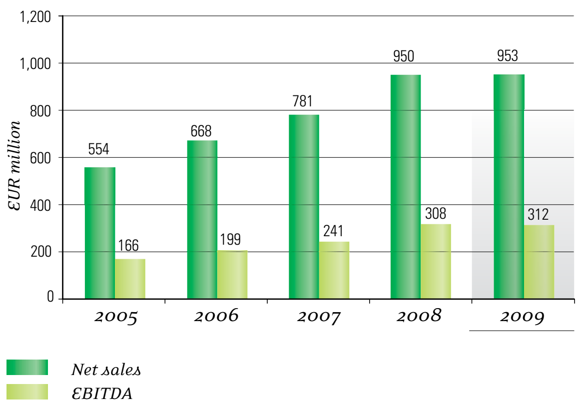
Annual Report 2009

Together we scale the heights

Krka Group financial highlights

Highlights

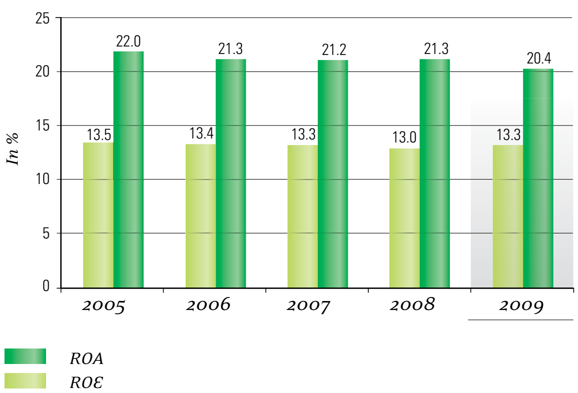
Sales revenues and earnings before interest, tax, depreciation and amortisation (EBITDA)



Net sales revenues in 2009 still grew slightly, despite the difficult economic conditions.

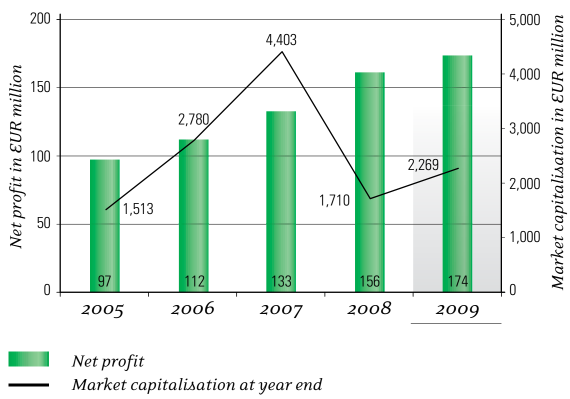
EBITDA was EUR 312 million, an increase of 1%.

Return on Assets (ROA) and Return on Equity (ROE)



ROE and ROA remained roughly at the same level of 2008.

Net profit and market capitalisation



In 2009 the Krka Group's net profit grew 11%, while market capitalisation increased by 33%.

Krka Group financial highlights

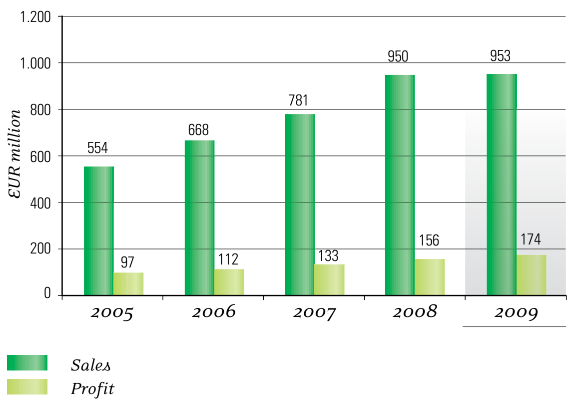
EUR thousand	2009	2008	2007	2006	2005
Revenues	953,038	949,920	780,918	667,955	554,137
EBIT	234,992	236,781	183,642	151,079	120,250
EBITDA	311,667	308,390	240,586	198,783	166,042
Net profit	173,685	155,891	132,853	112,086	97,335
Non-current assets	808,022	809,074	745,735	568,810	498,626
Current assets	533,010	461,962	375,683	310,318	289,640
Equity	920,369	783,296	680,913	570,905	479,585
Non-current liabilities	237,834	257,526	252,379	163,941	151,804
Current liabilities	182,829	230,214	188,126	144,282	156,877
R&D costs	88,283	84,746	59,071	52,650	40,120
Investments	91,488	147,061	112,977	107,200	89,537
RATIOS	**2009**	**2008**	**2007**	**2006**	**2005**
Net profit margin (ROS)	18.2%	16.4%	17.0%	16.8%	17.6%
EBIT margin	24.7%	24.9%	23.5%	22.6%	21.7%
EBITDA margin	32.7%	32.5%	30.8%	29.8%	30.0%
ROE[1]	20.4%	21.3%	21.2%	21.3%	22.0%
ROA[2]	13.3%	13.0%	13.3%	13.4%	13.5%
Liabilities/Equity	0.457	0.623	0.647	0.540	0.644
R&D costs/Sales revenues	9.3%	8.9%	7.6%	7.9%	7.2%
NUMBER OF EMPLOYEES	**2009**	**2008**	**2007**	**2006**	**2005**
Year-end	7975	7602	6777	5759	5224
Average	7816	7294	6209	5494	5030
SHARE INFORMATION[3]	**2009**	**2008**	**2007**	**2006**	**2005**
Total number of shares issued	35,426,120	35,426,120	35,426,120	35,426,120	35,426,120
Earnings per share in EUR[4]	5.14	4.61	3.92	3.30	2.88
Dividend per share in EUR	1.05	0.91	0.80	0.69	0.58
Share price at end of year in EUR	64.04	48.27	124.29	78.48	42.72
Price/earnings ratio (P/E)	12.46	10.46	31.71	23.75	14.85
Book value of share in EUR[5]	25.98	22.11	19.22	16.12	13.54
Share price/book value (P/B)	2.46	2.18	6.47	4.87	3.16
Market capitalisation EUR thousand (31 December)	2,268,689	1,710,019	4,403,112	2,780,058	1,513,334
EXCHANGE RATES	**2009**	**2008**	**2007**	**2006**	**2005**
USD (average)	1.395	1.471	1.370	1.255	1.243
USD (31 December)	1.434	1.392	1.472	1.317	1.183

[1] Net profit/average equity balance over period
[2] Net profit/average total asset balance over period
[3] To aid comparison the new number of shares following the September 2007 1:10 share split are used in the calculated data per share.
[4] Net profit of Krka Group majority shareholders/average number of issued shares in the period (no treasury shares)
[5] Share capital on 31 December/Total number of issued shares

Krka Group business model

Krka is a public company and one of the world's leading generic pharmaceutical companies. Krka is headquartered in Slovenia, and has over 50 years of experience in the industry.

