue	0	263	-263	0
Total deferred revenue	**10,953**	**286**	**-1,441**	**9,798**

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

In € thousand	31 Dec 2018	31 Dec 2017
Payables to domestic suppliers	45,805	43,256
Payables to foreign suppliers	91,001	61,790
Payables for advances	-	3,294
Total trade payables	**136,806**	**108,340**

25. Current contract liabilities

In € thousand	31 Dec 2018	1 Jan 2018
Refund liabilities	**106,166**	**125,680**
- accrued discounts on products sold to other customers	106,070	125,588
- rights of return	96	92
Contract liabilities	**4,059**	**4,220**
- contract liabilities – advances from other customers	4,059	4,220
Total current contract liabilities	**110,225**	**129,900**

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

In € thousand	31 Dec 2018	1 Jan 2018
Bonuses and volume discounts	-	125.680
Payables to employees – gross wages, other receipts and charges	47,725	38,551
Derivatives	0	284
Other	23,143	21,253
Total other current liabilities	**70,868**	**185,768**

The item 'Other' also includes current liabilities to the State on account of VAT payable in the amount of €5,661 thousand (2017 year-end: €4,911 thousand) and other current liabilities to the State in total of €8,777 thousand (2017 year-end: €7,987 thousand).

27. Contingent liabilities and commitments

In € thousand	31 Dec 2018	31 Dec 2017
Guarantees issued	18,893	18,396
Other	620	620
Total contingent liabilities	**19,513**	**19,016**

Major items of guarantees issued included a contract bond of €6,000 thousand for supply of products by Krka Faramaceutici as the bidder selected in tenders published 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 year-end the Group accounted for €55,655 thousand of commitments for acquisition of property, plant and equipment (2017 year-end: €47.721 thousand).

Operating lease

In € thousand	31 Dec 2018	31 Dec 2017
Up to 1 year	2,876	2,849
1–5 years	6,249	6,103
More than 5 years	1,199	1,320
Total lease liabilities	**10,324**	**10,272**

The items include liabilities referring to the contractually agreed terms, inclusive of current leases and low value leases.

28. Financial liabilities

Movement in financial liabilities in 2018

In € 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**

Movement in financial liabilities in 2017

In € thousand	At 31 Dec 2016	Monetary changes	Non-monetary changes	At 31 Dec 2017
Dividends	1.470	-88,749	88,645	1,366
Treasury shares	0	-10,898	10,898	0
Total	**1.470**	**-99,647**	**99,543**	**1,366**

29. 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 centralized credit control process, which has been in use at the 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 2018, 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 customer 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 a 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 customer's 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.

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 Group sales.

Relatively low percentage of receivable write-off and impairment is also due to a wide dispersion of receivables among various customers and sales markets, and to the fact that majority of receivables are due from loyal customers of Krka.

The credit risk management again proved to be efficient as net amount of the receivable write-off and impairment accounted for only 0.06% of the Krka Group annual sales.

Since 2009, the Krka Group has insured a portion of trade receivables with a credit insurer. This applies to trade receivables from countries with perceived increased credit risk. To a lesser extent, the Group also uses bank guarantees and letters of credit as means of trade receivable insurance.

In 2018, the Group agreed an extension to the insurance policy referring to the receivables with existing insurance company.

Credit risk exposure

The carrying amount of financial assets represents the largest exposure to credit risk as illustrated below.

In € thousand	Notes	31 Dec 2018	31 Dec 2017
Loans	14	32,301	10,969
Investments	15	14,109	8,815
Trade receivables	18	438,291	500,735
Cash and cash equivalents	19	117,801	45,948
Total		**602,502**	**566,467**

As for the financial assets exposed to credit risk, the loans and receivables are presented separately.

Loans by region

In € thousand	31 Dec 2018	31 Dec 2017
Slovenia	31,808	10,417
South-East Europe	80	132
East Europe	98	162
Central Europe	257	241
West Europe	58	17
Overseas markets	0	0
Total	**32,301**	**10,969**

Trade receivables by region

In € thousand	31 Dec 2018	31 Dec 2017
Slovenia	11,738	11,027
South-East Europe	74,015	87,010
East Europe	164,610	193,483
Central Europe	72,932	70,165
West Europe	111,259	135,935
Overseas Markets	3,737	3,115
Total	**438,291**	**500,735**

Of the total amount, 70% of trade receivables was insured with the SID – Prva kreditna zavarovalnica, d. d. (2017 year-end: 65%).

Maturity analysis of loans as at reporting date

In € thousand	Gross 2018	Allowance 2018	Gross 2017	Allowance 2017
Not-past due	32,296	0	10,966	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	2	0	1	0
Past due more than 180 days	13	11	12	11
Total	**32,312**	**11**	**10,980**	**11**

Maturity structure of trade receivables as at reporting date

In € thousand	Gross 2018	Allowance 2018	Gross 2017	Allowance 2017
Not-past due	422,073	947	481,735	1,105
Past due up to 20 days	13,703	159	14,279	160
Past due from 21 to 50 days	732	10	2,466	67
Past due from 51 to 180 days	3,456	244	2,297	214
Past due more than 180 days	23,765	24,078	26,002	24,498
Total	**463,729**	**25,438**	**526,779**	**26,044**

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

€392,727 thousand (2017 year-end: €437,586 thousand); past due up to 20 days €30,215 thousand (2017 year-end: €30,832 thousand); past due from 21 to 50 days €8,527 thousand (2017 year-end: €7,382 thousand); past due from 51 to 180 days €6,661 thousand (2017 year-end: €22,417 thousand); and past due more than 180 days -€250 thousand (2017 year-end: €1,504 thousand).

Movement of allowances for loans

In € thousand	2018	2017
At 1 Jan	**11**	**11**
At 31 Dec	**11**	**11**

Movement in receivable allowances less receivables due by the State and advances

In € thousand	2018	2017
At 1 Jan	**26,044**	**24,329**
Formation of allowance	761	4,273
Write-off of receivables	-1,213	-2,346
Impairment reversal	256	-42
Collected written-off receivables	0	-10
Effect of exchange rate differences	-410	-160
At 31 Dec	**25,438**	**26,044**

Liquidity risk

Stable performance with no major fluctuations or deviations, low indebtedness, and stable cash flows from operations, continued to ensure a strong financial structure of Krka. In 2018, we raised current borrowings only at the beginning of the year. Some of the surplus cash was placed as deposits in banks. Furthermore, all the liabilities were settled regularly and within the agreed terms. In 2018, 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.

By the end of 2018, ten of Krka subsidiaries operating in the markets of the European Union were included in the cash pooling system arranged with Citibank in London. The cash pooling system ensures improved money management, provides an enhanced overview of the Group liquidity, reduces the need for financial resources and thus also the cost of financing, all of which results in reduced costs and 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 2018

In € thousand	Carrying amount	Contractual cash flows Total	Up to 6 months	From 6 to 12 months	From 1 to 2 years	From 2 to 5 years
Financial liabilities						
Payables to suppliers excluding advances	136,806	136,806	136,806	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	11,319	11,319	11,319	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**

Maturity of financial liabilities as at 31 Dec 2017

In € thousand	Carrying amount	Contractual cash flows Total	Up to 6 months	From 6 to 12 months	From 1 to 2 years	From 2 to 5 years
Financial liabilities						
Payables to suppliers excluding advances	105,014	105,014	105,014	0	0	0
Other liabilities excluding amounts owed to the State, to employees, and advances	136,862	136,862	136,862	0	0	0
Total financial liabilities	**241,876**	**241,876**	**241,876**	**0**	**0**	**0**
Derivatives	284	284	284	0	0	0
Total derivative financial liabilities	**284**	**284**	**284**	**0**	**0**	**0**
Total	**242,160**	**242,160**	**242,160**	**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 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 (53%) in the currency position of the Krka Group. This is due to trade receivables on the major market of Krka, and partly also due to financing of the production capacities held by the controlling company in the Russian Federation. The importance of the Russian sales 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.

The Group's exposure to the Romanian leu accounts for 15% of the currency position, mostly on account of trade receivables, which are a result of prolonged payment terms that are typical for the Romanian market. The Krka's exposure to the Croatian kuna and the Polish zloty in total of 18% arises from trade receivables and financing of the Group production capacities located in the two countries. All other currencies, including the British pound, U.S. dollar, Swedish krona, Hungarian forint, Czech koruna, Ukrainian hryvnia, Serbian dinar, Macedonian denar, and Kazakhstani tenge, account for 14% of the Krka Group currency position.

In 2018, we again monitored major fluctuation of currency exchanges to which the Krka Group is exposed. The Russian rouble was again most unstable of all currencies, as it was gradually losing in value over the entire year, while during short intervals its fluctuation was rather strong. Thus, the Russian rouble lost 13% of value in 2018, and its average value was 11% below the one recorded in 2017.

In addition to currency interventions and changes in interest rates set by the Russian monetary authorities, strong pressure on currencies in the developing countries and ever changing conditions on global financial markets were the reasons for weakening of the rouble in 2018. However, additional economic sanctions imposed in April and September against individual Russian legal and personal entities by the U.S., played the key negative role in the fluctuation of the Russian rouble.

In contrast, the price of oil had no decisive impact on the value of the Russian rouble. As early as in 2016, the Central Bank and the Ministry of Finance put in place measures to mitigate the impact of the oil price on inflation and the stability of public finances in the Russian Federation, and hence the currency value.

The Polish zloty was rather volatile in 2018, much the same as in the previous years. Its value, expressed in the euro, fell by 2.9% from the beginning to the end of 2018, while the average value remained at the level recorded in 2017. Relative stability of the Polish currency was due to good macroeconomic conditions in the country and harmonisation of the monetary policies of the Polish central bank with that of the ECB.

Stability of the Romanian leu was in 2018 ensured by the Central Bank and at the end of the year, its value expressed in the euro stood at the same level as at the beginning of the year.

The value of the Croatian kuna was also stable in 2018. The British pound was again rather volatile due to uncertainties regarding Brexit and domestic policies. Although the Krka Group reports long currency position in the Croatian kuna and the British pound, the volatility of these two currencies had no significant impact on its net financial result.

The Krka Group is exposed to the U.S. dollar primarily in terms of procurement. As the U.S. dollar position is relatively low, the value of the U.S. dollar has no significant impact on the foreign exchange differences of the Krka Group, which are reported in its net financial result.

Volatility of the U.S. dollar continued in 2018, despite solid growth of the U.S. economy, favourable conditions on the labour market, and inflation, which was below the target value. The U.S. dollar was under pressure mainly on account of the aggravated commercial conflict with China, which could have global consequences. On the other hand, the U.S. central bank raised the interest rate four times in 2018 (with further increases expected in 2019), and this had a strong positive impact on the value of the U.S. dollar.

While the value of the U.S. dollar expressed in the euro fell in the first quarter of 2018, it strengthened over the course of the year. Therefore, over the year the value of the U.S. dollar increased by 4.7%, while its average value in the euro fell by 4.4% compared to 2017.

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 the Company include futures.

In 2018 we continued to partly hedge the risk of the Russian rouble fluctuation and reduced the share of hedged exposure to the Russian rouble at the beginning of the year. Krka recorded net positive financial result from futures in total of €2,602 thousand. The cost of the Russian rouble hedging stemming from the difference between the interest rates of the Russian rouble and the euro ranged between 6.5 and 7.5% in 2018.

The hedging partially neutralised the negative impact of exchange rate losses arising from exposure to the Russian rouble.

Due to the fall in the value of the Russian rouble in 2018, the Group recorded €27,410 thousand of net exchange rate loss from its long position in the Russian rouble. Over one third of the foreign exchange rate losses were incurred in December 2018.

On the other hand, the Group generated net exchange rate gains from its exposure to other currencies. No hedging instruments were used with respects to 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 show 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 the Ukrainian hryvnia, Kazakhstani tenge, Serbian dinar and certain other currencies, all of which are less significant in the currency exposure structure of the Krka Group.

In total, foreign currency risk management amounted to -€28,156 thousand in 2018. The net financial result of the Krka Group of -€30,113 worsened compared to 2017.

Exposure to the risk of foreign exchange rate fluctuations

			31 Dec 2018		
In € 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.*

			31 Dec 2017		
In € thousand	**EUR***	**PLN**	**HRK**	**RUB**	**RON**
Loans	10,518	215	0	92	93
Trade receivables	163,311	56,162	18,685	159,205	56,002
Cash and cash equivalents	27,074	3,807	1,242	8,792	1,362
Trade payables	-91,619	-1,782	-830	-3,313	-485
Financial position exposure (net)	**109,284**	**58,402**	**19,097**	**164,776**	**56,972**

** EUR is the functional currency and does not represent exposure to foreign currency risk.*

Significant foreign exchange rates

	Average exchange rate*		Final exchange rate*	
	2018	**2017**	**2018**	**2017**
PLN	4.26	4.26	4.30	4.18
HRK	7.42	7.46	7.41	7.44
RUB	74.04	65.94	79.72	69.39
RON	4.65	4.57	4.66	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 rate of the ECB effective on 31 December.

Sensitivity analysis

A 10% or 1% percent increase/decrease of the euro exchange rate with respect to currencies stated as at 31 December 2018 or 31 December 2017 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 and borrowings denominated in the national currencies.

	Effect on the profit or loss before tax			
In € thousand	2018		2017	
Currency fluctuation	**+10%**	**-10%**	**+10%**	**-10%**
RUB	14,401	-14,401	16,478	-16,478
Currency fluctuation	**+1%**	**-1%**	**+1%**	**-1%**
PLN	641	-641	584	-584
HRK	165	-165	191	-191
RON	577	-577	570	-570

Any additional 10% change of the Russian rouble value or any additional 1% change of the Polish zloty, the Croatian kuna or the Romanian leu with respect to the euro value, would result in additional change 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 the Krka Group would suffer an increase in financing costs on non-current financial resources or a decrease in income from non-cuurent 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 2018, the 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

In € thousand	2018	2017
Financial instruments at fixed rate of interest	**32,301**	**10,967**
Financial assets	32,301	10,967
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 sensitivity by applying the variable interest rate

The Group reported no financial assets or financial liabilities at variable interest rate at 31 December 2018, 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 solely one class of shares, whereas the first and only issue of shares was carried out in 1995. The share capital was fully paid in.

The capital management of the Group is aimed at ensuring high credit rating and relevant financing indicators in order to ensure the proper development of its operations and to generate the 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 2018 or 2017.

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.

