




RULES

**ON FRAUD PREVENTION, DETECTION
AND INVESTIGATION**

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Objectives

Rules on fraud prevention, detection and investigation (hereafter „Rules“) define key objectives, principles and rules for addressing frauds at Krka, d. d., Novo mesto, and its subsidiaries (hereafter „Krka“). It also defines the tasks and responsibilities of Krka employees in regard to fraud prevention, detection and investigation.

The Rules are based on applicable regulations and recommendations, and on Krka’s Code of Conduct, which defines the principles and rules for ethical conduct, good business practice and standards of conduct at Krka.

Krka’s objectives in regard to fraud management are the following:

- Decreasing fraud risk using the principle of zero tolerance,
- Raising employee awareness about potential frauds and methods for fraud management;
- Training employees about their accountability in detecting fraud risks and reporting them;
- Constant improving and managing internal control systems related to fraud prevention and detection;
- Providing suitable sources for fraud prevention, detection and investigation;
- Consistent respect of relevant regulations, guidelines and codes;
- Concern for timely and proper investigation of suspected fraud;
- Ensuring anonymity of informer;
- Protecting Krka’s reputation and assets.

Scope and Application

The *Rules* apply to all Krka employees, who must act in accordance with them in all their relations with Krka and with any other legal or natural persons (hereafter “third party”).

Any Krka employee and third party can report a suspected fraud in accordance with these *Rules*.

The *Rules* define basic principles and rules that are in accordance with applicable regulations related to fraud and corruption, guidelines, international conduct standards and Krka’s internal rules. Employees must always take these into account while carrying out their work and executing Krka’s business operations.

Krka’s subsidiaries are obliged to adhere to the provisions of these *Rules* and adopt relevant internal rules for this purpose, whereby taking into account possible stricter national requirements.

All employees must familiarise themselves with the content of these *Rules*, either through the e-learning system eCampus or using another appropriate method. Employees must be informed about any amendments to the *Rules* in the same way. New employees must familiarise themselves with the content of these *Rules* when they assume their working positions.

Prohibition of Unfair Treatment and Fraud

All unfair treatment and fraud, as defined by applicable regulations, are prohibited. Such actions are especially the following:

- **Corruption**, meaning the abuse of a position in order to gain personal advantage or advantage for a third party. An action can have corruptive purpose when an advantage is promised or given with the intention to encourage or reward a violation of due conduct, or when an advantage is accepted as a payment of due conduct.
- **Fraud** is each unethical and/or illegal act intended to gain an unlawful or unfair advantage causing Krka or third parties harm. Fraud, for example, includes deceit, concealment or violation of trust, or fraudulent financial reporting etc. Fraud is perpetrated if individual persons or companies act intentionally in order to gain material advantage, primarily in the form of cash and asset ownership, or to achieve their interests illegally thus harming Krka or third parties. Persons or companies might try to avoid settlement of their liabilities or loss of services and protect their personal or business advantages illegally by acting in a fraudulent manner.
- **Bribery**, meaning requesting, accepting, promising, offering, giving or soliciting in the acceptance of an advantage, meant as an incentive to illegal and unethical activity or a breach of trust.
- **Conflict of interest**, meaning a situation that enables conduct or instigates conduct that may lead to corruption or other unlawful acts. In a conflict of interest, a person is usually faced with a choice between the duties and requirements of their working position and their personal interests.

Fraud Management Controls

Control activities for fraud management are implemented throughout Krka's whole organisational structure. They have been put into place to ensure quality, transparency, safety and performance. They are based on external and internal regulations, standards, good business practices, codes, document approval systems, employee empowerment and accountability, etc. Control activities are also intended for fraud prevention, raising awareness and reporting duties among employees, and for the discovery, detection and investigation of fraud.

Krka has established a control environment that enables the management of key strategic and operative risks, and timely identification and management of factors, which may compromise the achievement of objectives, defined in Krka's *Development strategy* and *Quality manual*. Individual control activities are also related to fraud management.

Krka's Risk register includes a comprehensive presentation of all possible risks. Krka integrates risk management in all its business processes. We are using a large number of standard operating procedures and other internal instructions which define control activities and responsibilities for uninterrupted business operations and reduction of risks.

Responsibilities related to fraud prevention, detection and investigation by corporate management levels are specified below.

The **Management Board** of Krka, d. d., Novo mesto ensures and enables the establishment of a suitable control environment for maintaining the value of assets and renown of the company. The Management Board designates a Chief Compliance Officer, who is also responsible for fraud prevention, detection and investigation.