NET SALES REVENUES AND NET PROFIT IN EUR MILLION



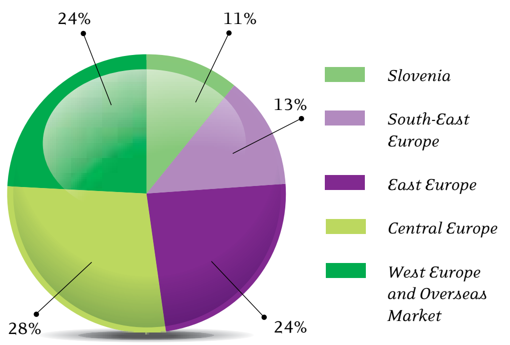
Krka has a leading position on its domestic market and a strong presence on generic pharmaceutical markets in:

- South-East Europe – Croatia and Romania
- Central Europe – Czech Republic, Hungary and Poland
- East Europe – Russian Federation and Ukraine.

In recent years Krka has built up its presence in western European markets, especially the UK, Germany, France, Italy, the Nordic countries and Benelux.

Production and distribution capacities are located in Slovenia, Poland, Croatia, the Russian Federation, and Germany.

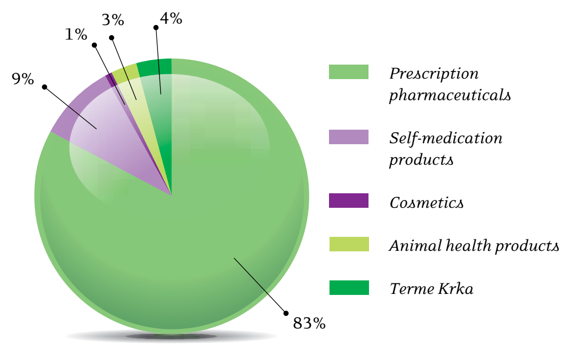
SALES BY REGION IN 2009



Operational focus

Modern pharmaceutical production and a vertically integrated business model allow us to offer customers in over 70 countries a broad range of safe, high quality and effective prescription pharmaceuticals, self-medication products and animal health and cosmetic products. The majority of Krka products are in solid dosage pharmaceutical forms. The company's activities are supplemented by health resort and tourist services of Terme Krka.

SALES BY PRODUCT GROUP IN 2009



We focus on a range of generic prescription pharmaceuticals, which are marketed under Krka's own brands. In future we will continue to focus on marketing and developing of our own marketing and sales network, by founding companies, purchasing local pharmaceutical companies, or business acquisitions in selected markets. Our objective is to strengthen the Krka Group's market position (market shares) on the markets of Europe and central Asia.

Over 9% of net sales revenues was allocated to research and development of new products in order to increase the competitive advantage of the product portfolio and retain a high proportion of vertically integrated products. Forty-eight per cent of net sales revenues is generated from sales of new products, i.e. products launched on a market in the past five years. In future we will continue to invest in R&D, and we currently have over 100 new products in the pipeline.

Annual Report

2009

Contents

Introduction 4
- Id card of the Krka Group 6
- Organisational chart of the Krka Group 7
- Overview of significant events and awards in 2009 8
- Events after the accounting period 9
- Statement by the President of the Management Board 10
- 2009 Report of the Supervisory Board 12

Business report 18
- Corporate Governance Statement 20
- Krka Group development strategy 27
- Macroeconomic forecast for 2010 29
- Risk management 32
- Investor information 39
- Business operations analysis 42
- Marketing and sales 47
- Research and development 64
- Product supply 69
- Investments 72
- Integrated management system 74

Sustainable development 78
- Employees 80
- Communications 86
- Environmental protection 92

Financial statements 98
- Introduction to the financial statements 102
- Statement of compliance 103

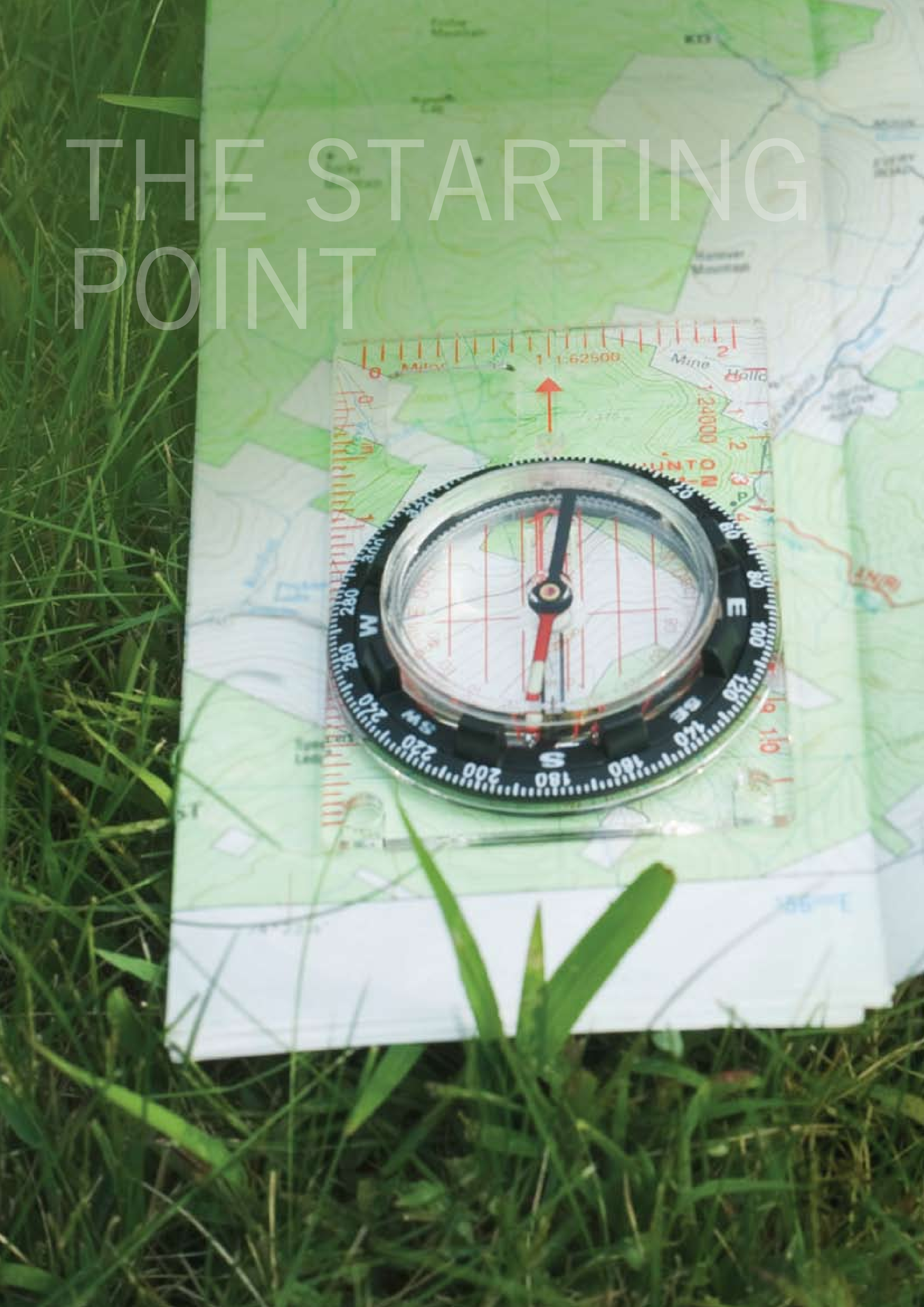
Consolidated financial statements of the Krka Group 104

Financial statements of Krka, d. d., Novo mesto 144

Signing of the 2009 Annual Report and its constituent parts 187

Who is who 188

THE STARTING POINT



Success goes to those who look far ahead.