In € thousand	**31 Dec 2018**	**31 Dec 2017**
Trade payables and other current liabilities	317,899	294,108
Cash and cash equivalents	117,801	45,948
Net indebtedness	**200,098**	**248,160**
Equity	1,540,270	1,487,699
Equity and net indebtedness	**1,740,368**	**1,735,859**
Gearing (debt/equity) ratio	**11.5%**	**14.3%**

Fair value

In € thousand	2018 Carrying amount	2018 Fair value	2017 Carrying amount	2017 Fair value
Non-current loans	10,810	10,810	9,543	9,543
Financial assets at fair value through OCI (equity instruments)	9,389	9,389	8,815	8,815
Current loans	21,491	21,491	1,426	1,426
Current investments	4,720	4,720	0	0
– financial assets at fair value through profit or loss	2,920	2,920	0	0
– derivatives	1,800	1,800	0	0
Trade receivables	438,291	438,291	500,735	500,735
Cash and cash equivalents	117,801	117,801	45,948	45,948
Trade payables and other liabilities, excluding amounts owed to the State, to employees, and advances			-241,876	-241,876
Trade payables excluding advances	-136,806	-136,806		
Contract liabilities excluding advances	-106,070	-106,070		
Other liabilities, excluding amounts owed to the State, to employees, and advances	11,319	11,319		
Other current liabilities	0	0	-284	-284
– derivatives	0	0	-284	-284
Total	**348,307**	**348,307**	**324,307**	**324,307**

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

	31 Dec 2018				31 Dec 2017			
In € thousand	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)	8,002	0	1,387	9,389	7,434	0	1,381	8,815
Financial assets at fair value through profit or loss	2,920	0	0	2,920	0	0	0	0
Derivatives	0	0	1,800	1,800	0	0	0	0
Total assets at fair value	**10,922**	**0**	**3,187**	**14,109**	**7,434**	**0**	**1,381**	**8,815**
Assets for which fair value is disclosed								
Non-current loans	0	0	10,810	10,810	0	0	9,543	9,543
Current loans	0	0	21,491	21,491	0	0	1,426	1,426
Trade receivables	0	0	438,291	438,291	0	0	500,735	500,735
Cash and cash equivalents	0	0	117,801	117,801	0	0	45,948	45,948
Total assets for which fair value is disclosed	**0**	**0**	**588,393**	**588,393**	**0**	**0**	**557,652**	**557,652**
Total	**10,922**	**0**	**591,580**	**602,502**	**7,434**	**0**	**559,033**	**566,467**

Liabilities at fair value

	31 Dec 2018				31 Dec 2017			
In € thousand	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities at fair value								
Derivatives	0	0	0	0	0	0	284	284
Total liabilities at fair value	**0**	**0**	**0**	**0**	**0**	**0**	**284**	**284**
Liabilities for which fair value is disclosed								
Non-current borrowings	0	0	0	0	0	0	0	0
Current borrowings	0	0	0	0	0	0	0	0
Trade and other payables, excluding amounts owed to the State, to employees, and advances	-	-	-		0	0	241,876	241,876
Supplier payables excluding advances	0	0	136,806	136,806	-	-	-	-
Contract liabilities excluding advances	0	0	106,070	106,070	-	-	-	-
Other liabilities, excluding amounts owed to the State, to employees, and advances	0	0	11,319	11,319	-	-	-	-
Total liabilities for which fair value is disclosed	**0**	**0**	**254,195**	**254,195**	**0**	**0**	**241,876**	**241,876**
Total	**0**	**0**	**254,195**	**254,195**	**0**	**0**	**242,160**	**242,160**

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 is not decreased by any costs that may arise upon the sale or purchase of securities.

30. Related party transactions

Information 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 0.1154% of voting rights, whereas members of the Supervisory Board of the controlling company held 2,130 shares, i.e. 0.0065% of total equity or 0.0066% of voting rights, and the Managing Directors of subsidiaries held 9,455 shares, i.e. 0.0288% of the total equity or 0.0295% of voting rights.

Equity stakes held by members of the Management and the Supervisory Boards of the Company and their shares of voting rights

	31 Dec 2018			31 Dec 2017		
	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	0.0705	22,500	0.0686	0.0701
Aleš Rotar	13,915	0.0424	0.0436	13,915	0.0424	0.0433
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**	**0.1161**	**37,040**	**0.1129**	**0.1154**
Members of the Supervisory Board (owner representatives)						
Jože Mermal	0	0.0000	0.0000	0	0.0000	0.0000
Hans-Helmut Fabry	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
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)						
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	**2,130**	**0.0065**	**0.0067**	**2,130**	**0.0065**	**0.0066**
Total	**39,170**	**0.1194**	**0.1228**	**39,170**	**0.1194**	**0.1220**

Treasury shares were eliminated from the calculation of voting rights (893,447 treasury shares as at 31 December 2018 and 691,717 as at 31 December 2017).

Remuneration paid to groups of persons (gross)

In € thousand	**2018**	**2017**
Members of the Management Board in the controlling company	3,198	2,920
Managers of subsidiaries	2,613	2,448
Members of the Supervisory Board in the controlling company	209	209
Members of the Supervisory and Management Boards in subsidiaries	1	1
Total gross remuneration paid to groups of persons	**6,021**	**5,578**

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 2018 amounted to €11,568 thousand (2017: €11,101 thousand).

Remuneration paid to Members of the Management Board in the controlling company in 2018

	Salary – fixed part			Salary – variable part		Total	
In € thousand	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**

	Net fringe benefits and other earnings					
In € thousand	Executive health insurance	Supplementary pension insurance	Other benefits	Refund of work-related costs	Pay for annual leave	Total
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**

Remuneration paid to Members of the Management Board in the controlling company in 2017

	Salary – fixed part			Salary – variable part		Total	
In € thousand	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Net
Jože Colarič	406	163	10	518	203	924	376
Aleš Rotar	312	133	5	354	139	666	277
Vinko Zupančič	266	112	8	295	121	561	241
David Bratož	263	109	11	289	114	552	234
Milena Kastelic	155	74	5	62	25	217	104
Total Members of the Management Board	**1,402**	**591**	**39**	**1,518**	**602**	**2,920**	**1,232**

	Net fringe benefits and other earnings					
In € thousand	Executive health insurance	Supplementary pension insurance	Other benefits	Refund of work-related costs	Pay for annual leave	Total
Jože Colarič	0.83	2.82	6.15	0.05	0.57	10.42
Aleš Rotar	0.00	2.82	0.72	0.92	0.57	5.03
Vinko Zupančič	2.25	2.82	1.94	0.76	0.58	8.35
David Bratož	0.00	2.82	6.66	0.86	0.58	10.92
Milena Kastelic	0.00	2.82	0.03	1.00	0.64	4.49
Total Members of the Management Board	**3.08**	**14.10**	**15.50**	**3.59**	**2.94**	**39.21**

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 2018

	Basic pay for exercising the function		Attendance fees		Commuting allowances		Total	
In € thousand	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Members of the Supervisory Board (owner representatives)								
Jože Mermal	23.25	16.91	1.38	1.00	0	0	24.63	17.91
Hans-Helmut Fabry	14.55	11.27	1.29	1.00	9.12	7.07	24.96	19.34
Borut Jamnik	21.31	15.50	2.65	1.93	0	0	23.96	17.43
Julijana Kristl	19.38	14.09	1.54	1.12	0.36	0.26	21.28	15.47
Andrej Slapar	22.86	16.63	2.04	1.48	0	0	24.90	18.11
Boris Žnidarič	19.38	14.09	2.15	1.57	0.30	0.22	21.83	15.88
Members of the Supervisory Board (employee representatives)								
Franc Šašek	20.93	15.22	2.65	1.93	0	0	23.58	17.15
Tomaž Sever	19.38	14.09	2.65	1.93	0.45	0.33	22.48	16.35
Mateja Vrečer	19.38	14.09	2.04	1.48	0	0	21.42	15.57
Total remuneration paid to Members of the Supervisory Board	**180.42**	**131.89**	**18.39**	**13.44**	**10.23**	**7.88**	**209.04**	**153.21**

In accordance with a resolution adopted at the 16th Annual General Meeting of 7 July 2011, Members of the Supervisory Board of the controlling company are entitled to an attendance fee, which for each individual member of the Supervisory Board amounts to €275.00 gross. Members of the Supervisory Board Commission receive an attendance fee for their participation in meetings, which for each individual Commission member amounts to 80% of the attendance fee for Supervisory Board meetings. The attendance fee for participating in correspondence meetings 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 meetings of the Supervisory Board or meetings 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 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 Company 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

	Balance		**Repayments**	
In € thousand	**31 Dec 2018**	**31 Dec 2017**	**2018**	**2017**
Members of the Management Board in the controlling company	0	0.45	0.45	1.33
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**	**0.45**	**0.45**	**1.33**

Loans granted to staff employed under individual employment contracts stood at €147 thousand at 31 December 2018 (€152 thousand as at 31 December 2017). Repayments of loans by staff employed under individual employment contracts in 2018 reached €17 thousand (2017: €16 thousand).

31. Profile of the Group

Transactions between Group companies and the groups of persons were implemented on the basis of sale and purchase contracts, whereby intercompany transactions were based on market prices of products and services.

	Ownership share	Share capital value at 31 Dec 2018	Currency	Headcount at 31 Dec 2018	Headcount at 31 Dec 2017
The controlling company					
KRKA, d. d., Novo mesto, Slovenia	100%	54,732,265	EUR	5,496	5,020
Subsidiaries					
TERME KRKA, d. o. o., Novo mesto, Slovenia*	100%	14,753,239	EUR	580	584
Farma GRS, d. o. o., Novo mesto, Slovenia**	99.7%	1,003,000	EUR	36	36
KRKA-FARMA d. o. o., Zagreb, Croatia	100%	143,027,200	HRK	181	180
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	37,000	RON	185	193
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	64,648	RSD	78	64
KRKA-FARMA DOOEL, Skopje, Skopje, Republic of North Macedonia	100%	49,020,600	MKD	41	38
KRKA Bulgaria EOOD, Sofia, Bulgaria	100%	19,550	BGN	67	64
KRKA FARMA, d. o. o., Sarajevo, Sarajevo, Bosnia and Herzegovina	100%	20,000	BAM	1	1
KRKA-RUS LLC, Istra, Russian Federation	100%	5,361,374,765	RUB	447	417
KRKA FARMA LLC, Istra, Russian Federation	100%	753,874,800	RUB	1,860	1,930
KRKA UKRAINE LLC, Kiev, Ukraine	100%	100,000	UAH	380	346
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	100%	13,500	USD	112	111
KRKA - POLSKA, Sp. z o. o., Warsaw, Poland	100%	17,490,000	PLN	778	769
KRKA ČR, s. r. o., Prague, Czech Republic	100%	100,000	CZK	206	206
KRKA Magyarország Kft, Budapest, Hungary	100%	44,880,000	HUF	187	193
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10,000	EUR	131	126
UAB KRKA Lietuva, Vilnius, Lithuania	100%	9,847	EUR	66	70
SIA KRKA Latvia, Riga, Latvia	100%	9,954	EUR	47	38
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650,000	EUR	235	207
KRKA Sverige AB, Stockholm, Sweden	100%	150,000	SEK	5	4
KRKA Pharma GmbH, Wien, Vienna, Austria	100%	36,500	EUR	24	24
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10,000	EUR	36	30
KRKA FARMACÉUTICA, S.L., Madrid, Spain	100%	10,000	EUR	51	46
KRKA Farmaceutici Milano, S.r.l., Milan, Italy	100%	10,000	EUR	71	63
Krka France Eurl, Paris, France	100%	10,000	EUR	25	22
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1,000	EUR	8	9
KRKA Belgium, SA, Brussels, Belgium	95%	300,000	EUR	21	21
KRKA USA LLC, Wilmington, USA	100%	10,000	USD	0	0
KRKA Finland Oy, Espoo, Finland	100%	2,500	EUR	15	12
KRKA UK Ltd, London, United Kingdom	100%	1,000	GBP	12	8
Ningbo Krka Menovo Pharmaceutical Co. Ltd., Ningbo, China	60%	46,000,000	CNY	8	0
Total				**11,390**	**10,832**

The Terme Krka subsidiary held a 71.1-percent interest in Golf Grad Otočec, d. o. o. at 31 December 2018; 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

	2018		2017	
	Average headcount	**Share** (in%)	**Average headcount**	**Share** (in%)
PhD	182	1.6	173	1.6
MSc	376	3.4	375	3.5
University education	5,517	49.6	5,512	50.9
Higher professional education	1,560	14.0	1,463	13.5
Vocational college education	275	2.5	265	2.4
Secondary school education	2,086	18.7	1,879	17.4
Skilled workers	892	8.0	889	8.2
Unskilled workers	241	2.2	267	2.5
Total (average for the period)	**11,129**	**100.0**	**10,823**	**100.0**

33. Transactions with audit firms

The annual fee for auditing of the Krka Group's financial statements in 2018 amounted to €460 thousand (2017: €442 thousand). In addition, the auditing firms provided various consultation services to the Group in 2018 charging a fee of €27 thousand.

34. Subsequent events

Below is presentation of events that occurred in the period from the end of 2018 until 31 March 2019.

On 12 March 2019, the President of the Supervisory Board received a resignation statement of a member of the Supervisory Board, Hans-Helmut Fabry. Mr Fabry stated in the letter that he would resign from his Supervisory Board membership on 12 March 2019 and thanked the President of the Supervisory Board, Supervisory and Management Board members for constructive cooperation. Mr Fabry plans to become engaged by a direct competitor of Krka.

According to the 2014 findings of the European Commission, Krka allegedly violated Article 101 of the Treaty on the Functioning of the European Union causing distortion of the competition in the perindopril market of the European Union. The European Commission imposed a €10 million fine on Krka. Krka settled the fine within the time limit set by the European Commission, but decided to bring an action before the General Court against the decision of the European Commission on the grounds that there was no breach of the EU competition rules, and in December 2018, the court ruled in favour of Krka.

The decision of the General Court has not yet become final, and the European Commission filed an appeal against the decision within the provided time limit, on which the Court of Justice of the European Union will rule. At the beginning of 2019, the European Commission refunded Krka the €10 million fine, but in compliance with legal opinion Krka decided to post the refund under deferred revenues.

Krka acquired 76,346 treasury shares over the period from 1 January 2018 to 31 March 2019. Thus, at the end of March 2019, Krka held 969,793 treasury shares (2.957 % of total shares).

Independent Auditor's Report

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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 Krka Group (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018 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 EU.

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 Krka 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.

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Impairment test of TAD Pharma trademark and associated goodwill

TAD Pharma trademark and associated goodwill amount to 79.6 million EUR as at 31 December 2018 and represent 4,0 % of total consolidated assets. The management prepared the impairment tests based on the value in use calculation. For the purpose of those tests goodwill was allocated to two cash generating units, controlling company Krka and TAD Pharma. Management used assumptions in respect of future market and economic conditions such as sales growth rates, earnings before interest, tax and depreciation (EBITDA) as well as discount rates.

Impairment of TAD Pharma trademark and associated goodwill is a key audit matter due its complexity, the required estimates of management and the dependency on future market circumstances.

Our audit procedures included an assessment of the historical accuracy of management's estimates, evaluation and testing the assumptions, methodology, discount rates and data used by the Group. We included in our team a valuation expert to assist us with our assessment of the discount rates and the appropriateness of the model used. We assessed sensitivities on the impairment test of respective cash generating units and whether a reasonably possible change in assumptions such as 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 EU.

Recoverability of trade receivables

Trade receivable balances are significant to the Group as they represent 22,1% of total consolidated assets as at 31 December 2018. 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 trade receivable confirmations to a sample of 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 a 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 29 - Financial instruments and financial risks of the consolidated financial statements and their compliance with International Financial Reporting Standards as adopted by the European Union.

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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 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 have determined revenue recognition as the 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 EU. 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 2018 are fully recognized.

We also considered the adequacy of the Group's disclosures in Note 5 - Revenue from contracts with customer in respect of revenue and Note 26 - Current contract liabilities in respect to accrued bonuses and discounts and their compliance with International Financial Reporting Standards as adopted by the EU.

Provisions for legal claims

As disclosed in Note 22 – Provisions, the Group is participating in number of legal cases for which provisions in the amount of 4.2 million EUR were recognized.

Provisions for legal claims are significant to our audit because management judgement is required, the assessment process is complex and is based on future developments, therefore we consider this as a key audit matter.

We evaluated management's assessment of the current status of litigations and claims against the Group and considered whether there is a requirement for any provision or related disclosures under International Financial Reporting Standards as adopted by the EU. Management performed a legal and financial assessment and obtained the assessment of the lawyers. We obtained the legal confirmation letters from Group's external lawyers advising on these litigations and claims and assessed these for consistency with management's conclusions. We evaluated the ranges and assumptions included in the management's calculation of the potential outflow of benefits and discussed the management's assessment of the litigations and claims with the Group's legal department and Management board.

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We evaluated the adequacy of the Group's disclosure in Note 22 - Provisions of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU.

Other information

Other information comprises the information included in the Annual Report other than the consolidated financial statements and auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of management, audit committee and the supervisory board for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee and the supervisory board are responsible for overseeing the Group's financial reporting process.

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Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with audit rules, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

• identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

• obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls;

• evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

• conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

• evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

• obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee and the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee and the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee and the supervisory board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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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 the statutory auditor by the statutory body of the Company on 20 August 2018 based on our approval by the General Meeting of Shareholders on 5 July 2018. 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 7 years.

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 20 March 2019.

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 consolidated financial statements, no other services which were provided by us to the Company and its controlled undertakings.