Duties and responsibilities of the **Chief Compliance Officer** include:

- Assessing fraud risk;
- Proposing internal control systems for fraud prevention, detection and investigation;
- Appropriate handling of each reported suspected fraud and protecting informers;
- Informing, educating and raising awareness of employees about the content of these Rules;
- Keeping a register of reports and documentation related to suspected fraud investigations;
- Presenting reports to the Management Board in relation to fraud prevention, detection and investigation;
- Working with external professionals and law enforcement bodies.

Duties and responsibilities of **directors of divisions, departments and independent services** include:

- Assessing fraud risks in the relevant area under their competence;
- Implementing an effective internal control system for managing fraud;
- Following the principle of zero tolerance against any form of fraud;
- Cooperating with the Chief Compliance Officer in carrying out appropriate activities if the suspected fraud refers to their organisational unit.

Duties and responsibilities of **each employee** include:

- Acting honestly and with integrity in compliance with Krka's Code of conduct and all other relevant regulations;
- Reporting any events or transactions that might indicate potential fraud;
- Saving and protecting any evidence of potential fraud;
- Following the principle of zero tolerance against any form of fraud.

Fraud Management Procedures and Activities

Fraud management procedures and activities fall into three categories: prevention, detection and investigation of fraud. The main focus is on fraud prevention. Fraud detection activities are also important, however fraud investigation in case of suspected major frauds falls under the jurisdiction of qualified professionals and relevant institutions.

Regular fraud management activities also include the improvement of internal controls for decreasing fraud risk by adopting and amending internal rules and instructions.

Krka ensures conflict of interest management with standard operating procedures and rules which reduce risks and prevent conflicts of interest that could tarnish Krka's reputation.

Krka ensures that all relations with the medical field are carried out in accordance with applicable regulations and guidelines, that the possibilities for the occurrence of unlawful conduct are being reduced. Associates carry out their work in accordance with regulations and are properly trained for the promotion of products.

Employee education and training are fundamental in successful fraud management. Krka's training programmes, internally published notifications and notice boards ensure an adequate level of information, on the basis of which employees are able to detect potential fraud or particular activities that might represent fraud.

Reporting Suspected Fraud

Any Krka employee and third party can report a suspected fraud.

If a Krka employee detects any act indicating suspected fraud, they must inform their superior. If the nature of suspected fraud or its circumstances do not permit this, they must inform the Head of Legal Affairs, the Head of Risk Management and Corporate Compliance, or the Chief Compliance Officer. Suspected fraud can also be reported anonymously. The e-mail address for reporting suspected fraud is compliance.officer@krka.biz.

If the informer does not wish to stay anonymous, they can report the suspected fraud by telephone:

- Chief Compliance Officer at +386 7 331 78 18;
- Head of Legal Affairs at +386 7 331 95 95;
- Head of Risk Management and Corporate Compliance at +386 7 331 93 93.

Krka undertakes to treat the informer's data confidentially, professionally, and with due care, and to protect the informer properly against any retaliatory measures.

Procedure for Handling Reports

In cooperation with Legal Affairs, the Chief Compliance Officer may form a special team to deal with incoming reports. In addition to the Chief Compliance Officer, the team may also consist of two to four employees from different organisational units possessing specific skills for investigating suspected fraud. The team appropriately addresses each reported suspected fraud, investigates its causes, and suggest corrective and preventive measures. Fraud investigations are conducted by employees with suitable skills and – if so required – also by external professionals and law enforcement officials.

The informer reporting suspected fraud in good faith and with no harmful intentions is protected against retaliatory actions; they are offered appropriate support and are informed of the outcome of their report. The informer's data should be treated as confidential. Any retaliatory actions shall be treated as an especially severe breach of Krka's *Code of Conduct*.

The Chief Compliance Officer must keep a record of incoming reports, implemented procedures and activities related to reports.

Based on investigation results, the Chief Compliance Officer proposes one of the following options to the Management Board:

- The report on suspected fraud is unfounded and no further investigation is necessary;
- The report on suspected fraud is founded, internal measures are required, such as sanctions and the improvement of control procedures;
- The report on suspected fraud is founded and further investigation is required to be carried out by employees with suitable skills, external professionals or law enforcement officials.

Suspected frauds are investigated in accordance with applicable local legislation.

Transitional and Final Provisions

The company's Management Board adopts the *Rules*. The *Rules* are published on Krka's internal website (Krkanet), and on Krka's public website.

On the date of entry into force of these *Rules*, the *Rules on fraud prevention, detection and investigation* of 7 December 2015, and the *Policy on fraud prevention, detection and investigation* of 7 December 2015, expire.

These *Rules* must be revised once every two years and amended if necessary.