Introduction

First we set the challenge. We know where we want to go; it is part of our tradition, it is part of our vision. Although at the beginning the goal seems far off, our commitment and dedication always lead us towards success. We head for the summit linked together with people we can rely on. That is how we know that everything is possible.

ID Card of the Krka Group

Data on the controlling company

The controlling company is Krka, tovarna zdravil, d. d., Novo mesto (Krka d. d. or Company).

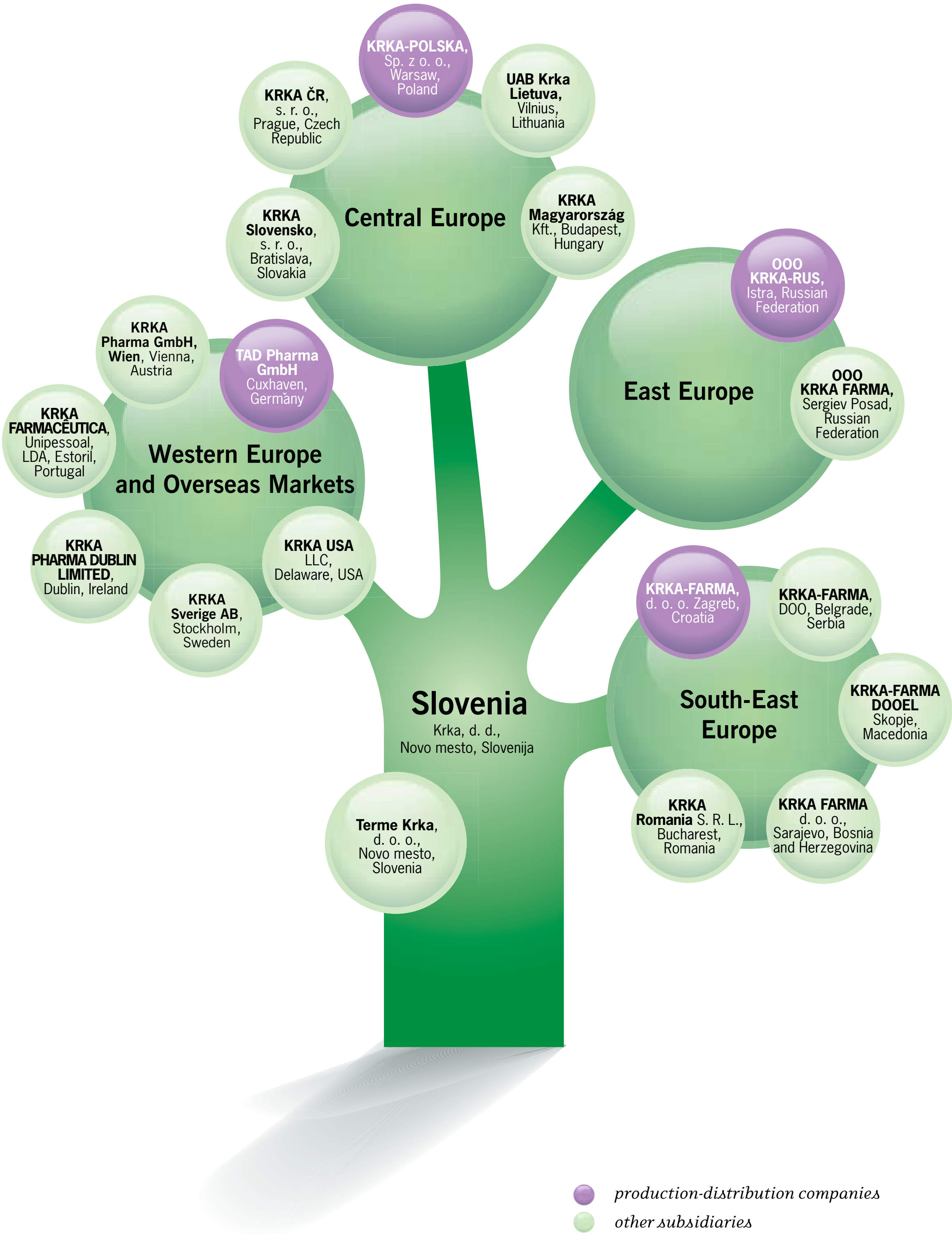
Registered office	Šmarješka cesta 6, 8501 Novo mesto, Slovenia
Telephone	+386 7 331 21 11
Fax	+386 7 332 15 37
Email	info@krka.biz
Website	www.krka.si
Basic activity	Production of pharmaceutical preparations
Activity code	21.200
Year established	1954
Registration entry	1/00097/00, Novo mesto District Court
VAT number	SI82646716
Company ID number	5043611
Called-up capital	EUR 59,126,194.28
Number of shares issued	35.426.120 ordinary no-par value shares

The Krka Group consists of the controlling company, Krka, d. d., Novo mesto, and a number of subsidiaries in Slovenia and abroad. The Krka Group is engaged in the development, production, sale and marketing of human health products (prescription and self-medication pharmaceuticals and cosmetics), animal health products and health resort and tourist services.

Production takes place in the controlling company in Slovenia and in Krka subsidiaries in Poland, Croatia, and Germany, and in the Krka-Rus company in the Russian Federation. All these subsidiaries, apart from Krka-Rus, are also engaged in marketing and sales, as well as production. Other subsidiaries outside Slovenia are engaged exclusively in the marketing and/or sale of Krka products and do not have product capacity.

The company Terme Krka, d. o. o., Novo mesto unites the business units of the spa complexes and hotels Terme Dolenjske Toplice, Terme Šmarješke Toplice, Hoteli Otočec and Hotel Krka in Novo mesto and Terme Krka – Strunjan. Terme Krka is also the majority owner of the company Golf Grad Otočec, d. o. o.