Ljubljana, 26 March 2019

Sanja Košir Nikašinović
Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

Lidija Šinkovec
Certified auditor

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1

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FINANCIAL STATEMENTS OF KRKA, D. D., NOVO MESTO

Statement of financial position

In € thousand	Notes	31 Dec 2018	31 Dec 2017
Assets			
Property, plant and equipment	12	604,923	611,341
Intangible assets	13	28,842	28,299
Investments in subsidiaries	14	325,502	321,898
Trade receivables from subsidiaries	15	38,885	38,644
Loans	16	19,238	11,187
Investments	17	9,388	8,814
Deferred tax assets	18	11,780	12,342
Other non-current assets		58	70
Total non-current assets		**1,038,616**	**1,032,595**
Assets held for sale		41	41
Inventories	19	317,499	264,174
Trade receivables	20	392,107	456,265
Other receivables	20	15,709	15,395
Loans	16	51,819	34,895
Investments	17	1,800	0
Cash and cash equivalents	21	98,474	34,117
Total current assets		**877,449**	**804,887**
Total assets		**1,916,065**	**1,837,482**
Equity			
Share capital	22	54,732	54,732
Treasury shares	22	-52,076	-40,588
Reserves	22	192,788	180,779
Retained earnings	22	1,356,856	1,298,402
Total equity		**1,552,300**	**1,493,325**
Liabilities			
Provisions	25	87,882	85,503
Deferred revenue	26	2,030	2,408
Total non-current liabilities		**89,912**	**87,911**
Trade payables	27	170,354	159,119
Borrowings	24	40,435	27,525
Income tax payable		1,570	15,127
Current contract liabilities	28	17,340	-
Other current liabilities	29	44,154	54,475
Total current liabilities		**273,853**	**256,246**
Total liabilities		**363,765**	**344,157**
Total equity and liabilities		**1,916,065**	**1,837,482**

The accounting policies and notes are an integral part of the financial statements and should be read in conjunction with them.

Income statement

In € thousand	Notes	2018	2017
Revenues		**1,231,784**	**1,197,756**
- revenue from contracts with customers	5	1,223,763	-
- other revenues		8,021	-
Cost of goods sold		-532,668	-511,870
Gross profit		**699,116**	**685,886**
Other operating income	6	3,780	4,879
Selling and distribution expenses		-305,081	-304,038
- of that net impairment and write-down of receivables		-326	-
R&D expenses		-135,145	-131,201
General and administrative expenses		-63,365	-58,573
Operating profit		**199,305**	**196,953**
Financial income	10	17,382	24,908
Financial expenses	10	-33,891	-46,599
Net financial result		**-16,509**	**-21,691**
Profit before tax		**182,796**	**175,262**
Income tax	11	-19,467	-21,532
Net profit		**163,329**	**153,730**
Basic earnings per share (in €)	**23**	**5.10**	**4.77**
Diluted earnings per share (in €)	**23**	**5.10**	**4.77**

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

In € thousand	Notes	2018	2017
Net profit		**163,329**	**153,730**
Other comprehensive income for the year			
Other comprehensive income reclassified to profit or loss at a future date			
Change in fair value of financial assets	22	568	-1,345
Deferred tax effect	22	-108	256
Net other comprehensive income reclassified to profit or loss at a future date		**460**	**-1,089**
Other comprehensive income that will not be reclassified to profit or loss at a future date			
Restatement of post-employment benefits	25	-583	-245
Deferred tax effect	25	55	23
Net other comprehensive income that will not be reclassified to profit or loss at a future date		**-528**	**-222**
Total other comprehensive income net of tax		**-68**	**-1,311**
Total comprehensive income net of tax		**163,261**	**152,419**

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

			Reserves					Retained earnings			
In € thousand	Share capital	Treasury shares	Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserve	Other profit reserves	Retained earnings	Net profit	Total equity
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**	**0**	**163,329**	**163,329**
Total other comprehensive income for the year (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 AGM	0	0	0	0	0	0	0	38,216	-38,216	0	0
Transfer of previous period's profit 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.

In € thousand	Share capital	Treasury shares	Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserve	Other profit reserves	Retained earnings	Net profit	Total equity
			Reserves					Retained earnings			
At 1 Jan 2017	**54,732**	**-29,690**	**29,690**	**105,897**	**14,990**	**30,000**	**-9,994**	**1,102,165**	**49,405**	**93,253**	**1,440,448**
Net profit	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**153,730**	**153,730**
Total other comprehensive income net of tax	**0**	**0**	**0**	**0**	**0**	**0**	**-702**	**0**	**-609**	**0**	**-1,311**
Total comprehensive income net of tax	**0**	**0**	**0**	**0**	**0**	**0**	**-702**	**0**	**-609**	**153,730**	**152,419**
Transactions with owners, recognised in equity											
Formation of other profit reserves under the resolution of the AGM	0	0	0	0	0	0	0	27,007	-27,007	0	0
Transfer of previous period's profits to retained earnings	0	0	0	0	0	0	0	0	93,253	-93,253	0
Repurchase of treasury shares	0	-10,898	0	0	0	0	0	0	0	0	-10,898
Formation of reserves for treasury shares	0	0	10,898	0	0	0	0	0	0	-10,898	0
Dividends paid	0	0	0	0	0	0	0	0	-88,644	0	-88,644
Total transactions with owners, recognised in equity	**0**	**-10,898**	**10,898**	**0**	**0**	**0**	**0**	**27,007**	**-22,398**	**-104,151**	**-99,542**
At 31 Dec 2017	**54,732**	**-40,588**	**40,588**	**105,897**	**14,990**	**30,000**	**-10,696**	**1,129,172**	**26,398**	**142,832**	**1,493,325**

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

In € thousand	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		**163,329**	**153,730**
Adjustments for:		**91,193**	**110,280**
– amortisation/depreciation	12, 13	83,188	81,674
– foreign exchange differences		1,172	148
– investment income		-17,769	-25,326
– investment expenses		3,178	30,074
– interest expense and other financial expenses		1,957	2,178
– income tax	11	19,467	21,532
Operating profit before changes in net current assets		**254,522**	**264,010**
Change in trade receivables		62,626	8,193
Change in inventories		-53,325	-27,960
Change in trade payables		9,242	18,131
Change in provisions		254	4,927
Change in deferred revenue		-378	-380
Change in other current liabilities		4,899	5,234
Income tax paid		-32,514	293
Net cash from operating activities		**245,326**	**272,448**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		566	882
Proceeds from sale of current investments		0	2
Dividends received		975	15
Proportionate profit of subsidiaries		11,427	1,027
Proceeds from sale of property, plant and equipment		658	581
Purchase of intangible assets	13	-6,331	-4,917
Purchase of property, plant and equipment	12	-67,242	-87,989
Acquisition of subsidiaries and a share of minority interests net of financial assets acquired		-3,603	-951
Refund of subsequent payments in subsidiaries		0	237
Non-current loans		-8,600	-2,169
Receipts from repayment of non-current loans		1,351	17,221
Acquisition of non-current investments		-24	-45
Proceeds from sale of non-current investments		26	40
Payments for/Proceeds from current investments and loans		-17,958	9,597
Payments for derivative financial instruments		-2,737	-27,094
Proceeds from derivative financial instruments		3,255	9,474
Net cash from investing activities		**-88,237**	**-84,089**
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		-433	-839
Proceeds/Repayment of current borrowings		12,931	-77,655
Dividends and other profit shares paid	22	-92,811	-88,749
Repurchase of treasury shares	22	-11,488	-10,898
Net cash from financing activities		**-91,801**	**-178,141**
Net increase in cash and cash equivalents		**65,288**	**10,218**
Cash and cash equivalents at beginning of year		34,117	24,049
Effect of foreign exchange rate fluctuations on cash held		-931	-150
Closing balance of cash and cash equivalents		**98,474**	**34,117**

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 of the Krka Group with its registered office at Šmarješka cesta 6, 8501 Novo mesto, Slovenia. The financial statements of the Company relate to the year ended 31 December 2018.

Krka engages 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 Management Board of Krka on 4 March 2019.

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 other comprehensive income (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 Krka’s functional currency. 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 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 made 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 lawsuits. Regardless of the fact that the management duly considers all factors that may impact the preparation of these assumptions, the actual consequences of business events may differ from the estimates. In accounting estimates, the management makes judgements in consideration of 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 determining the variable consideration, the Company considers returns separately, taking into consideration contractual terms and conditions for the sale of products and services to customers, legally prescribed provisions and business practices in a given environment. To estimate the amount of the variable consideration, the Company applies either the most likely amount method or the expected value method (whichever best predicts the amount of variable consideration to which the Company will be entitled).

  Considering a large number of contracts concluded with customers, the Company determined that the expected value method was the appropriate method to use in estimating the variable consideration for the sale of products with rights of return. In estimating the variable consideration for the sale of products with volume rebates, the Company determined that using a combination of the most likely amount method and expected value method as the most appropriate. The selected method that best predicts the amount of variable consideration was primarily driven by the number of volume thresholds contained in the contract, legally prescribed provisions and established business practices in different environments. The most likely amount method is used for those contracts with a single volume threshold, while the expected value method is used for contracts with more than one volume threshold.

  Before including any amount of variable consideration in the transaction price, the Company considers whether the amount of variable consideration is constrained. The Company determined that the estimates of variable consideration were not constrained based on its historical experience, business forecast and the current economic conditions.

  The Company sells products for which payment terms extend over the period of 12 months on certain markets where it operates. Hence, the Company recognises financial income and expenses on those sales by application of relevant discount rates.

- 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 determination of the appropriate discount rate. The Company has found no need for impairment of investments in subsidiaries as at 31 December 2018.

- 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 they 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 the 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 assessment, 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 the Company. The management of the Company continually assess contingent liabilities to determine whether an outflow of resources embodying economic benefits has become probable. In this case, a provision is recognised in the financial statements of the period in which the change in probability occurs.

- Note 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.

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 the newly adopted standards and interpretations as noted below and which have been applied if relevant events occurred in the Company in the reporting period.

New standards and interpretations effective from 1 January 2018

IFRS 9 – Financial Instruments

The final version of *IFRS 9 – Financial Instruments* reflects all phases of the financial instruments project and replaces *IAS 39 Financial Instruments: Recognition and Measurement* and all previous versions of the *IFRS 9*. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

The *IFRS 9* introduces a revised model of financial asset impairment, which is based on expected losses rather than on past losses. The management has assessed the impact of the amended standard on the financial statements and considers that, given the nature of Krka's financial assets and the method of determining the impairment, the *Amendments* will not have a significant impact on the amount of impairments.

The requirements of the *IFRS 9* regarding the classification and measurement did not have any significant impact on the financial statements of Krka. Krka made the following changes to the classification of its financial assets:

- Listed equity investments previously classified as available-for-sale financial assets are classified and measured as financial assets at fair value through other comprehensive income.
- Equity investments in non-listed companies previously classified as available-for-sale financial assets are classified and measured as financial assets at fair value through other comprehensive income.
- Loans previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as financial assets at amortised cost.

Categories of financial assets measured under the *IAS 39* (as reported in the financial statements of the previous periods) and under the *IFRS 9* (as reported in the 2018 financial report) for the financial year 2017, are presented below:

		1 Jan 2018 under IFRS 9	
In € thousand	**31 Dec 2017 under IAS 39**	**Amortised cost**	**Fair value through OCI**
Loans and receivables			
Trade and other receivables	471,660	471,660	0
Loans	46,082	46,082	0
AFS financial assets			
Investments in listed companies	7,434	0	7,434
Investments in non-listed companies	1,380	0	1,380
Total	**526,556**	**517,742**	**8,814**

Krka applied the *IFRS 9* for the first time for the period for which the financial statements have been compiled, applying the *IFRS 9* modified approach and has not restated the comparative information. No cumulative effect of the retained earnings opening balance adjustment occurred on the transition to the new standard.

IFRS 15 – Revenue from Contracts with Customers

The *IFRS 15* establishes a five-step model that will apply to revenue earned from contracts with customers (with limited exceptions), regardless of the type of revenue transaction or the industry. The requirements of the standard also apply to the recognition and measurement of gains and losses on the sale of certain non-financial assets that are not an output of the entity's ordinary activities (e.g., sale of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations relating to the sale of assets or services; changes in contract asset and liability account balances between periods and key management judgements and estimates.

Revenue from contracts with customers is earned from the sale of human health products (prescription pharmaceuticals, non-prescription products) and animal health products, and material. The performance obligation is fulfilled when the goods are dispatched or accepted by the customer or when services are rendered to the customer. Based on the result of analysis performed, the management has assessed the impact of the standard on the financial statements and considers that the *IFRS 15* does not significantly affect the timing of the recognition or the amount of revenue recognised under these circumstances.

Krka applied the *IFRS 15* for the first time for the period for which the financial statements have been prepared, applying the modified retrospective approach on the transition. No cumulative effect of the retained earnings opening balance adjustment occurred on the transition to the new standard.

As Krka applied the modified approach, the 2017 comparative data in the statements of financial position and profit and loss were not restated. The following reclassifications were made to the comparative information at 1 January 2018 resulting from the *Amendments* to the *IFRS 9* and *IFRS 15*):

Income statement

In € thousand	2017	Effect of IFRS 15	Effect of IFRS 9	Effect of new IFRSs 1 Jan 2018
Net sales	1,197,756	1,447	0	1,199,203
Other operating income	4,879	-1,447	-871	2,561
Operating costs	-1,005,682	0	871	-1,004,811

Statement of financial position

In € thousand	31 Dec 2017	Effect of IFRS 15	Effect of IFRS 9	1 Jan 2018
Non-current assets				
AFS financial assets	8,814	-	-8,814	-
Financial assets at fair value through OCI (equity instruments)	-	-	8,814	8,814
Current operating liabilities				
Trade payables	159,119	-2,894	-	156,225
Current contract liabilities	-	20,861	-	20,861
Other current liabilities	54,475	-17,967	-	36,508

Clarifications to IFRS 15 – Revenue form Contracts with Customers

The objective of the *Clarifications* is to clarify the IASB's intentions when developing the requirements in the *IFRS 15 – Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the 'separately identifiable' principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The *Clarifications* also provide additional practical expedients for entities that either apply the *IFRS 15* fully retrospectively or that elect to apply the modified retrospective approach.

The management has assessed the impact of the interpretations and believes they will have no significant impact on the financial statements of Krka.

Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions

The *Amendments* provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and modifications to the terms and conditions of share-based payments that change the classification of the transaction from cash-settled to equity-settled.

The management has assessed the impact of the *Amendments* and believe they will have no significant impact on the financial statements of Krka.

Amendments to IAS 40 – Transfers of Investment Property

The *Amendments* clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The *Amendments* state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of a change in use. A mere change in management's intentions for the use of a property does not provide evidence of the change in use.

The management has assessed the impact of the *Amendments* and believe they will have no significant impact on the financial statements of Krka.

IFRIC Interpretation 22 – Foreign Currency Transactions and Advance Consideration

The *Interpretation* clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The *Interpretation* covers foreign currency transactions when an entity recognises a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transaction for each payment or receipt of advance consideration.

The management has assessed the impact of the *Amendments* and believe they will have no significant impact on the financial statements of Krka.

Annual improvements to standards and interpretations; 2014–2016 cycle

The IASB has issued the *Annual Improvements to IFRS*s *2014–2016 Cycle*, which is a collection of amendments to IFRSs.

IFRS 1 – First-time Adoption of International Financial Reporting Standards

The improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.

IAS 28 – Investments in Associates and Joint Ventures

The *Amendments* clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The management has assessed the impact of the improvements and believe they will have no impact on the financial statements of Krka.

Foreign currencies

Foreign currency transactions

Transactions and balances in foreign currencies are translated to the euro (the functional currency of the Company) at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the 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 currency 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 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 characteristics of contractual cash flows of financial assets and the business model of the Company for managing them. With the exception of trade

receivables that do not contain a significant financing component, or for which the Company has applied the practical expedient, Krka initially measures a financial asset at fair value plus, in 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 Company has applied the practical benefit, are measured at the transaction price determined under the *IFRS 15*. Refer to the accounting policies in section 'Revenue from contracts with customers'.

In order to classify and measure financial assets at amortised cost or fair value through OCI, a financial asset 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 business model of the Company for managing financial assets refers to how the Company 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 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 Company 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);
- financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

According to the SSPI test, loans issued by the Company are classified as financial assets at amortised cost, since the sash flows derived from these assets are solely payments of principal and interest on the principal amount outstanding.

Trade receivables are also included in the Financial assets at amortised cost.

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 revaluation and impairment losses or reversal are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at cost. The remaining fair value changes are recognised directly in other comprehensive income. 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 financial statements of the Company in the period in which they are declared by the Annual General Meeting.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (see the accounting policy 'Impairment'). The cost of an item of property, plant and equipment as at 1 January 2004, the date of transition to the *IFRS*, is determined by reference to its fair value at that date.

Costs include expenditures that are directly attributable to the acquisition of an asset. The costs of a self-constructed asset include the cost of materials and direct labour, any other directly attributable costs 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 in line with the adopted strategy. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined as the difference between proceeds from disposal and the carrying amount of property, plant and equipment and are recognised within other 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 the Company are 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 costs of replacing part of an item of property, plant and equipment are recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs are recognised in profit or loss as an expense when incurred.

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 the Company are recognised in profit or loss as incurred.

Other intangible assets

Other intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses (see the 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 in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are made available for use.

The estimated useful lives for software, licences and other rights range from 2 to 10 years.

Inventories

In the statement of financial position, inventories are measured at the lower of cost or net realisable value. Net realisable value is the estimated selling price at the reporting date less selling expenses and other possible administrative expenses, which are usually connected with the sale.

An inventory unit of raw materials and materials, as well as ancillary and packaging materials is valued at cost including all direct cost of purchase. Inventories of material are carried at moving average prices. Inventories of finished products and work in progress are carried at standard costs, which in addition to direct cost of material includes also cost of production, such as: direct labour costs, direct costs of depreciation, direct costs 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 goods is valued at cost including cost of purchase, import duties and all costs directly attributable to the acquisition, decreased by discounts. Inventories of goods are carried at moving average prices.

Impairment

Financial assets

The Company 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 Company 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 (ECLs) 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 the Company applies a simplified approach in calculating expected credit losses (ECLs). Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company 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.

Trade receivables that do not contain a significant financing component, or for which the Company has applied the practical expedient (contracts agreed for a period of one year or shorter), are measured at the transaction price determined under the *IFRS 15*, less any impairment losses. The Company applies a simplified approach in calculating expected credit losses (ECLs). Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. 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 non-financial assets of the Company are reassessed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset 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 with respect to cash-generating units are allocated to assets in the unit (group of units) on a pro rata basis of the carrying amount of the asset.

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 recoverable amount of the asset. An impairment loss is reversed only to the extent that the carrying amount of an asset 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. The Group has no other pension obligations.

Provisions are determined by discounting, at the reporting date, the estimated future benefits with respect to 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 costs of interest are recognised in the 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 Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the estimated future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions for lawsuits

The Company discloses provisions for lawsuits related to alleged patent infringements. The eligibility of provisions formed with regard to 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.

Revenue from contracts with customers

Krka engages 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 and 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 the relevant services have been rendered. The normal credit term is 30 to 120 days.

Krka considers whether there are other promises in the contract 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 Group considers the effects of variable consideration and the existence of significant financing components.

Variable compensation

If the consideration in a contract includes a variable amount, the Company estimates the amount of the 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 the 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 the Company will be entitled. The requirements of the *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 Company recognises a refund liability. The right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

Bonus 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. The Company 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 certain cases the Company receives short-term advances from its customers. Using the practical expedient under the *IFRS 15.63*, the Company does not adjust the promised amount of the 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 shorter.

For sales to the Krka-Rus subsidiary in the Russian Federation, the Company 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 separate financial transactions of the company.

Contract balances

Contract assets

A contract asset is the right to an amount of the consideration in exchange for goods or services transferred to the customer. If the Company transfers goods or services to a customer before consideration payment by the customer or before the consideration falls due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the Company's right to an amount of the consideration that is unconditional (i.e. only the passage of time is required before payment of the 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 the consideration due) from the customer. If a customer pays consideration before the Company 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 Group performs under the contract.

Right of return assets

Right of return assets represents the right of the Company to recover the goods expected to be returned by a 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 a part of or total consideration received (or receivable) from the customer. It is measured at the amount the Company ultimately expects 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

Revenues from government grants are initially recognised when there is a reasonable assurance that grants will be received and that the Company will comply with the conditions associated with the grants. Revenues that compensate the expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the revenue is recognised. Revenues that compensate an entity for the cost of an asset are recognised in profit or loss under other operating revenues 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 the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Financial expenses comprise interest expense on borrowings, foreign exchange losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method, except those that are attributable to property, plant and equipment under construction.

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent which 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 with respect to 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: 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 against which the deferred tax asset can be utilised will be available. 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 the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS equals the basic EPS, as all shares of the Company belong to the same class of ordinary no-par value shares.

Segment reporting

An operating segment is a distinguishable component of Krka that engages in providing products or services within a particular geographically defined economic environment. Segments differ in terms of risks and returns. Segment reporting of the Company is based on Krka's internal reporting system applied by the management of the Company in the decision-making process.

The segments include: the European Union (all member states), South-East Europe (Serbia, Bosnia and Herzegovina, the Republic of North Macedonia, Montenegro, Kosovo, Albania) and East 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 become effective by the financial statement preparation date and will be applied in the future periods. Krka did not apply any revised standards or interpretations prior to their effective date. Krka will apply the new and revised standards and interpretations when they become effective.

IFRS 16 – Leases

The *IFRS 16* is effective for annual periods beginning on or after 1 January 2019. The *IFRS 16* sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognise most leases in their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

Due to changes in the treatment of leases by lessees, the *IFRS 16* will affect Krka's financial statements. Under the amended standard, leases will be recognised in the statement of financial position as a financial liability and an asset that is the lessee's right to use the asset. Krka will apply the *IFRS 16* standard when it comes into effect (1 January 2019) and recognise a cumulative effect of transition to the new standard as a modified opening balance of retained earnings with no retrospective restatement of the comparable data. The management has assessed that the standard will have no impact on the opening balance of retained earnings as liabilities for leases and assets that represent the right to use are recognised in equal amounts. The Company will apply the expedient in the standard for leases whose life period is less than 12 months of the date of initial use and for leases of low value assets. Operating lease liabilities of Krka as at 31 December 2018 are disclosed in Note 30.

On application of the *IFRS 16*, a part of the lease costs currently recognised as operating expenses, will in the future be recognised as interest expense. Consequently, cash flows from operations will become cash flows from financing. Considering the level of operating lease commitments and assuming there is no change in the interest rate, the management of Krka expects the following effects of the revised standard:

In € thousand	**Impact on income statement for FY 2019**
Amortisation and depreciation	641
Lease liability	-696
Operating profit	55
Financial expenses	102
Profit before tax	-47

In € thousand	**Impact on statement of financial position as at 31 Dec 2018**
The right to use assets	**5,570**
Current liabilities	594
Non-current liabilities	4,976
Impact on equity	**0**

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 acknowledge inconsistency between the requirements in the *IFRS 10* and those in the *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. The IASB has postponed the effective date of the *Amendments* indefinitely pending the outcome of its research project on the equity method of accounting. The *Amendments* have not yet been endorsed by the EU.

The management has assessed the impact of the *Amendments* and believe they will have no effect on the financial statements of Krka.

Amendments to IFRS 9 – Prepayment Features with Negative Consideration

The *Amendments* are effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. 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 'negative compensation'), to be measured at amortised cost or at fair value through OCI.

The management has assessed the impact of the *Amendments* on the financial statements of Krka and will apply them when they enter into force.

Amendments to IAS 28 – Investments in Associates and Joint Ventures

The *Amendments* are effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. 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 the *IFRS 9*, *IAS 28* or a combination of both. The *Amendments* clarify that an entity applies the *IFRS 9 – Financial Instruments*, before it applies the *IAS 28*, to such long-term interests for which the equity method *is not applied*. In applying the *IFRS 9*, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying the *IAS 28*. The *Amendments* have not yet been endorsed by the EU.

The management has assessed the impact of the *Amendments* on the financial statements of Krka and will apply them when they come into force.

IFRIC Interpretation 23 – Uncertainty over Income Tax Treatments

The *Interpretation* is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. The *Interpretation* addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of the *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 financial statements of Krka.

Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement

The Amendments are effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. 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 Amendments have not yet been endorsed by the EU.

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, *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 *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 yet been endorsed by the EU.

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 *Amendments* have not yet been endorsed by the EU.

The management has assessed the impact of the *Amendments* on the financial statements of Krka and will apply them when they come into force.

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 *IFRS*s. The *Amendments* are effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. The improvements have not yet been endorsed by the EU.

The management has assessed the impact of the *Interpretations* and believes they will have no significant impact on the financial statements of Krka.

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 – Joint Arrangements 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.

The Amendments to IAS 12 – Income Tax clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits have been recognised.

The Amendments to IAS 23 – Borrowing Costs 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.

3. Determination of fair value

A number of accounting policies and disclosures of the Company require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods presented below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Investments in equity securities

The fair value of financial assets at fair value through profit or loss and 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. Revenues generated by individual segments are presented in terms of customers' geographical location.

Segment reporting

	European Union		South-East Europe		East Europe		Other		Total	
In € thousand	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenues	**724,425**	**716,042**	**69,323**	**59,625**	**391,905**	**379,600**	**46,131**	**42,490**	**1,231,784**	**1,197,756**
- revenues from contracts with customers	718,953	-	68,942	-	390,416	-	45,451	-	1,223,763	-
- other revenues	5,472	-	381	-	1,489	-	680	-	8,021	-
Other operating income	3,779	4,356	0	44	0	480	0	0	3,779	4,879
Operating costs	-627,192	-614,052	-49,468	-45,132	-328,153	-318,913	-31,446	-27,585	-1,036,259	-1,005,682
Operating profit	**101,012**	**106,345**	**19,855**	**14,536**	**63,751**	**61,167**	**14,686**	**14,904**	**199,304**	**196,953**
Interest income	492	450	0	0	63	289	0	0	555	738
Interest expense	-316	-860	0	0	0	0	0	0	-316	-860
Net financial result	8,453	2,147	668	-71	-25,888	-23,515	259	-251	-16,509	-21,691
Income tax	-9,866	-11,626	-1,939	-1,589	-6,227	-6,687	-1,434	-1,629	-19,467	-21,532
Net profit	**99,598**	**96,866**	**18,583**	**12,876**	**31,637**	**30,964**	**13,510**	**13,024**	**163,328**	**153,731**
Investments	77,982	85,332	0	0	0	0	0	0	77,982	85,332
Depreciation of property, plant and equipment	56,872	53,838	1,948	1,685	18,111	20,003	684	408	77,615	75,934
Amortisation of intangible assets	3,278	3,431	314	286	1,773	1,819	209	204	5,573	5,739
	31 Dec 2018	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
Total assets	**1,399,815**	**1,299,639**	**48,990**	**41,563**	**449,542**	**485,553**	**17,718**	**10,727**	**1,916,065**	**1,837,482**
Total liabilities	**235,848**	**227,306**	**11,254**	**9,530**	**92,743**	**89,939**	**23,920**	**17,382**	**363,765**	**344,157**

5. Revenue from contracts with customers

Breakdown of revenue from contracts with customers

In € thousand	2018	2017*
Revenue from contracts with customers (products)	1,077,644	1,036,755
Revenue from contracts with customers (materials)	146,119	155,972
Total revenue from contracts with customers	**1,223,763**	**1,192,727**

**Comparative figures for 2017 under* IFRS 15

Revenue from contracts with customers by region

In € thousand	2018	2017*
Slovenia	51,280	49,570
South-East Europe	171,120	154,871
East Europe	263,611	250,954
Central Europe	304,209	288,812
West Europe	247,580	257,208
Overseas Markets	39,844	35,340
Total	**1,077,644**	**1,036,755**

**Comparative figures for 2017 under* IFRS 15

Revenue from contracts with customers by product group

In € thousand	2018	2017*
Prescription pharmaceuticals	904,025	871,893
Non-prescription products	110,629	104,140
Animal health products	62,990	60,722
Total	**1,077,644**	**1,036,755**

**Comparative figures for 2017 under* IFRS 15

Contract balances

Trade receivable data are explained in Note 20, and trade liabilities in Note 28. The Company did not recognise any contract assets.

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 engages 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 the 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, the transfer occurs when the customer accepts the goods in accordance with INCOTERMS 2010, or when 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 Company had not incurred any costs for acquisition or fulfilment of contracts with customers.

6. Other operating income

In € thousand	2018	2017
Reversal of provisions	2,000	0
Deferred revenue reversal	400	404
Gains on sale of property, plant and equipment and intangible assets	413	456
Collected written-off receivables	15	-
Reversal of receivable allowances		877
Other operating income	952	3,142
Total other operating income	**3,780**	**4,879**

More information on the elimination of non-current provisions is explained in Note 25.

7. Costs by nature

In € thousand	2018	2017
Cost of goods and materials	350,197	356,989
Cost of services	350,103	350,013
Employee benefits	236,593	211,357
Amortisation and depreciation	83,188	81,674
Inventory write-offs and allowances	15,552	8,218
Receivable impairments and write-offs (net)	326	0
Receivable impairments and write-offs	-	789
Formation of provisions for lawsuits	2,100	4,000
Other operating expenses	24,934	24,454
Total costs	**1,062,993**	**1,037,494**
Change in the value of inventories of products and work in progress	-26,734	-31,812
Total	**1,036,259**	**1,005,682**

8. Employee benefits

In € thousand	2018	2017
Gross wages and salaries and continued pay	185,160	164,528
Social security contributions	13,468	11,655
Pension insurance contributions	24,244	22,195
Post-employment benefits and other non-current employee benefits	4,072	4,300
Other costs of labour	9,649	8,679
Total employee benefits	**236,593**	**211,357**

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 2018 amounted to €44,915 thousand (2017: €39,930 thousand). Additional pension insurance contributions amounted to €6,808 thousand (2017: €6,518 thousand).

9. Other operating expenses

In € thousand	2018	2017
Grants and assistance for humanitarian and other purposes	1,431	1,223
Environmental protection expenditure	2,566	2,540
Other taxes and levies	18,124	15,705
Loss on sale of property, plant and equipment and intangible assets	441	2,696
Other operating expenses	2,372	2,290
Total other operating expenses	**24,934**	**24,454**

Other levies include €16,094 thousand of various taxes and levies paid on pharmaceuticals and fees paid to associates in individual foreign countries (2017: €14,085 thousand).

10. Financial income and expense

In € thousand	2018	2017
Interest income	555	738
Gains on disposal of securities	0	2
Derivatives income	5,339	22,144
- realised revenue	3,255	9,474
- fair value change	2,084	12,670
Income from dividends and other shares of the profit	11,463	1,985
– dividends	17	973
- profits of subsidiaries	11,446	1,012
Other financial income	25	39
Total financial income	**17,382**	**24,908**
Net foreign exchange differences	-29,197	-16,947
Interest expense	-316	-860
Derivatives expense	-2,737	-27,378
- incurred expenses	-2,737	-27,094
- fair value change	0	-284
Other financial expenses	-1,641	-1,414
Total financial expenses	**-33,891**	**-46,599**
Net financial result	**-16,509**	**-21,691**

11. Income tax

Adjustment to effective tax rate

In € thousand	2018	2017
Income tax	18,958	21,494
Deferred tax	509	38
Total income tax	**19,467**	**21,532**
Profit before tax	**182,796**	**175,262**
Income tax calculated at the rate of 19-percent (the same as in 2017)	34,731	33,300
Non-exempt expenses	2,317	2,185
Increased expenses	-55	-23
Tax incentives	-15,351	-13,550
Revenues decreasing the tax base	-2,175	-380
Total income tax	**19,467**	**21,532**
Effective tax rate	**10.6%**	**12.3 %**

Major share of tax incentives represented investments in R&D and investment relief.