Organisational chart of the Krka Group



production-distribution companies

other subsidiaries

Overview of significant events and awards in 2009

January
- Krka opens representative office in Mongolia.
- Marking European Data Protection Day (28 January), the Slovenian Information Commissioner presents Krka with a data security award for acquiring the ISO/IEC 27001:2005 certificate for information security systems and related work on personal data protection.
- Krka declared sponsor of the year at Cankarjev Dom, Slovenia's premier cultural centre, and given an award in recognition of our loyalty after many years of financial support for culture and art and sponsorship of the exhibition Renaissance of the Pharaohs.
- New employee-elected Works Council representatives start work.

February
- Krka receives award as finalist in 2008 best employer award in the Dnevnik newspaper's Golden Thread awards.
- Krka Polska significantly increases the capacity of its production and distribution plant with a modern, new packaging line worth EUR 2.5 million, significantly increasing the plant's flexibility.
- Polish Action against Depression society presents Krka with an award for its work on fighting depression.
- Krka opens representative office in Armenia.
- The Notol solid dosage form production plant successfully concludes qualification for production of small-batch intermediate products.

March
- Krka receives certificate from European Agency for Health and Safety at Work (EU-OSHA) in Brussels making it an official partner in the European Health and Safety at Work Campaign.

April
- At 2009 Kapital Financial Fair, Krka receives best company award by 40 financial journalists from Slovenian media houses.
- Krka receives energy-efficient company award at the 11th Energy Conference of Slovenian Energy Managers, from Finance newspaper and Ministry of the Environment and Energy. Andrej Paternost, head of Krka's Primary Energy Supply Service, and Matej Bašelj, Krka's energy manager, are named as 2009 Slovenian energy managers of the year.
- Russian president, Dimitry Medvedev, awards Russian Order of Friendship to Jože Colarič, President of the Management Board and Chief Executive, for a major contribution to friendship and cooperation between the Russian Federation and the Republic of Slovenia.
- At the end of the All Russian Platinum Ounce competition in Moscow, Krka wins 2008 best foreign pharmaceutical producer of the year award, and Krka's Enap, which treats high blood pressure, makes top four medicines of the year.
- An opinion poll on the influence of pharmaceutical companies carried out in 20 of the largest cities in 7 federal regions in the Russian Federation, makes Krka the third most influential pharmaceutical company for 2008. The www.krka.ru website is ranked in fourth place.
- Krka's Bilobil capsules for memory and concentration and prevention of dizziness and tinnitus win the prestigious Polish OTIS award for the second time.
- API Production sector acquires a certificate of maintenance conformity, pursuant to the ATEX directive.

May
- Krka wins 2008 employer of the year award at the 21st Forum of Excellence and Craftsmanship organised by the Dolenjska and Bela Krajina Association of Economists.
- Krka is again listed as the best reputed company in research by Kline & Partner, which was carried out for over 100 companies from 24 economic sectors, an achievement it has attained for several years running.

June
- The Dolenjska and Bela Krajina Chamber of Commerce and Industry gives Krka a gold and silver award for the 2008 innovation of the year – gold for orodispersible tablets with risperidone, and silver for a procedure to prepare 2-sulfinyl-1H-benzimidazoles.
- Krka receives award for best Slovenian company in Serbia in the regional partner category, at the business partner awards held in Belgrade.
- Krka and its Septolete product to treat sore throats awarded the Slovenian Superbrands 2009 title, another award from the Superbrands Adriatic company.

July
- At its 29 July meeting, the Krka Supervisory Board decides that the next term-in-office for the management board of Krka, d. d., Novo mesto, will last from 1 January 2010 to 31 December 2015, and that Aleš Rotar, Zvezdana Bajc and Vinko Zupančič will be appointed as members, in addition to the Presi-

dent of the Management Board and Chief Executive Jože Colarič and worker director Danica Novak Malnar.
- Following Dr Marko Kranjec's resignation to assume a new function, the 14th Krka AGM appoints Mojca Osolnik Videmšek as his replacement, at the Supervisory Board's proposal.
- Krka wins second place in the Papyrus awards held by the internal communicators section of the Slovenian Public Relations Association.

August
- Krka successfully concludes inspection by the Slovenian Agency for Medicinal Products and Medical Devices, renewing its good manufacturing practice certification.

September
- Krka specialist staff receive silver award from the Slovenian Chamber of Commerce and Industry for innovative orodispersible tablets with risperidone.

October
- Krka receives special achievement award from the Faculty of Chemistry and Chemical Technology in Maribor.
- Krka wins 2008 award for exemplary case of human resource management at the Slovenian Chamber of Commerce and Industry's 2nd Human Resource Management Day.
- The 39th Krka Prizes for research achievements are presented to the successful young researchers.

November
- The University of Ljubljana presents Jože Colarič, president of the Management Board and Chief Executive, with a Pro Universitate labacensi plaque for his contribution to the development of the university's material capacity and training for its staff.
- At the 10th annual report of the year awards organised by Finance, the Slovenian business newspaper, Krka's annual report wins second place overall, and, as many times before, also wins the best financial report award.
- Krka receives the national TOP 10 Management Training award for the fifth time at the Management Training 2009 conference.
- Krka successfully passes an Integrated Management System (IMS) quality audit.

December
- The Ljubljana Stock Exchange grants Krka its Portal 2009 award recognising it as the most transparent public limited company in Slovenia.

Events after the accounting period

Below are listed business events that occurred after the accounting period and before 15 March 2010.

- At its meeting of 20 January 2010 the Company's Supervisory Board created a Nomination Committee. The first meeting on 27 January 2010 was chaired by Tomaž Kuntarič MSc and the Nomination Committee passed a decision starting the procedure to appoint the Company's Supervisory Board members, which must be completed by the end of April 2010.

- An out-of-court settlement regarding a Krka donepezil was reached on 24 February 2010 in a patent dispute before Oslo District Court between the Krka Company and its subsidiary – Krka Sverige AB – as defendants, and Eisai Co., Ltd. and Pfizer AS, as plaintiffs. Under the terms of the settlement, Krka receives EUR 1.55 million from Eisai Co., Ltd. and will continue its donepezil sales in Norway. Krka issued notice of the temporary injunction against Krka Sverige AB for alleged patent infringement in relation to the production of donepezil tablets in Norway on 19 November 2008, and published the cancellation of the injunction on 13 March 2009.

Statement by the President of the Management Board

Dear shareholders, business partners and employees,

Jože Colarič

One of our more challenging, yet successful business years is now behind us, in which we realised most of our major business objectives by rapidly adapting to market conditions. We continued to invest in marketing and sales capacities and research and development capacities, particularly in knowledge and people, which means we are well-prepared for an economic recovery. The trust of Krka shareholders was reflected in the share price, which increased 33% last year. The number of shareholders exceeded 80,000 last year, with the proportion of foreign investors reaching its highest ever level.

Krka Group sales in 2009 reached EUR 953 million, an increase of EUR 3.1 million. The net profit increased by 11% to EUR 173.7 million. We are planning for 6% sales growth in 2010, which should see our sales figures exceed one billion euros for the first time.

Region Central Europe was Krka's largest and fastest-growing sales region in 2009, with 28% of overall Group sales, and sales growth of 6%, while we achieved double-digit growth in the Czech Republic, Slovakia, Lithuania and Hungary.

In Region West Europe and Overseas Markets, Krka's second largest sales region, we achieved significant growth on many major markets, including the UK, Spain, Portugal and the Nordic countries. Due to market pressures, sales levels on other markets in the region remained unchanged.

In Region East Europe we increased sales on most markets, except Belarus, Georgia and Ukraine. Double-digit growth was achieved in Kazakhstan, Uzbekistan and Moldavia. In the Russian Federation, Krka's largest individual market, our sales increased by a strong 7% despite unfavourable exchange rate movements. The Russian Federation will continue to be Krka's largest single market in future. Excellent cooperation has been confirmed by the bestowal of the Russian Order of Friendship, one of the highest Russian honours.

In Slovenia we achieved a one-and-a-half percent growth in sales of products and health and tourism services, while a 5% fall was recorded in South-East Europe.

Due to the difficult economic conditions and related liquidity problems, we have, in some cases, extended payment periods to customers. Although trade receivables were relatively high at the end of 2009 compared to a year before, mainly due to high sales towards year-end, I assess that credit risk did not significantly increase during 2009.

In addition to our marketing and sales network, which now has over 3,000 employees and covers most of our markets, another of Krka's key competitive advantages is the advanced state of research and development, which allows us to launch new products quickly and continually. In 2009 we acquired first marketing authorisations for 21 new products in 40 pharmaceutical forms, and 874 new marketing authorisations. We successfully continued to gain marketing authorisations via centralised procedures, providing simultaneous marketing authorisation for all 27 EU countries. In 2009 we registered five products this way, compared to two in 2007 and 2008. The most important achievement has been gaining marketing authorisation for two pharmaceuticals with the active substance clopidogrel.

The generic pharmaceuticals market is one of the most competitive, with strong price pressures. Sales growth in volumes is absolutely essential if we are to achieve the highest possible levels of sales value and increase market share. Our plans for 2010 include almost doubling investment spending, especially for the construction of additional production capacities in the Russian Federation and in Slovenia. These are strategic investments that will raise total investments to around EUR 176 million from around EUR 91 million in 2009, when investments were slowed down at the start of the year. In the coming years we are planning investments worth around EUR 180 million per year, over half of which will go to production capacities for finished products.

With an 83% share of sales, the highest to date, prescription pharmaceuticals consolidate their position each year as the most important Krka product group; their sales increased by 1% in 2009 to EUR 794 million in 2009. We increased sales of animal health products by 11%, and growth was also achieved in sales of health and tourism services, which are an auxiliary part of the Krka Group's business. Sales of self-medication products and cosmetics were down, due to decreased purchasing power on most Krka markets.

In 2009 Krka received the award as the employer with best reputation in Slovenia for the second time, which confirms our conviction that a company's success depends primarily on its employees. The proportion of employees with at least a first university degree reached its highest level ever in the Krka Group last year, passing 50%. Based on growing recruitment needs, in 2009 we engaged 373 new employees, particularly in research and development, marketing and sales, quality assurance and production.

At Krka we not only want to realise our mission of living a healthy life through our products, but also through a responsible approach to our natural and social environment. In 2009 Krka received an award for being an energy efficient company, and our environmental responsibility is also seen in other areas of work. We are pursuing our commitment to reduce emissions and pay considerable attention to the efficient use of energy.

I consider our positive performance as an affirmation of the Krka Group's strategy for 2009, which we have achieved through knowledge, diligence and ability of our employees. I would like to thank all those who have contributed over 2009 to meeting our objectives and the expectations of our investors and other stakeholders. I am convinced that we have another successful year ahead of us, which we are well prepared for in every area.

Jože Colarič
President of the Management Board
and Chief Executive

2009 Report of the Supervisory Board

Dear shareholders,

Dr. Gregor Gomišček

The composition of the Supervisory Board in 2009 until the Annual General Meeting, which took place on 2 July 2009 was as follows: the shareholder representatives were Mateja Božič MSc, Gregor Gomišček PhD, Marko Kranjec PhD, Anton Rous, Draško Veselinovič PhD and Alojz Zupančič and the employee representatives were Sonja Kermc, Tomaž Sever MSc, and Mateja Vrečer PhD. A slightly altered board was in place after the AGM with Mateja Božič MSc, Gregor Gomišček PhD, Mojca Osolnik Videmšek, Anton Rous, Draško Veselinovič PhD and Alojz Zupančič as the shareholder representatives, and Tomaž Sever MSc, Franc Šašek and Mateja Vrečer PhD as the employee representatives. Mojca Osolnik Videmšek was elected by the General Meeting to replace Marko Kranjec PhD on the Supervisory Board, following his resignation. As the employees' representatives' term-in-office had expired, on 18 May 2009 the Krka Works Council re-elected Tomaž Sever MSc and Mateja Vrečer PhD as Supervisory Board members and elected Franc Šašek, who as the new president of the Krka Works Council was already a member of the Supervisory Board by function.

The work of the Supervisory Board

The Supervisory Board met six times in 2009, and monitored and supervised Krka's operations with due care. Due to positive mutual cooperation, members are able to make competent decisions in line with their legal powers. The members assessed they were provided with sufficient data and reports. Material was always provided in time for members to prepare and discuss individual agenda items. Supervisory Board members act independently, putting forward their opinions and criticisms at meetings, but always reconciling different views through constructive dialogue. The expertise, and above all the diversity of the members' knowledge and experience, both shareholder and employee representatives, again contributed to positive work of the Board and its two committees in 2009. The Supervisory Board has three members holding doctorates (two in natural sciences, and one in economics and finance), two with MBAs, and four experts with bachelor's degrees. Their fields of expertise are very diverse, covering economics and finance, pharmacy, physics, civil engineering, chemistry, law, engineering and organisation and management science, with the theoretical and practical knowledge they have gathered at home and abroad proving complementary. It is also representative in terms of age and sex, with six men and three women with an age range from 42 to 71 years.

Most members of the board attended every meeting. Three members were unable to attend one meeting each on justifiable grounds, while one member was unable to attend four meetings due to maternity leave. A certified auditor from KPMG Slovenija also participated in two Supervisory Board meetings.

The content to which the Supervisory Board dedicated most time at its first three meetings in 2009 related to the previous year's operations and the preparation of the 2008 annual report. It assessed operations as positive and approved the 2008 Annual Report for the Krka Company and Group.

The board discussed the report from the auditors, KPMG Slovenija, on the audited financial statements and their positive, unqualified opinion. The report included a verification of the Group's financial revenues and expenses along with the regular annual audit of the Krka Group's 2008 financial statements, which was performed by KPMG Slovenija at the request of the Audit Committee. The Supervisory Board had no comments on the auditor's work and the Auditor's Report.