12. Property, plant and equipment

In € thousand	31 Dec 2018	31 Dec 2017
Land	26,984	25,771
Buildings	255,758	265,027
Equipment	276,268	287,290
Property, plant and equipment being acquired	42,773	29,149
Advances for property, plant and equipment	3,140	4,104
Total property, plant and equipment	**604,923**	**611,341**

The largest investment of Krka in 2018, in the amount of €12,138 thousand, was construction of the laboratory facility for pharmaceutical development and control (Development and Control Centre 4, Slovene abbreviation: RKC 4) (2017: €26,114 thousand). Investment in construction of a multipurpose warehouse amounted to €9,455 thousand (2017: €2,210 thousand); investment in the establishment of packaging facilities (packaging plant 2) at the Notol 2 plant reached €5,706 thousand (2017: €230 thousand); €5,639 thousand was spent on construction of offices in Ljubljana (2017: €1,666 thousand); while €2,736 thousand was invested in expansion of the packaging capacity at the OTO plant (a plant for production of solid dosge forms). The latter is a new project introduced in 2018 and thus no comparable data for 2017 exist.

A total of €3,581 thousand (2017: €3,246 thousand) was spent on various information technology and telecommunication projects.

Movement in property, plant and equipment (PP&E)

In € thousand	Land	Buildings	Equipment	PP&E being acquired	Advances for PP&E	Total
Cost						
At 1 Jan 2017	**24,005**	**530,473**	**832,141**	**42,049**	**5,762**	**1,434,430**
Additions	0	0	0	82,073	-1,658	80,415
Capitalisation – transfer from PP&E under construction	1,836	28,145	64,992	-94,973	0	0
Disposals, deficit, surplus	-25	-3,054	-6,323	0	0	-9,402
Transfers, reclassification	-45	-171	216	0	0	0
At 31 Dec 2017	**25,771**	**555,393**	**891,026**	**29,149**	**4,104**	**1,505,443**
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**
Accumulated depreciation						
At 1 Jan 2017	**0**	**-271,593**	**-553,294**	**0**	**0**	**-824,887**
Depreciation	0	-19,447	-56,488	0	0	-75,935
Disposals, deficit, surplus	0	606	6,114	0	0	6,720
Transfers, reclassification	0	68	-68	0	0	0
At 31 Dec 2017	**0**	**-290,366**	**-603,736**	**0**	**0**	**-894,102**
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**
Carrying amount						
At 1 Jan 2017	**24,005**	**258,880**	**278,847**	**42,049**	**5,762**	**609,543**
At 31 Dec 2017	**25,771**	**265,027**	**287,290**	**29,149**	**4,104**	**611,341**
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**

No borrowing costs referred to the items of property, plant and equipment in 2018.

The carrying amount of the items of property, plant and equipment, which are temporarily not used, amounted to €698 thousand at 31 December 2018 (2017 year-end: €705 thousand).

Of total property, plant and equipment in use as at 31 December 2018, 34% was fully depreciated (2017 year-end: 30%). The share of fully depreciated property, plant and equipment was calculated in consideration of their cost. Land was excluded from the calculation.

13. Intangible assets

In € thousand	31 Dec 2018	31 Dec 2017
Concessions, trademarks and licences	25,262	24,811
Intangible assets being acquired	3,580	3,488
Total intangible assets	**28,842**	**28,299**

Intangible assets refer to software and registration documentation for new pharmaceuticals.

Movement of intangible assets (IA)

In € thousand	Concessions, trademarks and licences	IA being acquired	Total
Cost			
At 1 Jan 2017	**92,537**	**3,667**	**96,204**
Additions	0	4,917	4,917
Transfer from IA being acquired	5,096	-5,096	0
Disposals, deficit, surplus	-244	0	-244
At 31 Dec 2017	**97,389**	**3,488**	**100,877**
At 1 Jan 2018	**97,389**	**3,488**	**100,877**
Additions	0	6,322	6,322
Transfer 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**
Accumulated amortisation			
At 1 Jan 2017	**-66,902**	**0**	**-66,902**
Amortisation	-5,739	0	-5,739
Disposals, deficit, surplus	63	0	63
At 31 Dec 2017	**-72,578**	**0**	**-72,578**
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**
Carrying amount			
At 1 Jan 2017	**25,635**	**3,667**	**29,302**
At 31 Dec 2017	**24,811**	**3,488**	**28,299**
At 1 Jan 2018	**24,811**	**3,488**	**28,299**
At 31 Dec 2018	**25,262**	**3,580**	**28,842**

Of total intangible assets in use as at 31 December 2018, 53% were fully amortised (47% as at 31 December 2017). The share of fully amortised intangible assets was calculated in consideration of their cost.

14. Investments in subsidiaries

Movement of investments in subsidiaries

In € thousand	Investments in subsidiaries
At 1 Jan 2017	**330,176**
Share capital increase	950
Refund of subsequent payments	-237
At 31 Dec 2017	**330,889**
At 1 Jan 2018	**330,889**
Establishment of new companies	3,515
Subsequent payments	89
At 31 Dec 2018	**334,493**
Impairment	
At 1 Jan 2017	**-8,991**
At 31 Dec 2017	**-8,991**
At 1 Jan 2018	**-8,991**
At 31 Dec 2018	**-8,991**
Carrying amount	
At 1 Jan 2017	**321,185**
At 31 Dec 2017	**321,898**
At 1 Jan 2018	**321,898**
At 31 Dec 2018	**325,502**

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.

Investments in subsidiaries

In € thousand	Ownership share 31 Dec 2018	Share capital 31 Dec 2018	Value of share in subsidiaries 31 Dec 2018	31 Dec 2017
KRKA-RUS LLC, Istra, Russian Federation	100%	67,257	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%	19,295	19,738	19,738
KRKA - POLSKA, Sp. z o. o., Warsaw, Poland	100%	4,066	18,697	18,697
KRKA FARMA LLC, Istra, Russian Federation	100%	9,457	15,170	15,170
Krka France Eurl, Paris, France	100%	10	4,662	4,662
KRKA Pharma GmbH, Wien, Vienna, Austria	100%	37	2,344	2,344
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10	2,266	2,266
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	1	1,042	1,042
KRKA FARMACÉUTICA, S.L., Madrid, Spain	100%	10	1,002	1,002
KRKA Farmaceutici Milano S.r.l., Milan, Italy	100%	10	1,350	1,350
Farma GRS, d. o. o., Novo mesto, Slovenia	99.7%	1,003	1,000	1,000
KRKA-FARMA DOOEL, Skopje, Skopje, Republic of North Macedonia	100%	796	802	802
KRKA Magyarország Kft, Budapest, Hungary	100%	140	184	184
KRKA Belgium, SA, Brussels, Belgium	95%	300	285	196
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10	10	10
KRKA Sverige AB, Stockholm, Sweden	100%	15	16	16
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	100%	12	11	11
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	8	10	10
KRKA Bulgaria EOOD, Sofia, Bulgaria	100%	10	10	10
KRKA FARMA, d. o. o., Sarajevo, Sarajevo, Bosnia and Herzegovina	100%	10	10	10
UAB KRKA Lietuva, Vilnius, Lithuania	100%	10	10	10
SIA KRKA Latvia, Riga, Latvia	100%	10	10	10
KRKA UKRAINE LLC,Kiev, Ukraine	100%	3	9	9
KRKA USA LLC, Wilmington, USA	100%	9	8	8
KRKA ČR, s. r. o., Prague, Czech Republic	100%	4	3	3
KRKA Finland Oy, Espoo, Finland	100%	3	1,003	1,003
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1	1	1
KRKA UK Ltd, London, United Kingdom	100%	1	2	2
Ningbo Krka Menovo Pharmaceutical Co. Ltd., Ningbo, China	60%	5841	3,515	0
Total			**325,502**	**321,898**

The Terme Krka subsidiary held a 71.1-percent interest in Golf Grad Otočec, d. o. o. at 31 December 2018; 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 relates to €38,885 thousand of non-current receivables due from Krka-Rus in the Russian Federation (2017 year-end: €38,644 thousand). These are non-interest-bearing receivables that mature within a period of one year.

16. Loans

In € thousand	31 Dec 2018	31 Dec 2017
Non-current loans	**19,238**	**11,187**
– loans to subsidiaries	8,685	1,950
– loans to others	10,553	9,237
Current loans	**51,819**	**34,895**
– portion of non-current loan maturing next year	2,755	3,765
– loans to subsidiaries	29,008	30,981
– loans to others	20,014	96
– current interest receivable	42	53
Total loans	**71,057**	**46,082**

Non-current loans to other entities comprise non-current loans that are extended by the Company to its employees in accordance with internal rules of Krka. These loans are used for the purchase or renovation of housing facilities. Loans bear the annual interest rate, which 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 0.589% and 0.667% in 2018 (2017: between 0.592% and 0.726%). The maximum repayment period is 15 years.

Current loans to others include bank deposits of total € 20,000 thousand maturing in more than 90 days (no deposits maturing over 90 days were placed at banks in 2017).

Loans granted to subsidiaries including related current interest receivable

In € thousand	31 Dec 2018	31 Dec 2017
Non-current loans to subsidiaries	**10,130**	**4,576**
KRKA-RUS LLC, Istra, Russian Federation	4,123	0
KRKA Farmaceutici Milano, S.r.l., Milan, Italy	2,000	986
KRKA UKRAINE LLC, Kiev, Ukraine	1,436	1,136
KRKA Belgium, SA, Brussels, Belgium	1,170	950
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	700	702
KRKA Bulgaria EOOD, Sofia, Bulgaria	400	502
SIA KRKA Latvia, Riga, Latvia	301	300
Current loans to subsidiaries	**29,033**	**31,020**
TERME KRKA, d. o. o., Novo mesto, Slovenia	28,327	30,500
KRKA Finland Oy, Espoo, Finland	347	141
Krka France Eurl, Paris, France	213	18
KRKA Belgium, SA, Brussels, Belgium	71	0
KRKA UKRAINE LLC, Kiev, Ukraine	37	81
HCS bvba, Edegem, Belgium*	33	0
KRKA FARMACÉUTICA, S.L., Madrid, Spain	3	12
TAD Pharma GmbH, Cuxhaven, Germany	1	5
KRKA Sverige AB, Stockholm, Sweden	1	0
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	0	262
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	0	1
Total loans to subsidiaries	**39,163**	**35,596**

** The Krka France Eurl subsidiary holds a 100% stake in HCS bvba*

The maximum repayment period on non-current loans as at 31 December 2018 was six (6) years.

17. Investments

In € thousand	31 Dec 2018	31 Dec 2017
Non-current investments	**9,388**	**8,814**
- Financial assets at fair value through OCI (equity instruments)	9,388	8,814
Current investments including derivatives	**1,800**	**0**
- Derivatives	1,800	0
Total investments	**11,188**	**8,814**

Financial assets at fair value through other comprehensive income (OCI) in the amount of €772 thousand are investments in shares and interests in companies in Slovenia (2017 year-end: €809 thousand), and €8,616 thousand of investments in shares of companies located abroad (2017 year-end: €8,005 thousand).

Movement in financial assets at fair value through OCI

In € thousand	Financial assets at fair value through OCI
At 1 Jan 2017	**10,136**
Addition	23
Adjustment to market value	-1,345
At 31 Dec 2017	**8,814**
At 1 Jan 2018	**8,814**
Addition	6
Adjustment to market value	568
At 31 Dec 2018	**9,388**

Adjustments of non-current investments (financial assets at fair value through OCI) were recognised in other comprehensive income in the amount of €568 thousand in 2018 (2017: -€1,345 thousand).

18. Deferred tax assets and liabilities

	Assets		Liabilities	
In € thousand	2018	2017	2018	2017
Financial assets at fair value through OCI (equity instruments)	1,727	1,727	1,236	1,128
Receivables	1,690	1,806	0	0
Dividends	0	182	0	0
Provisions for post-employment benefits and other non-current employee benefits	9,599	9,755	0	0
Total	**13,016**	**13,470**	**1,236**	**1,128**
Offsetting	**-1,236**	**-1,128**	**-1,236**	**-1,128**
Net	**11,780**	**12,342**	**0**	**0**

In € thousand	At 1 Jan 2017	Recognised in profit or loss	Recognised in OCI	At 31 Dec 2017	Recognised in profit or loss	Recognised in OCI	At 31 Dec 2018
Financial assets at fair value through OCI (equity instruments)	**343**	0	256	**599**	0	-108	**491**
Receivables	**1,929**	-123	0	**1,806**	-116	0	**1,690**
Dividends	**0**	182	0	**182**	-182	0	**0**
Provisions for post-employment benefits and other non-current employee benefits	**9,829**	-97	23	**9,755**	-211	55	**9,599**
Total	**12,101**	**-38**	**279**	**12,342**	**-509**	**-53**	**11,780**

The relevant amount of deferred tax assets and liabilities was calculated using the 19-percent income tax rate.

19. Inventories

In € thousand	31 Dec 2018	31 Dec 2017
Material	144,326	111,925
Work in progress	89,716	76,063
Products	63,317	63,533
Goods	10,146	9,811
Advances for inventories	9,994	2,842
Total inventories	**317,499**	**264,174**

Inventory write-offs and allowances amounted to €15,552 thousand in 2018 (2017: €8,218 thousand).

20. Trade and other receivables

In € thousand	31 Dec 2018	31 Dec 2017
Current trade receivables	392,107	456,265
- current receivables due from subsidiaries	205,851	265,168
- current trade receivables due from customers other than Group companies	186,256	191,097
Other current receivables	15,709	15,395
Total receivables	**407,816**	**471,660**

Current trade receivables

Current receivables due from subsidiaries

In € thousand	31 Dec 2018	31 Dec 2017
KRKA-RUS LLC, Istra, Russian Federation	75,946	98,147
KRKA FARMA LLC, Istra, Russian Federation	54,188	63,499
KRKA Sverige AB, Stockholm, Sweden	14,908	11,148
KRKA-FARMA DOOEL, Skopje, Skopje, Republic of North Macedonia	9,231	8,663
KRKA FARMACÉUTICA, S.L., Madrid, Spain	8,512	13,380
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	8,430	8,925
KRKA Farmaceutici Milano, S.r.l., Milan, Italy	7,591	8,493
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	6,448	5,227
KRKA - POLSKA, Sp. z o. o., Warsaw, Poland	5,411	8,695
Krka France Eurl, Paris, France	3,372	3,002
KRKA Pharma GmbH, Wien, Vienna, Austria	2,991	4,311
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	2,543	4,060
KRKA Finland Oy, Espoo, Finland	2,189	2,688
KRKA UK Ltd, London, United Kingdom	874	814
TAD Pharma GmbH, Cuxhaven, Germany	833	0
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	796	2,379
Ningbo Krka Menovo Pharmaceutical Co. Ltd., Ningbo, China	581	0
KRKA Belgium, SA, Brussels, Belgium	433	668
Farma GRS, d. o. o., Novo mesto, Slovenia	143	163
KRKA-FARMA d. o. o., Zagreb, Croatia	142	20,581
Receivables due from other Group companies	289	325
Total current receivables due from subsidiaries	**205,851**	**265,168**

Current trade receivables due from customers other than Group companies

In € thousand	Gross value	Receivable allowances	Net value at 31 Dec 2018	Net value at 31 Dec 2017
Current trade receivables due from customers other than domestic Group companies	9,968	33	9,935	9,292
Foreign customers (other than Group companies)	196,060	19,739	176,321	181,805
Total trade receivables (other than Group companies)	**206,028**	**19,772**	**186,256**	**191,097**

Net amount of the receivable write-off and impairment disclosed among operating expenses amounted to €326 thousand in 2018.

Of the total amount, 82% of trade receivables was insured with the SID – Prva kreditna zavarovalnica, d. d. (2017 year-end: 65%).

Other current receivables

Majority of other current receivables in total of €15,709 thousand (2017 year-end: €15,395 thousand) were receivables due from the State on account of VAT in the amount of €10,223 thousand (€9,789 thousand as at 31 December 2017).

The Company recorded €763 thousand of advances for services (€707 thousand at 31 December 2017).