It discussed and adopted the report on its own work in 2008, and together with the Management Board compiled Krka's Statement of Compliance with the Corporate Governance Code. It supported the Management Board's proposal on the appropriation of the accumulated profit, and proposed that the General Meeting issue its approval (discharge of liability) to the Management and Supervisory Boards for 2008.

On the Human Resource Committee's proposal, it appointed four Management Board members (except the worker-director) for a six-year term-in-office beginning 1 January 2010, with three members reappointed, and one member joining the Management Board for the first time in 2010.

The Supervisory Board has dedicated most attention to adopting strategies and increasing the economic efficiency of company operations. It also kept informed of current events within Krka, such as visits by representatives of the European Commission and the Slovenian Competition Protection Office. Throughout 2009 it monitored and supervised the work and results of the Management Board, and set the performance bonus for 2008 and the first half of 2009, in line with the relevant rules. It devoted considerable time and attention to the 2010 business plan for the Krka Company and Group and the Krka Group's 2010–2014 development strategy. Board members also investigated the possible impact of the global financial and economic crisis on Krka's future operations, and which new areas of pharmaceuticals and which new markets could potentially be of interest to Krka. Management Board members provided the Supervisory Board with detailed plans from the strategy. Individual targets were justified and explanations were provided for not including some proposals made at a Supervisory Board meeting in the 2010–2014 strategy.

The Supervisory Board also covered a wide range of other subjects.

- It studied the state of legal claims brought by foreign pharmaceutical companies against the Krka Company and Group subsidiaries and related risks.
- At its meetings in April and May it discussed material linked to convening the Annual General Meeting and drew up draft resolutions for approval by the General Meeting. These included proposing that the General Meeting authorise the Krka Company's Management Board to acquire treasury shares up to 10% of share capital including all treasury shares already held, and appoint KPMG Slovenija, podjetje za revidiranje, d.o.o., as auditor.
- In line with established practice, each quarter the Supervisory Board also studied a report on the acquisition and disposal of treasury shares, discussed interim reports on the operations of the Krka Company and Group and studied a comparison of the Krka Group's operations with select international pharmaceutical companies for 2008 and the first half of 2009.
- It approved the amended Rules defining the Bonus Element of Management Board Remuneration.
- In early 2009 the Supervisory Board deliberated the Slovenian Government decision of 22 January 2009 on recommendations on employment contracts for senior management in companies under majority ownership of the Republic of Slovenia. Since Krka is not under majority ownership of the Slovenian state, the Supervisory Board found that the decision's recommendations did not have to be followed when concluding contracts with senior Krka management.

- It also studied Slovenian Government Decision no 10007-1/2009/3 on positions on payment of attendance fees and bonuses for Supervisory Board members relating to mitigating the effects of the financial crisis. Supervisory Board members decided to propose the reduction of attendance fees by half to the General Meeting, and issue a written statement foregoing the difference between the attendance fees they would have been due according to the currently valid resolution of the General Meeting.
- Due to changes in composition, two new members of the Audit Committee and one new member of the Human Resource Committee were appointed, all at the Human Resource Committee's proposal.
- It studied an initiative from Kapitalska Družba (KAD) to create a Nomination Committee as a Supervisory Board committee for ensuring objective and transparent procedures for selecting candidates for supervisory board membership and at its final meeting of 2009 decided on creation of the committee. At the same time it passed the Rules of Procedure for the Nomination Committee.
- It agreed to extend insurance of management and Supervisory Board liability as bodies of the company with the insurance company Zavarovalnica Triglav d. d. for one year.

The Supervisory Board members also defined how its work would proceed, approved its work schedule and set out the provisional agenda for meetings of the Supervisory Board and its committees in 2010. The provisional definition of agenda for individual meetings took into account the fact that the Board is up for re-election in 2010. The term-in-office of the current composition expires on 21 June 2010, so by the end of April 2010 the Board's new committee, the Nomination Committee, must carry out a procedure to select candidates for the new Krka Supervisory Board and submit a proposal to the Supervisory Board itself, which will make a final selection and place it before the General Meeting.

Members of the Supervisory Board were also active in other areas, such as participating in official Krka events. Six members participated in the Annual General Meeting at the start of July 2009.

The work of the Supervisory Board committees

The Audit Committee and Human Resource Committee deliberated important issues from the Supervisory Board's areas of competence and advised it on these matters. This has significantly contributed to improving the Supervisory Board's work and efficiency.

The Audit Committee, chaired by Draško Veselinovič PhD, met three times. Andrej Korinšek, a certified auditor from KPMG Slovenija, also participated in the first meeting. Also invited to all meetings of the Audit Committee were the presidents of the Management Board and Supervisory Board, the Management Board member responsible for economics and information processing, and the head of internal auditing. Krka's finance director also participated in a meeting as a rapporteur.

- The Audit Committee proposed that the Supervisory Board approve the Krka Company and Group's 2008 Annual Report, the Auditor's Report and the 2008 Supervisory Board's report.
- It agreed that the Supervisory Board should propose that the General Meeting issue its approval (discharge of liability) to the Management and Supervisory Boards of the Krka Company. It also proposed that the General Meeting should reappoint KPMG Slovenija as auditor for the 2009 business year.
- It studied the report by KPMG Slovenija on the inclusion of the TAD Pharma company into the Krka Group, and gave a positive opinion.
- It gave its consent to the 2008 Annual Internal Auditing Report, to the Internal Auditing Report for January to June 2009 and the 2010 internal auditing work programme.
- It discussed the Internal Auditing Rules for the Krka Group.
- It studied the Finance department's liquidity report for the Krka Group and information on managing trade receivables and payment of liabilities within the Group.
- It charged the Company's Management Board with preparation of a report on corporate governance within the Krka Group, for discussion at the committee's meeting in January 2010.
- It charged the certified auditor, KPMG Slovenija, with preparation of a detailed report on liquidity operations, particularly in relation to receivables management in 2009.

The Human Resource Committee met four times during 2009, led by Alojz Zupančič. The presidents of the Management and Supervisory Board and the Management Board member, Zvezdana Bajc, were invited to all committee meetings.

- The committee discussed the amendments to the Rules on the Definition of the Bonus Element of Management Board Remuneration and proposed the bonus level for Management Board members for their work in 2008.
- It advised the Supervisory Board to appoint Jože Colarič as President of the Management Board for a further six years from 1 January 2010, and authorised the President of the Supervisory Board to sign a contract for the post of president of the Krka Management Board under the same conditions as the previous contract.
- It proposed that the Supervisory Board follow the Slovenian Government decision on positions on payment of attendance fees and bonuses relating to mitigating the effects of the financial crisis, which was adopted on 22 January 2009, and proposed that the General Meeting amend the remuneration of Supervisory Board members in line with the provisions of the Government decision.
- It reached the decision to propose Mojca Osolnik Videmšek as a replacement Supervisory Board member for the same term-in-office as the current shareholder representative members.
- It proposed that Mateja Vrečer PhD leave the Audit Committee from 29 July 2009 to be replaced by two new members, Mojca Osolnik Videmšek and Franc Šašek. Due to the expiry of the term-in-office of Sonja Kermc, current member of the Human Resource Committee, it proposed that Mateja Vrečer PhD be appointed to the committee.
- The term-in-office of the Management Board was to expire on 31 December 2009, so it proposed to the Supervisory Board that Aleš Rotar PhD, Zvezdana Bajc and Vinko Zupančič should be appointed as members, in addition to the President of the Management Board and Chief Executive Jože Colarič and worker-director Danica Novak Malnar for a term-in-office lasting from 1 January 2010 to 31 December 2015. It further advised the Supervisory Board to authorise the President of the Supervisory Board to sign contracts for Krka Management Board members with the appointed members before the term-in-office starts, with comparable conditions to those for the previous term.

Work of the Management Board and Supervisory Board

The work of the Board and its committees in 2009 took place in accordance with legal provisions, the Corporate Governance Code, and other recommendations of the Ljubljana Stock Exchange, the Slovenian Directors' Association, and the Managers' Association of Slovenia.

Throughout 2009 the Supervisory Board precisely and comprehensively verified and supervised the operations of the company. The full complement of the Management Board participated in all meetings of the Supervisory Board. In general, Management Board members, most often the President, prepared additional introductory explanations for each agenda item, which they then expanded on with reports on ongoing events in individual areas of operation, and responded exhaustively to questions from Supervisory Board members.

The Supervisory Board evaluated the work of the Management Board on each occasion that it discussed the operating results for a period, with a particular focus on the twice-yearly meetings that included setting their performance bonus on the basis of the Rules. Every Management Board member was fully committed to fulfilling the annual business plan and achieving the strategic objectives, and the results achieved were very good despite the financial and economic crisis. Since there were no problems or difficulties in relations between the Management Board and Supervisory Board, the Supervisory Board found there was no reason for members of the Management Board not to participate in any of the Supervisory Board meetings or discussion of any specific agenda item.

Cooperation between the two boards was positive, and communication between the board presidents took place regularly, even between meetings. Krka's specialist services assisted the work of the Supervisory Board, introducing possible improvements on an ongoing basis, and working to ensure that the work of Supervisory Board members was well organised and that meetings ran as smoothly as possible.

In December 2009 the Supervisory Board carried out a self-assessment of its work for the year. Members reviewed the requirements defined in Annex C – Conflicts of Interest of the new Corporate Governance

Code. The analysis found that there were no conflicts of interest among the shareholder representative members of the Supervisory Board and they were independent. The three employee representative members were also deemed as independent in line with the guidelines of the Corporate Governance Code. Only one was found to have a degree of dependence under one point (out of 12), as he had contributed to preparing the content of the company's draft annual report (he had prepared 2 pages). All Supervisory Board members are well qualified and carry out their work professionally. They closely followed economic conditions and required the Management Board to provide additional reports or take action in areas they have assessed as representing a risk to Krka's successful operation. This led both the Audit Committee and Human Resource Committee to organise another meeting in addition to those planned in the provisional 2009 schedule. The committees will continue this practice in the first half of 2010.

The Supervisory Board members have continually demonstrated their willingness to engage in continual education and professional development. Draško Veselinovič PhD holds a B-licence for supervisory board membership, while Mojca Osolnik Videmšek has an A-licence from the Slovenian Directors' Association, and is also the vice-president of that association's management committee. The other members have all received statements of qualification to serve as supervisory board and management board members. In 2009 individual members participated in one-day training sessions organised by the Slovenian Directors' Association, where they studied innovations in supervisory board operations. The costs for participation in the training totalled EUR 2,350 in 2009.

No conflicts of interest arose in 2009 in relation to the discussion of an item on the agenda or in Supervisory Board decision making.

Of the EUR 68,200 anticipated for the work of the Supervisory Board and its committees in the annual plan, EUR 46,494 was actually used.

Approval of the annual report and submission of the proposal for appropriation of the 2009 accumulated profit

The Supervisory Board examined the 2009 Annual Report of the Krka Company and Krka Group within the legal deadline in minute detail. It also discussed the auditor's report, in which the auditing company KPMG Slovenija stated that the financial statements that are part of this Annual Report give a true and fair view of the financial position of the Krka Company and the Krka Group, the results of operations, its cash flows and changes in equity. The Supervisory Board did not make any comments on the auditor's report.

The Supervisory Board found that the Management Board's Aannual Report offers a true reflection of events and comprehensive information on operations in 2009, and supplements and further develops the information it has regularly submitted during the business year. Since it had no comments or reservations, it unanimously approved the Annual Report on 7 April 2010. With this, the Annual Report was formally adopted in accordance with Article 282 of the Companies Act and Krka's Articles of Association.

At the same time as approving the Annual Report, the Supervisory Board approved the proposal for the appropriation of the accumulated profit. In 2009 the Company achieved a net profit of EUR 170,812,390.44, of which EUR 5,000,000.00 was appropriated to statutory reserves and EUR 62,000,000.00 to other revenue reserves. The remaining net profit of EUR 103,812,390.44 and the retained net profit of EUR 57,936,757.82 comprise the accumulated profit, which stood at EUR 161,749,148.26 on 31 December 2009. The Management Board and Supervisory Board propose that the General Meeting appropriates the accumulated profit as follows:

- EUR 37,179,450.00 for dividends (EUR 1.10 gross per share)
- EUR 62,284,849.13 for other revenue reserves, and
- EUR 62,284,849.13 to be carried forward to next year.