21. Cash and cash equivalents

In € thousand	31 Dec 2018	31 Dec 2017
Cash in hand	1	1
Bank balances	98,473	34,116
Total cash and cash equivalents	**98,474**	**34,117**

Krka concluded contracts with banks on the authorised overdraft limit on bank accounts in the total amount of €5,867 thousand (in 2017, contracts worth in total €14,500 thousand were concluded with three banks). No negative balances were recorded on those bank accounts as at 31 December 2018 as no overdraft facilities were used.

Cash and cash equivalents include €9,739 thousand of bank deposits with maturity up to 90 days (2017 year-end: €21,368 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 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 solely one class of shares, whereas 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 the Company's share capital, i.e. 3,279,344 shares, whereby the total amount is inclusive of shares already held by the Company as at the date.

Based on this authorisation, the Company is allowed to acquire treasury shares on the regulated market at respective market prices. The Company 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 according to the merger-and-acquistion 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 2018

	Number of shares	Weighted average share price (in €)	Value of treasury shares (in € thousand)
At 31 Dec 2017	**691,717**		**40,588**
Repurchases in 2018	201,730	56,95	11,488
At 31 Dec 2018	**893,447**		**52,076**

The repurchases of treasury shares in 2018 referred to repurchases recorded in books of accounts in 2018. Due to the delay in postings, the number of shares differs from that actually repurchased in 2018, which was announced by the Company on the Ljubljana Stock Exchange website. Subscription fee is included in the weighted average price of shares.

The 2018 repurchases of treasury shares by days are illustrated within Enclosure 1 to the Financial Statements of the Krka Group and Krka, d. d., Novo mesto.

Reserves

Krka reserves comprised reserves for treasury shares, the share premium, legal and statutory reserves, and fair value reserve.

Reserves for treasury shares amounted to €52,076 thousand as at the reporting date and increased by €11,488 thousand based on their formation due to an additional repurchase of treasury shares.

The share premium is to be used under the terms and for purposes defined by the applicable act. The share premium was reported at €105,897 thousand as at 31 December 2018 and consisted of the general equity revaluation adjustment (€90,659 thousand) that was included in share premium upon transfer to the *IFRS*; the share premium (€10,844 thousand) formed pursuant to a special regulation applicable in the ownership transformation of the controlling company; and €4,394 thousand 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 2018, the value of reserves remained unchanged.

Legal reserves may form up to 30% of the share capital. They amounted to €14,990 thousand as at 31 December 2018 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 may be 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 increased by €521 thousand and amounted to -€10,175 thousand as at 31 December 2018. The cumulative change was due to: a €568 thousand increase in the fair value of financial assets through OCI (equity instruments); a €108 thousand decrease of the impact of deferred taxes in connection with the change in the value of these investments; a €6 thousand increase due to the restatement of post-employment benefits; and a €55 thousand increase of the impact of deferred taxes due to the restatement of post-employment benefits.

Retained earnings

Retained earnings grew by the majority shareholder's profit of €163,329 thousand. They, on the other hand, decreased due to allocation of accumulated profit to dividend payment (€92,798 thousand), in accordance with the resolution adopted at the 24th Annual General Meeting of 5 July 2018, and an additional formation of €11,488 thousand of reserves for treasury shares by the controlling company in 2018. The amount of the dividend payout shown in the statement of cash flows differs from the figure confirmed by the Annual General Meeting and included in the statement of changes in equity by dividend payouts for prior periods of €13 thousand (2017: €105 thousand).

Dividends per share

In 2018, the declared gross dividend per share was €2.90 (2017: €2.75).

Identification of distributable profit

In € thousand	2018	2017
Compulsory appropriation of profit		
Net profit	**163,329**	**153,730**
– to cover the loss from previous periods	0	0
– allocation to legal reserves	0	0
– allocation to reserves for treasury shares	-11,488	-10,898
– allocation to statutory reserves	0	0
Profit after compulsory appropriation	**151,841**	**142,832**
- formation of other profit reserves under the resolution of the Management and Supervisory Boards	-	0
Surplus of profit	**151,841**	**142,832**
Identification of distributable profit		
– surplus of profit	151,841	142,832
- retained earnings	37,627	26,398
Distributable profit	**189,468**	**169,230**

23. Earnings per share

Basic earnings per share amounted to €5.10 in 2018, an increase of 7.0% over the previous year, when it amounted to €4.77. The calculation of earnings per share took into account net profit of €163,329 thousand (2017: €153,730 thousand). The weighted average number of shares was accounted for in the calculation for both years, i.e. 32,002,066 shares for 2018 and 32,215,595 shares for 2017. 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

In € thousand	31 Dec 2018	31 Dec 2017
Current borrowings	**40,435**	**27,525**
– borrowings from subsidiaries	40,383	27,455
– current interest payable	52	70
Total borrowings	**40,435**	**27,525**

Borrowings from subsidiaries, including current interest payable

In € thousand	31 Dec 2018	31 Dec 2017
Current borrowings from subsidiaries	**40,435**	**27,525**
TAD Pharma GmbH, Cuxhaven, Germany	19,550	12,190
Farma GRS, d. o. o., Novo mesto., Slovenia	16,197	12,300
KRKA FARMACÉUTICA, S.L., Madrid, Spain	2,865	380
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	926	851
KRKA Pharma GmbH, Wien, Vienna, Austria	348	1,680
TERME KRKA, d. o. o., Novo mesto, Slovenia	345	0
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	127	0
KRKA Sverige AB, Stockholm, Sweden	73	0
KRKA UK Ltd, London, United Kingdom	3	0
KRKA Finland Oy, Espoo, Finland	1	1
KRKA Belgium, SA, Brussels, Belgium	0	122
Krka France Eurl, Paris, France	0	1
Total borrowings from subsidiaries	**40,435**	**27,525**

Current borrowings are denominated in the euro and were extended for the period of one year. These borrowings were not secured.

25. Provisions

In € thousand	At 31 Dec 2017	Formation	Utilisation	Reversal	At 31 Dec 2018
Provisions for lawsuits	4,000	2,100	0	2,000	4,100
Provisions for post-employment benefits and other non-current employee benefits	81,503	6,197	-3,918	0	83,782
Total provisions	**85,503**	**8,297**	**-3,918**	**2,000**	**87,882**

The amounts of provisions for lawsuits related 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 lawsuits related 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.

Seven (7) lawsuits related to intellectual property in total indemnification amount of €4,400 thousand, and another two (2) lawsuits related to other areas (labour legislation, civil lawsuits) in total indemnification amount of €40 thousand were filed against Krka. Based on its familiarisation with the content of lawsuits and based on legal opinion of external experts, the management of Krka assessed that €2,100 of additional provisions should be set aside for above lawsuits and €2,000 of existing provisions should be reversed.

Provisions for obligations to employees arising from post-employment and other non-current benefits were based on actuarial calculation using the following assumptions:

- The selected discounted interest rate is 2.31-percent annually, which equals the return on 15-year corporate bonds with high credit rating in the euro area at the end of November 2018 (2017: 1.83-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% (2017: 1.80%).

Provisions for post-employment benefits

In € thousand	2018	2017
At 1 Jan	**65,984**	**63,563**
Employee benefit costs (CSC)	3,138	3,054
Interest expense (IC)	1,248	1,149
Post-employment benefits paid	-2,510	-2,027
Actuarial surplus/deficit, of that:	583	245
- change in financial assumptions	-2,389	-697
- experience	2,972	942
At 31 Dec	**68,443**	**65,984**

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 in € thousand	**-4,356**	**4,821**	**4,812**	**-4,390**

26. Deferred revenue

In € thousand	At 31 Dec 2017	Deferred revenue received	Deferred revenue reversal	At 31 Dec 2018
Grants received from the European Fund for Regional Development and Republic of Slovenia budget for the production of pharmaceuticals in the new Notol 2 plant	2,117	0	-267	1,850
Grants from the European Regional Development Fund – development of new technologies (FBD project)	242	0	-91	151
Grants from the European Regional Development Fund for for setting up the energy supply IT system (GEN-I)	10	0	-4	6
Subsidy for acquisition of electric drive vehicles	7	0	-1	6
Property, plant and equipment received for free	23	2	-9	16
Emission coupons	9	20	-28	1
Total deferred revenue	**2,408**	**22**	**-400**	**2,030**

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

In € thousand	31 Dec 2018	31 Dec 2017
Payables to subsidiaries	73,202	80,358
Payables to domestic suppliers	41,624	37,900
Payables to foreign suppliers	55,528	37,967
Payables for advances		2,894
Total trade payables	**170,354**	**159,119**

Payables to subsidiaries

In € thousand	31 Dec 2018	31 Dec 2017
KRKA FARMA LLC, Istra, Russian Federation	35,754	34,872
KRKA-FARMA d. o. o., Zagreb, Croatia	5,090	3,984
KRKA ROMANIA S.R.L., Bucharest, Romania	4,866	5,057
KRKA - POLSKA, Sp. z o. o., Warsaw, Poland	4,537	12,639
KRKA Magyarország Kft, Budapest, Hungary	3,972	4,260
KRKA ČR, s. r. o., Prague, Czech Republic	2,957	2,186
Farma GRS, d. o. o., Novo mesto, Slovenia	2,582	2,887
KRKA UKRAINE LLC, Kiev, Ukraine	2,138	1,685
KRKA-RUS LLC, Istra, Russian Federation	1,650	1,644
TAD Pharma GmbH, Cuxhaven, Germany	1,228	2,010
KRKA Slovensko, s.r.o., Bratislava, Slovakia	1,181	1,601
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	1,070	854
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	812	495
UAB KRKA Lietuva, Vilnius, Lithuania	666	868
KRKA Farmaceutici Milano, S.r.l., Milan, Italy	563	986
KRKA-FARMA DOOEL, Skopje, Skopje, Republic of North Macedonia	543	514
Krka France Eurl, Paris, France	535	1,202
KRKA Bulgaria EOOD, Sofia, Bulgaria	504	440
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	490	327
SIA KRKA Latvia, Riga, Latvia	485	353
KRKA FARMACÉUTICA, S.L., Madrid, Spain	432	333
KRKA Finland Oy, Espoo, Finland	369	304
KRKA Pharma GmbH, Wien, Vienna, Austria	190	322
KRKA Belgium, SA, Brussels, Belgium	184	160
HCS bvba, Edegem, Belgium*	139	0
KRKA Sverige AB, Stockholm, Sweden	121	161
TERME KRKA, d. o. o., Novo mesto, Slovenia	82	83
KRKA UK Ltd, London, United Kingdom	47	115
KRKA FARMA, d. o. o., Sarajevo, Sarajevo, Bosnia and Herzegovina	14	13
KRKA USA LLC, Wilmington, USA	1	1
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	0	2
Total payables to subsidiaries	**73,202**	**80,358**

** The Krka France Eurl subsidiary holds a 100% stake in HCS bvba*

28. Current contract liabilities

In € thousand	31 Dec 2018	1 Jan 2018
Refund liabilities	**14,923**	**17,967**
- accrued discounts on products sold to other customers	14,923	17,967
Contract liabilities	**2,417**	**2,894**
- contract liabilities – advances from other customers	2,417	2,894
Total current contract liabilities	**17,340**	**20,861**

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

In € thousand	31 Dec 2018	31 Dec 2017
Accrued contractually agreed discounts on products sold		17,967
Liabilities to employees – gross salary, other receipts and duties	36,631	29,605
Derivatives	0	284
Other	7,523	6,619
Total other current liabilities	**44,154**	**54,475**

The item 'Other' also includes current liabilities to the State on account of VAT payable in the amount of €6,040 thousand (2017 year-end: €5,250 thousand).

30. Contingent liabilities and commitments

In € thousand	31 Dec 2018	31 Dec 2017
Guarantees issued	16,517	15,722
Other	620	620
Total contingent liabilities	**17,137**	**16,342**

Major items of guarantees issued included a contract bond issued after Krka was awarded a tender of €6,000 thousand in Italy; a counter guarantee for due payment of potential liabilities arising from issued customs guarantee of €4,500 thousand in Belarus; and a contract bond issued on behalf of the TAD Pharma subsidiary 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 year-end the Group accounted for €52,111 thousand of commitments for acquisition of property, plant and equipment (2017 year-end: €44,373 thousand).

Operating lease

In € thousand	31 Dec 2018	31 Dec 2017
Up to 1 year	874	1,091
1–5 years	1,585	1,946
More than 5 years	759	759
Total lease liabilities	**3,218**	**3,796**

The items include liabilities referring to the contractually agreed terms, inclusive of current leases and low value leases.

31. Financial liabilities

Movement in financial liabilities in 2018

In € thousand	At 31 Dec 2017	Monetary changes	Non-monetary changes Addition/disposal	At 31 Dec 2018
Borrowings	27,455	12,928	0	40,383
Interest	70	-881	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**

Movement in financial liabilities in 2017

In € thousand	At 31 Dec 2016	Monetary changes	Non-monetary changes Addition/disposal	At 31 Dec 2017
Borrowings	105,110	-77,655	0	27,455
Interest	159	-839	750	70
Dividends	1,470	-88,749	88,645	1,366
Treasury shares	0	-10,898	10,898	0
Total	**106,739**	**-178,141**	**100,293**	**28,891**

32. 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 centralized credit control process, which has been in use at the 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 2018, 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 customer 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 a 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 customer's 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.

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 receivables among various customers and sales markets, and to the fact that majority of receivables are due from loyal customers of Krka.

The credit risk management again proved to be efficient as net amount of receivable write-off and impairment accounted for only 0.03% of Krka annual sales.

Since 2009, Krka has insured a portion of trade receivables with a credit insurer. This applies to trade receivables from countries with perceived increased credit risk. To a lesser extent, bank guarantees and letters of credit as means of trade receivable insurance are also used.

In 2018, Krka agreed an extension to the insurance policy referring to the receivables with existing insurance company.

Credit risk exposure

The carrying amount of financial assets represents the largest exposure to credit risk as illustrated below.

In € thousand	Notes	31 Dec 2018	31 Dec 2017
Trade receivables from subsidiaries		38,885	38,644
Loans	16	71,057	46,082
Investments	17	11,188	8,814
Trade receivables	20	392,107	456,265
Cash and cash equivalents	21	98,474	34,117
Total		**611,711**	**583,922**

As for the financial assets exposed to credit risk, the loans, trade receivables and receivables due from subsidiaries are presented separately.

Loans by region

In € thousand	31 Dec 2018	31 Dec 2017
Slovenia	60,135	40,917
South-East Europe	409	508
East Europe	6,336	1,901
Central Europe	301	300
West Europe	3,876	2,456
Overseas Markets	0	0
Total	**71,057**	**46,082**

Trade receivables including those due from subsidiaries by region

In € thousand	31 Dec 2018	31 Dec 2017
Slovenia	10,121	9,490
South-East Europe	76,528	91,918
East Europe	219,564	256,947
Central Europe	65,224	78,892
West Europe	55,248	54,547
Overseas Markets	4,307	3,115
Total	**430,992**	**494,909**

Of the total amount, 82% of trade receivables was insured with the SID – Prva kreditna zavarovalnica, d. d. (2017 year-end: 65%).

Maturity analysis of loans as at reporting date

In € thousand	Gross 2018	Allowance 2018	Gross 2017	Allowance 2017
Not-past due	71,047	0	46,068	0
Past due up to 20 days	3	0	7	0
Past due from 21 to 50 days	1	0	2	0
Past due from 51 to 180 days	3	0	3	0
Past due more than 180 days	14	11	13	11
Total	**71,068**	**11**	**46,093**	**11**

Maturity structure of trade receivables including those due from subsidiaries as at reporting date

In € thousand	Gross 2018	Allowance 2018	Gross 2017	Allowance 2017
Not-past due	406,712	1,479	469,411	1,355
Past due up to 20 days	10,948	55	4,203	24
Past due from 21 to 50 days	3,610	5	5,522	24
Past due from 51 to 180 days	10,196	4	11,949	28
Past due more than 180 days	20,312	19,243	24,382	19,127
Total	**451,778**	**20,786**	**515,467**	**20,558**

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 €405,036 thousand (2017year-end: €467,366 thousand); past due up to 20 days €11,025 thousand (2017 year-end: €4,673 thousand); past due from 21 to 50 days €3,605 thousand (2017 year-end: €5,694 thousand); past due from 51 to 180 days €10,192 thousand (2017 year-end: €11,921 thousand); and past due more than 180 days €1,134 thousand (2017 year-ends: €5,255 thousand).

Movement of allowances for loans

In € thousand	2018	2017
At 1 Jan	**11**	**11**
At 31 Dec	**11**	**11**

Movement in trade receivables including those due from subsidiaries

In € thousand	2018	2017
At 1 Jan	**20,558**	**20,980**
Formation of allowance	1,517	1,736
Write-off of receivables	-1,072	-1,970
Impairment reversal	-217	-178
Collected written-off receivables	0	-10
At 31 Dec	**20,786**	**20,558**

Liquidity risk

Stable performance with no major fluctuations or deviations, low indebtedness, and stable cash flows from operations, continued to ensure a strong financial structure of Krka. In 2018, we raised current borrowings only at the beginning of the year.

Some of the surplus cash was placed as deposits in banks. Furthermore, all the liabilities were settled regularly and within the agreed terms. In 2018, 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 2018

In € thousand	Carrying amount	Contractual cash flows				
		Total	Up to 6 months	From 6 to 12 months	From 1 to 2 years	From 2 to 5 years
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**

Maturity of financial liabilities as at 31 Dec 2017

In € thousand	Carrying amount	Contractual cash flows Total	Up to 6 months	From 6 to 12 months	From 1 to 2 years	From 2 to 5 years
Financial liabilities						
Other current borrowings	27,525	27,488	26,099	1,389	0	0
Payables to suppliers (excluding advances)	156,193	156,193	156,193	0	0	0
Other liabilities excluding amounts owed to the State, to employees, and advances	19,427	19,427	19,427	0	0	0
Total financial liabilities	**203,145**	**203,108**	**201,719**	**1,389**	**0**	**0**
Derivatives	284	284	284	0	0	0
Total derivative financial instruments	**284**	**284**	**284**	**0**	**0**	**0**
Total	**203,429**	**203,392**	**202,003**	**1,389**	**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 the Company and from mismatch of 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.

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.

In 2018, we again monitored major fluctuation of currency exchanges to which Krka is exposed. The Russian rouble was again most unstable of all currencies, as it was gradually losing in value over the entire year, while during short intervals its fluctuation was rather strong. Thus, the Russian rouble lost 13% of value in 2018, and its average value was 11% below the one recorded in 2017.

In addition to currency interventions and changes in interest rates set by the Russian monetary authorities, strong pressure on currencies in the developing countries and ever changing conditions on global financial markets were the reasons for weakening of the rouble in 2018. However, additional economic sanctions imposed in April and September against individual Russian legal and personal entities by the U.S., played the key negative role in the fluctuation of the Russian rouble.

In contrast, the price of oil had no decisive impact on the value of the Russian rouble. As early as in 2016, the Central Bank and the Ministry of Finance put in place measures to mitigate the impact of the oil price on inflation and the stability of public finances in the Russian Federation, and hence the currency value.

The Polish zloty was rather volatile in 2018, much the same as in the previous years. Its value expressed in the euro, fell by 2.9% from the beginning to the end of 2018, while the average value remained at the level recorded in 2017. Relative stability of the Polish currency was 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 stable in 2018 and its value expressed in the euro remained at the level recorded at the beginning of the year. Stability of the Romanian leu was ensured by the central bank.

The value of the Croatian kuna was also stable in 2018. The British pound was again rather volatile due to uncertainties regarding Brexit and domestic policies. Although Krka reports long currency position in the Croatian kuna and the British pound, the volatility of these two currencies had no significant impact on its net financial result.

Volatility of the U.S. dollar continued in 2018, despite solid growth of the U.S. economy, favourable conditions on the labour market, and inflation, which was below the target value. The U.S. dollar was under pressure mainly on account of the aggravated commercial conflict with China, which could have global consequences. On the other hand, the U.S. central bank raised the interest rate four times in 2018 (with further increases expected in 2019), and this had a strong positive impact on the value of the U.S. dollar.

While the value of the U.S. dollar expressed in the euro fell in the first quarter of 2018, it strengthened over the course of the year. Therefore, over the year the value of the U.S. dollar increased by 4.7%, while its average value in the euro fell by 4.4% compared to 2017.

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 Group and the Company include futures.

In 2018, we continued to partly hedge the risk of the Russian rouble fluctuation and reduced the share of hedged exposure to the Russian rouble at the beginning of the year. The hedging partially neutralised the negative impact of exchange rate losses arising from exposure to the Russian rouble.

No hedging instruments were used with respect to 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 the Ukrainian hryvnia, Kazakhstani tenge, Serbian dinar and certain other currencies, all of which are less significant in the currency exposure structure of Krka.

Exposure to the risk of foreign exchange rate fluctuations

			31 Dec 2018		
In € thousand	**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
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.*

	31 Dec 2017				
In € thousand	EUR*	PLN	HRK	RUB	RON
Non-current trade receivables from subsidiaries	0	0	0	38,644	0
Loans	46,001	0	0	0	0
Trade receivables	102,137	52,551	0	219,862	56,002
Cash and cash equivalents	25,477	2,319	0	2,489	1,347
Borrowings	-27,525	0	0	0	0
Trade payables	-102,836	-12,933	-2	-20,845	-5,017
Financial position exposure (net)	**43,254**	**41,937**	**-2**	**240,149**	**52,333**

** EUR is the functional currency and does not represent exposure to foreign currency risk.*

Significant foreign exchange rates

	Average exchange rate*		Final exchange rate*	
	2018	2017	2018	2017
PLN	4.26	4.26	4.30	4.18
HRK	7.42	7.46	7.41	7.44
RUB	74.04	65.94	79.72	69.39
RON	4.65	4.57	4.66	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 rate of the ECB effective on 31 December.

Sensitivity analysis

A 10% or 1% percent increase/decrease of the euro exchange rate with respect to currencies stated as at 31 December 2018 or 31 December 2017 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 and borrowings denominated in the national currencies.

	Effect on the profit or loss before tax			
In € thousand	2018		2017	
Currency fluctuation	**10%**	**-10%**	**10%**	**-10%**
RUB	20,912	-20,912	24,015	-24,015
Currency fluctuation	**1%**	**-1%**	**1%**	**–1%**
PLN	511	511	419	419
HRK	152	-152	0	0
RON	535	-535	523	-523

Any additional 10% change of the Russian rouble value or any additional 1% change of the Polish zloty, the Croatian kuna or the Romanian leu with respect to the euro value, would result in additional change 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 wouls 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.

As at the end of 2018, Krka reports no non-current borrowings. Non-current investments are not linked to the reference market interest rates, therefore Krka is not exposed to the risk of changes in reference interest rates.

Exposure to interest rate risk

In € thousand	2018	2017
Financial instruments at fixed rate of interest	**25,877**	**525**
Financial assets	42,040	15,127
Financial liabilities	-16,163	-14,602
Financial instruments at variable rate of interest	**4,755**	**18,049**
Financial assets	28,975	30,902
Financial liabilities	-24,220	-12,853

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 2018 by €48 thousand. Decrease/increase of the interest rate by 100 basis points would increase/decrease the profit or loss for 2017 by €180 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

In € thousand	31 Dec 2018	31 Dec 2017
Current borrowings inclusive of current portion of non-current borrowings	40,383	27,455
– other borrowings	40,383	27,455
Current borrowings exclusive of current portion of non-current borrowings	40,383	27,455
Average balance of current borrowings	33,919	66,283
Interest paid in the financial year	268	763
Other cost of raising current borrowings	6	12
Average effective cost of current borrowings	0.81%	1.17%
Currency structure of current borrowings		
– €	100%	100%
Structure of current borrowings in terms of interest rates		
– fixed	100%	100%

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 solely one class of shares, whereas the first and only issue of shares was carried out in 1995. The share capital was fully paid in.

The capital management of Krka is aimed at ensuring high credit rating and relevant financing indicators in order to ensure the proper development of its operations and to generate the 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 2018 or 2017.

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.

In € thousand	31 Dec 2018	31 Dec 2017
Borrowings	40,435	27,525
Trade payables and other current liabilities	231,848	213,594
Cash and cash equivalents	98,474	34,117
Net indebtedness	**173,809**	**207,002**
Equity	1,552,300	1,493,325
Equity and net indebtedness	**1,726,109**	**1,700,327**
Gearing (debt/equity) ratio	**10.1%**	**12.2%**

Fair value

	2018		**2017**	
In € thousand	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Trade receivables from subsidiaries	38,885	38,885	38,644	38,644
Non-current loans	19,238	19,238	11,187	11,187
Financial assets at fair value through OCI (equity instruments)	9,388	9,388	8,814	8,814
Current loans	51,819	51,819	34,895	34,895
Current investments	1,800	1,800	0	0
– derivatives	1,800	1,800	0	0
Trade receivables	392,107	392,107	456,265	456,265
Cash and cash equivalents	98,474	98,474	34,117	34,117
Current borrowings	-40,435	-40,435	-27,525	-27,525
Trade and other payables excluding amounts owed to the State, to employees, and advances			175,620	175,620
Trade payables excluding advances	-170,099	-170-099		
Contract liabilities excluding advances	-14,923	-14,923		
Other liabilities excluding amounts owed to the State, to employees, and advances	-1,519	-1,519		
Other current liabilities	0	0	-284	-284
– derivatives	0	0	-284	-284
Total	**384,735**	**384,735**	**380,493**	**380,493**

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

	31 Dec 2018				31 Dec 2017			
In € thousand	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)	8,002	0	1,386	9,388	7,434	0	1,380	8,814
Derivatives	0	0	1,800	1,800	0	0	0	0
Total assets at fair value	**8,002**	**0**	**3,186**	**11,188**	**7,434**	**0**	**1,380**	**8,814**
Assets for which fair value is disclosed								
Trade receivables from subsidiaries	0	0	38,885	38,885	0	0	38,644	38,644
Non-current loans	0	0	19,238	19,238	0	0	11,187	11,187
Current loans	0	0	51,819	51,819	0	0	34,895	34,895
Trade receivables	0	0	392,107	392,107	0	0	456,265	456,265
Cash and cash equivalents	0	0	98,474	98,474	0	0	34,117	34,117
Total assets for which fair value is disclosed	**0**	**0**	**600,523**	**600,523**	**0**	**0**	**575,108**	**575,108**
Total	**8,002**	**0**	**603,709**	**611,711**	**7,434**	**0**	**576,488**	**583,922**

Liabilities at fair value

	31 Dec 2018				31 Dec 2017			
In € thousand	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities at fair value								
Derivatives	0	0	0	0	0	0	284	284
Total liabilities at fair value	**0**	**0**	**0**	**0**	**0**	**0**	**284**	**284**
Liabilities for which fair value is disclosed								
Non-current borrowings	0	0	0	0	0	0	0	0
Current borrowings	0	0	40,435	40,435	0	0	27,525	27,525
Trade and other payables excluding amounts owed to the State, to employees, and advances	-	-	-		0	0	175,620	175,620
Trade payables excluding advances	0	0	170,099	170,099				
Contract liabilities excluding advances	0	0	14,923	14,923				
Other liabilities excluding amounts owed to the State, to employees, and advances	0	0	1,519	1,519				
Total liabilities for which fair value is disclosed	**0**	**0**	**226,976**	**226,976**	**0**	**0**	**203,145**	**203,145**
Total	**0**	**0**	**226,976**	**226,976**	**0**	**0**	**203,429**	**203,429**

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 is not decreased by any costs that may arise upon the sale or purchase of securities.

33. Related party transactions

Intragroup transactions

Transactions with Group companies in 2018 are presented below.

In € thousand	Sales	Purchases	Borrowings	Loans
TERME KRKA, d. o. o., Novo mesto, Slovenia*	298	835	0	9,490
Farma GRS, d. o. o., Novo mesto, Slovenia**	515	10,328	8,250	0
KRKA-FARMA d. o. o., Zagreb, Croatia	3,287	21,742	0	0
KRKA ROMANIA S.R.L., Bucharest, Romania	86	25,710	0	0
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	21,349	3,667	0	0
KRKA-FARMA DOOEL, Skopje, Skopje, Republic of North Macedonia	18,318	1,681	0	0
KRKA FARMA, d. o. o., Sarajevo, Sarajevo, Bosnia and Herzegovina	4	335	0	0
KRKA Bulgaria EOOD, Sofia, Bulgaria	34	2,428	0	0
KRKA-RUS LLC, Istra, Russian Federation	128,145	5,619	0	4,323
KRKA FARMA LLC, Istra, Russian Federation	91,570	73,439	0	0
KRKA UKRAINE LLC, Kiev, Ukraine	122	12,286	0	300
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	14,359	3,509	0	0
KRKA - POLSKA, Sp. z o. o., Warsaw, Poland	31,079	37,442	0	0
KRKA ČR, s. r. o., Prague, Czech Republic	88	12,086	0	0
KRKA Magyarország Kft, Budapest, Hungary	58	15,379	0	0
KRKA Slovensko, s.r.o., Bratislava, Slovakia	47	7,827	0	0
UAB KRKA Lietuva, Vilnius, Lithuania	26	4,375	0	0
SIA KRKA Latvia, Riga, Latvia	17	3,189	0	0
KRKA Finland Oy, Espoo, Finland	6,299	1,729	0	0
TAD Pharma GmbH, Cuxhaven, Germany	55,926	12,644	6,750	0
KRKA Sverige AB, Stockholm, Sweden	29,540	1,482	0	0
KRKA Pharma GmbH, Wien, Vienna, Austria	7,621	1,859	0	0
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	11,029	1,686	0	0
KRKA FARMACÉUTICA, S.L., Madrid, Spain	29,973	2,632	0	0
KRKA Farmaceutici Milano, S.r.l., Milan, Italy	13,015	5,931	0	1,014
Krka France Eurl, Paris, France***	5,177	4,341	0	33
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	6,042	25	0	0
KRKA UK Ltd, London, Great Britain	1,438	639	0	0
KRKA Belgium, SA, Brussels, Belgium	1,714	1,459	0	220
Ningbo Krka Menovo Pharmaceutical Co. Ltd., Ningbo, China	20	725	0	0
KRKA USA LLC, Wilmington, USA	0	6	0	0
Total	**477,196**	**277,035**	**15,000**	**15,380**

* *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 rendering of products and services at market prices.

The annual rate of interest agreed on conclusion of loan contracts within the Group companies, is the rate of interest set by the Minister of Finance in accordance with the *Corporate Income Tax Act* that defines the interest rate for related parties. In 2018, the interest rate ranged between 0.868% and 2.839%.

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 non-current operating liabilities to subsidiaries is presented in Note 27.

Information 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 0.1154% of voting rights.

By the end of the year, Members of the Supervisory Board of Krka held 2,130 of Krka shares, i.e. 0.0065% of total equity or 0.0066% of voting rights.

Equity stakes held by members of Management and Supervisory Boards of Krka and their shares of voting rights

	31 Dec 2018			31 Dec 2017		
	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	0.0705	22,500	0.0686	0.0701
Aleš Rotar	13,915	0.0424	0.0436	13,915	0.0424	0.0433
Vinko Zupančič	120	0.0004	0.0004	120	0.0004	0.0004
David Bratož	0	0	0	0	0	0
Milena Kastelic	505	0.0015	0.0016	505	0.0015	0.0016
Total Members of the Management Board	**37,040**	**0.1129**	**0.1161**	**37,040**	**0.1129**	**0.1154**
Members of the Supervisory Board (owner representatives)						
Jože Mermal	0	0	0	0	0	0
Hans-Helmut Fabry	0	0	0	0	0	0
Borut Jamnik	0	0	0	0	0	0
Julijana Kristl	230	0.0007	0.0007	230	0.0007	0.0007
Andrej Slapar	0	0	0	0	0	0
Boris Žnidarič	0	0	0	0	0	0
Members of the Supervisory Board (employee representatives)						
Tomaž Sever	500	0.0015	0.0016	500	0.0015	0.0016
Franc Šašek	1,400	0.0043	0.0044	1,400	0.0043	0.0043
Mateja Vrečer	0	0	0	0	0	0
Total Members of the Supervisory Board	**2,130**	**0.0065**	**0.0067**	**2,130**	**0.0065**	**0.0066**
Total	**39,170**	**0.1194**	**0.1228**	**39,170**	**0.1194**	**0.1220**

Treasury shares were eliminated from the calculation of voting rights (893,447 treasury shares as at 31 December 2018 and 691,717 as at 31 December 2017).

Remuneration paid to groups of persons (gross)

In € thousand	2018	2017
Members of the Management Board	3,198	2,920
Members of the Supervisory Board	209	209
Total gross remuneration paid to groups of persons	**3,407**	**3,129**

Gross earnings paid to persons employed under individual employment contracts in 2018 amounted to €10,404 thousand (2017: €9,996 thousand).

Remuneration paid to Members of the Management Board in 2018

	Salary – fixed part			Salary – variable part		Total	
In € thousand	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**

	Net fringe benefits and other earnings					
In € thousand	Executive health insurance	Supplementary pension insurance	Other benefits	Refund of work-related costs	Pay for annual leave	Total
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**

Remuneration paid to Members of the Management Board in 2017

	Salary – fixed part			Salary – variable part		Total	
In € thousand	Gross	Net payout	Net fringe benefits and other earnings	Gross	Net	Gross	Net
Jože Colarič	406	163	10	518	203	924	376
Aleš Rotar	312	133	5	354	139	666	277
Vinko Zupančič	266	112	8	295	121	561	241
David Bratož	263	109	11	289	114	552	234
Milena Kastelic	155	74	5	62	25	217	104
Total Members of the Management Board	**1,402**	**591**	**39**	**1,518**	**602**	**2,920**	**1,232**

	Net fringe benefits and other earnings					
In € thousand	Executive health insurance	Supplementary pension insurance	Other benefits	Refund of work-related costs	Pay for annual leave	Total
Jože Colarič	0.83	2.82	6.15	0.05	0.57	10.42
Aleš Rotar	0	2.82	0.72	0.92	0.57	5.03
Vinko Zupančič	2.25	2.82	1.94	0.76	0.58	8.35
David Bratož	0	2.82	6.66	0.86	0.58	10.92
Milena Kastelic	0	2.82	0.03	1.00	0.64	4.49
Total Members of the Management Board	**3.08**	**14.10**	**15.50**	**3.59**	**2.94**	**39.21**

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 2018

	Basic pay for exercising the function		Attendance fees		Commuting allowances		Total	
In € thousand	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Members of the Supervisory Board (owner representatives)								
Jože Mermal	23.25	16.91	1.38	1.00	0	0	24.63	17.91
Hans-Helmut Fabry	14.55	11.27	1.29	1.00	9.12	7.07	24.96	19.34
Borut Jamnik	21.31	15.50	2.65	1.93	0	0	23.96	17.43
Julijana Kristl	19.38	14.09	1.54	1.12	0.36	0.26	21.28	15.47
Andrej Slapar	22.86	16.63	2.04	1.48	0	0	24.90	18.11
Boris Žnidarič	19.38	14.09	2.15	1.57	0.30	0.22	21.83	15.88
Members of the Supervisory Board (employee representatives)								
Franc Šašek	20.93	15.22	2.65	1.93	0	0	23.58	17.15
Tomaž Sever	19.38	14.09	2.65	1.93	0.45	0.33	22.48	16.35
Mateja Vrečer	19.38	14.09	2.04	1.48	0	0	21.42	15.57
Total remuneration paid to Members of the Supervisory Board	**180.42**	**131.89**	**18.39**	**13.44**	**10.23**	**7.88**	**209.04**	**153.21**

In accordance with a resolution adopted at the 16th Annual General Meeting held on 7 July 2011, Members of the Supervisory Board of the controlling company are entitled to an attendance fee, which for each individual member of the Supervisory Board amounts to €275.00 gross. Members of the Supervisory Board Commission receive an attendance fee for their participation in meetings, which for each individual Commission member amounts to 80% of the attendance fee for Supervisory Board meetings. The attendance fee for participating in correspondence meetings 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 meetings of the Supervisory Board or meetings 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 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 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 the Supervisory Board Commission.

Members of the Company 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

	Balance		Repayments	
In € thousand	31 Dec 2018	31 Dec 2017	2018	2017
Members of the Management Board	0	0.45	0.45	1.33
Members of the Supervisory Board (employee representatives)	0	0	0	0
Total loans to groups of persons	**0**	**0.45**	**0.45**	**1.33**

Loans granted to staff employed under individual employment contracts stood at €147 thousand at 31 December 2018 (€152 thousand as at 31 December 2017). Repayments of loans by staff employed under individual employment contracts in 2018 reached €17 thousand (2017: €16 thousand). The loans granted to the above-mentioned persons are meant for housing purposes.

34. Educational structure of employees

	2018		2017	
	Average headcount	Share (in%)	Average headcount	Share (in%)
PhD	140	2.7	135	2.7
MSc	261	5.0	253	5.2
University education	1,669	31.7	1,580	32.2
Higher professional education	674	12.8	619	12.6
Vocational college education	217	4.1	204	4.2
Secondary school education	1,391	26.4	1,195	24.3
Skilled workers	740	14.1	733	14.9
Unskilled workers	169	3.2	192	3.9
Total (average for the period)	**5,261**	**100.0**	**4,911**	**100.0**

35. Transactions with the audit firm

The agreed fee for the audit services performed in 2018 by the audit firm ERNST & YOUNG Revizija, poslovno svetovanje, d. o. o., amounted to €107 thousand (2016: €110 thousand).

36. Subsequent events

Below is presentation of events that have occurred in the period from the end of 2018 until 31 March 2019.

On 12 March 2019, the President of the Supervisory Board received a resignation statement of a member of the Supervisory Board, Hans-Helmut Fabry. Mr Fabry stated in the letter that he would resign from his Supervisory Board membership on 12 March 2019 and thanked the President of the Supervisory Board, Supervisory and Management Board members for constructive cooperation. Mr Fabry plans to become engaged by a direct competitor of Krka.

According to the 2014 findings of the European Commission, Krka allegedly violated Article 101 of the Treaty on the Functioning of the European Union causing distortion of the competition in the perindopril market of the European Union. The European Commission imposed a €10 million fine on Krka. Krka settled the fine within the time limit set by the European Commission, but decided to bring an action before the General Court against the decision of the European Commission on the grounds that there was no breach of the EU competition rules, and in December 2018, the court ruled in favour of Krka.

The decision of the General Court has not yet become final, and the European Commission filed an appeal against the decision within the provided time limit, on which the Court of Justice of the European Union will rule. At the beginning of 2019, the European Commission refunded Krka the €10 million fine, but in compliance with legal opinion Krka decided to post the refund under deferred revenues.

Krka acquired 76,346 treasury shares over the period from 1 January 2018 to 31 March 2019. Thus, at the end of March 2019, Krka held 969,793 treasury shares (2.957 % of total shares).

Independent Auditor's Report

Building a better
working world

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 Krka d.d., Novo mesto (the Company), which comprise the separate statement of financial position as at 31 December 2018, the separate income statement, the separate statement of other comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

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 trade receivables

Trade receivable balances are significant to the Company as they represent 22,5 % of total assets as at 31 December 2018. 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 trade receivable confirmations to a sample of 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 a 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 32 - Financial instruments and financial risks of the separate financial statements and their compliance with International Financial Reporting Standards as adopted by the EU.

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 have determined revenue recognition as the 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 EU. 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 2018 are fully recognized.

We also considered the adequacy of the Company's disclosures in Note 5 - Revenue from contracts with customer in respect of revenue and Note 28 - Current contract liabilities in respect to accrued bonuses and discounts and their compliance with International Financial Reporting Standards as adopted by the EU.

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Impairment of investments in subsidiaries

Equity investments in subsidiaries amount to EUR 325.5 million, which represents 17,0 % of total assets as at 31 December 2018 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 process is complex and requires significant management judgment and significant 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 EU.

Provisions for legal claims

As disclosed in Note 25 – Provisions, the Company is participating in number of legal cases for which provisions in the amount of 4.1 million EUR were recognized.

Provisions for claims are significant to our audit because management judgement is required, the assessment process is complex and is based on future developments, therefore we consider this as a key audit matter.

We evaluated management's assessment of the current status of litigations and claims against the Company and considered whether there is a requirement for any provision or related disclosures under International Financial Reporting Standards as adopted by the EU. Management performed a legal and financial assessment and obtained the assessment of the lawyers. We obtained the legal confirmation letters from the Company's external lawyers advising on these litigations and claims and assessed these for consistency with management's conclusions. We evaluated the ranges and assumptions included in the management's calculation of the potential outflow of benefits and discussed the management's assessment of the litigations and claims with the Company's legal department and Management board.

We also evaluated the adequacy of the Company's disclosure in Note 25 - Provisions of the separate financial statements in accordance with International Financial Reporting Standards as adopted by the EU.

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Other information

Other information comprises the information included in the Annual Report other than the separate financial statements and auditor's report thereon. Management is responsible for the other information.

Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the separate financial statements is, in all material respects, consistent with the separate financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of management, audit committee and the supervisory board for the separate financial statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of the separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The audit committee and the supervisory board are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

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As part of an audit in accordance with audit rules, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

• identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

• obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls;

• evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

• conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

• evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

We communicate with the audit committee and the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee and the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee and the supervisory board, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 the statutory auditor by the statutory body of the Company on 20 August 2018 based on our approval by the General Meeting of Shareholders on 5 July 2018. 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 7 years.

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 20 March 2019.

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, 26 March 2019

Sanja Košir Nikašinović
Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

Lidija Šinkovec
Certified auditor

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1

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ENCLOSURE 1

Repurchased treasury shares in 2018 by days

Date	Number of shares	Average share price (in €)	Value of treasury shares (in € thousand)	Date	Number of shares	Average share price (in €)	Value of treasury shares (in € thousand)	Date	Number of shares	Average share price (in €)	Value of treasury shares (in € thousand)
3 Jan. 2018	9,674	56.88	550	7 Feb. 2018	1,455	57.66	84	14 June 2018	2,003	58.43	117
4 Jan. 2018	3,683	56.59	208	9. Feb. 2018	1,432	56.44	81	15 June 2018	2,075	58.39	121
5 Jan. 2018	3,132	56.48	177	12 Feb. 2018	1,064	57.00	61	18 June 2018	2,106	58.34	123
8 Jan. 2018	2,514	57.02	143	13 Feb. 2018	1,291	57.32	74	19 June 2018	2,070	58.45	121
9 Jan. 2018	3,485	57.60	201	14 Feb. 2018	500	57.29	29	20 June 2018	1,630	58.69	96
10 Jan. 2018	955	57.87	55	15 Feb. 2018	901	57.18	52	21 June 2018	1,766	58.79	104
11 Jan. 2018	3,383	57.94	196	16 Feb. 2018	1,420	57.09	81	20 Aug. 2018	514	58.19	30
12 Jan. 2018	2,029	58.26	118	19 Feb. 2018	465	57.70	27	21 Aug. 2018	989	58.09	57
15 Jan. 2018	1,687	58.46	99	19 Apr. 2018	1,091	58.09	63	22 Aug. 2018	242	57.89	14
16 Jan. 2018	1,892	58.47	111	20 Apr. 2018	625	58.13	36	23 Aug. 2018	944	57.49	54
17 Jan. 2018	200	57.69	12	25 May 2018	1,490	59.09	88	24 Aug. 2018	918	57.07	52
18 Jan. 2018	1,851	58.07	107	28 May 2018	1,539	59.10	91	27 Aug. 2018	982	56.69	56
19 Jan. 2018	1,071	58.07	62	29 May 2018	1,659	59.09	98	28 Aug. 2018	1,032	56.50	58
22 Jan. 2018	993	58.38	58	30 May 2018	1,720	59.10	102	29 Aug. 2018	909	56.89	52
23 Jan. 2018	3,470	59.28	206	31 May 2018	60	58.49	4	31 Aug. 2018	1,068	57.69	62
24 Jan. 2018	3,534	59.23	209	1 June 2018	1,914	58.09	111	3 Sept. 2018	589	57.19	34
25 Jan. 2018	3,463	59.10	205	4 June 2018	1,897	58.68	111	4 Sept. 2018	1,197	56.89	68
26 Jan. 2018	2,732	59.22	162	5 June 2018	282	58.09	16	5 Sept. 2018	1,192	56.66	68
30 Jan. 2018	2,254	58.89	133	6 June 2018	1,854	58.47	108	6 Sept. 2018	1,253	56.69	71
31 Jan. 2018	453	58.90	27	7 June 2018	1,944	58.30	113	7 Sept. 2018	575	56.89	33
1 Feb. 2018	1,712	59.03	101	8 June 2018	1,983	58.25	116	11 Sept. 2018	739	56.86	42
2 Feb. 2018	1,578	58.90	93	11 June 2018	1,941	58.41	113	12 Sept. 2018	532	56.68	30
5 Feb. 2018	1,169	58.09	68	12 June 2018	1,773	58.35	103	13 Sept. 2018	1,270	56.80	72

6 Feb. 2018	1,575	56.93	90	13 June 2018	1,957	58.47	114	14 Sept. 2018	1,107	56.49	63
Date	**Number of shares**	**Average share price (in €)**	**Value of treasury shares (in € thousand)**	**Date**	**Number of shares**	**Average share price (in €)**	**Value of treasury shares (in € thousand)**	**Date**	**Number of shares**	**Average share price (in €)**	**Value of treasury shares (in € thousand)**
17 Sept. 2018	1,136	56.49	64	9 Oct. 2018	1,194	55.74	67	4 Dec. 2018	3,209	55.63	179
18 Sept. 2018	1,245	56.55	70	10 Oct. 2018	1,071	55.49	59	5 Dec. 2018	3,168	55.42	176
19 Sept. 2018	936	56.36	53	11 Oct. 2018	1,551	55.24	86	7 Dec. 2018	3,361	55.44	186
20 Sept.2018	1,258	56.69	71	12 Oct. 2018	1,630	55.09	90	10 Dec. 2018	3,004	55.29	166
21 Sept. 2018	1,243	56.59	70	15 Oct. 2018	1,464	55.17	81	11 Dec. 2018	3,053	55.09	168
24 Sept. 2018	1,208	56.09	68	16 Oct. 2018	1,665	55.03	92	12 Dec. 2018	3,213	54.74	176
25 Sept. 2018	1,164	56.04	65	17 Oct. 2018	1,697	54.69	93	13 Dec 2018	923	55.49	51
26 Sept. 2018	1,119	55.09	62	18 Oct. 2018	1,769	54.86	97	14 Dec. 2018	2,868	55.49	159
27 Sept. 2018	640	55.29	35	22 Oct. 2018	267	55.29	15	17 Dec. 2018	3,001	55.33	166
28 Sept. 2018	1,427	55.09	79	22 Nov. 2018	3,128	54.86	172	18 Dec. 2018	2,821	53.56	151
1 Oct. 2018	1,235	55.33	68	23 Nov. 2018	2,338	55.08	129	19 Dec. 2018	2,684	58.72	158
2 Oct. 2018	1,419	55.59	79	26 Nov. 2018	348	55.20	19	20 Dec. 2018	2,877	56.04	161
3 Oct. 2018	330	55.09	18	27 Nov. 2018	64	55.09	4	21 Dec. 2018	2,932	55.68	163
4 Oct. 2018	1,281	55.66	71	28 Nov. 2018	2,974	55.36	165	27 Dec. 2018	2,000	56.69	113
5 Oct. 2018	1,335	55.64	74	30 Nov. 2018	3,537	55.69	197				
8 Oct. 2018	1,327	55.69	74	3 Dec. 2018	1,168	55.69	65				
								Total repurchases in 2018	**201,730**	**56.95**	**11,488**

Broker's fee is included in the weighted average price of shares.

SIGNING OF THE 2018 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 2018 Annual Report of Krka and the Krka Group, and hence of the entire Annual Report of Krka and the Krka Group for the year 2018. We hereby acknowledge the Report by our signatures.

Jože Colarič
President and CEO

dr. Aleš Rotar
Member

dr. Vinko Zupančič
Member

David Bratož
Member