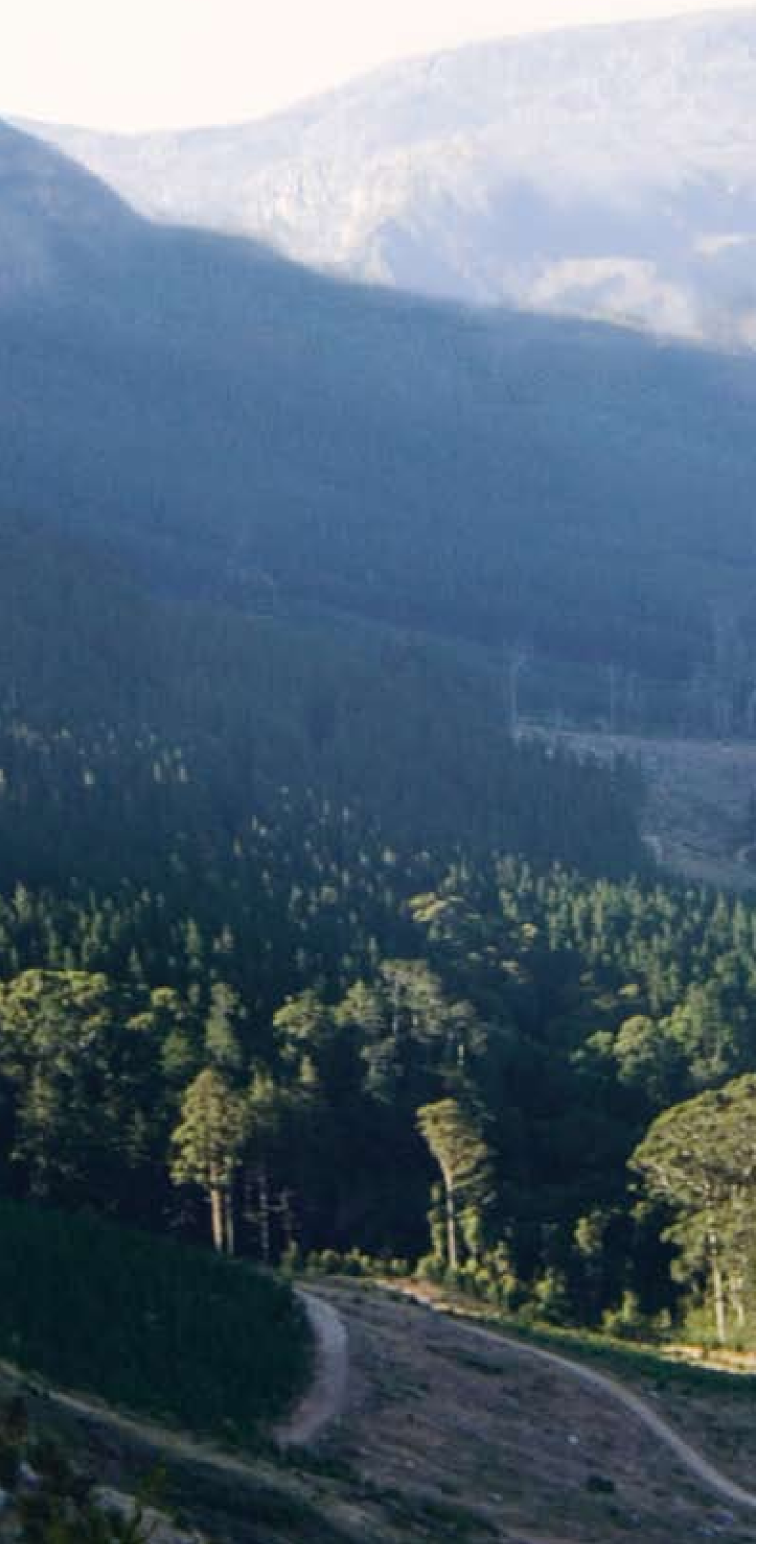
Conclusion

Despite expectations that the difficult economic conditions will continue on the global level, we the Supervisory Board members firmly believe that Krka, which we have monitored and supervised for almost five years, is well prepared for new challenges and that it will enjoy another successful year in 2010. During our term-in-office, Krka has consistently invested in development, knowledge, people, modern equipment and interpersonal relations. It has realised all the objectives it has set for specific business periods, and above all it has successfully remained independent. This has formed an excellent basis for successful and independent operations in the future. It was therefore with great satisfaction that the Supervisory Board members discussed the 2009 report, and unanimously approved it on 7 April 2010.

Gregor Gomišček PhD
President of the Supervisory Board

THE RIGHT PATH

A well trodden path is not always the right one. Sometimes you need the courage to head in another direction.



Business report

Finding the path to the summit has never been simple. We rely on instinct, determination, wisdom and experience. Flexibility and innovation open new paths up before us. Only when we have followed the path to the end, can we stop and look back.

Corporate Governance Statement

Krka's principles of corporate governance are based on the legal norms valid in Slovenia, the company's internal acts, and established best practice. The company is managed by the management board, whose work is supervised by the supervisory board. Krka responsibly exercises its rights and fulfils its obligations to its stakeholders.

The company's governing bodies are:
- the General Meeting
- the Supervisory Board, and
- the Management Board.

In accordance with the Corporate Governance Code, the Krka Management and Supervisory Board drew up and adopted a Corporate Governance Policy, which is available on the Company's website.

General Meeting

The General Meeting is the highest body of the company, where the company's shareholders can participate directly and make key decisions. Except the treasury shares, each share represents one vote at the General Meeting. Krka does not have shares with restricted voting rights.

The Management Board convenes the General Meeting at least once a year at least 30 days before it is to take place. All shareholders entered in the shareholder register on the date of record published in the notice have the right to attend the Annual General Meeting and vote, as do their representatives and proxies.

At the annual general meeting the Management Board provides shareholders with all the information it needs to assess the content of the agenda, taking into account any legal or other restrictions on the disclosure of information.

The Fourteenth Annual General Meeting of the Krka Company was held on 2 July 2009, where shareholders:
- discussed information on the Annual Report and the Supervisory Board's Report for 2008
- decided on the appropriation of the accumulated profit
- elected a replacement supervisory board member
- authorised the Management Board to acquire own shares
- appointed the auditor for 2009.

The resolutions adopted by the 14th AGM were published in the Delo newspaper, on the SEOnet electronic information system, and the Krka website *(www.krka.biz/en/finance/info/skupscine/)*.

The full material was available for viewing at the company's registered office, from the day the AGM notice was issued.

The 2010 Annual General Meeting will take place on 17 June. The notice convening the Annual General Meeting with the proposed resolutions, location of the meeting and conditions for participation will be published on the Ljubljana Stock Exchange's SEOnet information system, in the Delo newspaper, and the Company's website.

Supervisory Board

The Supervisory Board oversees company operations and their management and selects and appoints members of the Management Board. The Supervisory Board meets at least four times per year, normally after each quarter of the business year.

The **composition** of the Supervisory Board is defined by the Company's Articles of Association. Supervisory Board members are appointed for a period of five years and can be re-appointed. The term-in-office of the current board is coming to a close, so the 15th Annual General Meeting will elect a new supervisory board for a term-in-office of five years, starting on 21 June 2010.

The **salaries, reimbursement and other benefits** of Supervisory Board members are not directly dependent on the company's performance and are set out in the financial report, in the note entitled Transactions with Related Parties. The same chapter also covers Supervisory Board members' ownership of shares in the company. Members of the Supervisory Board report any acquisition or disposal of company shares to the Company and competent institutions. Krka makes this information public.

New Supervisory Board to be elected at 15th AGM.

Members of the Supervisory Board take into account the Company objectives in their operations, and must subordinate any personal interests or interests of any third parties to those objectives. Each member must notify the Supervisory Board of membership in the supervisory board of any other company. The conduct of Supervisory Board members in the case of **conflicts of interest** is defined in the amended Rules of Procedure for the Supervisory Board, which is available on the Company's website *(www.krka.biz/en/finance/druzba/dokumenti/)*.

The composition and function of the Supervisory Board and its committees in 2009 are presented in the Report of the Supervisory Board.

Shareholder representatives

Gregor Gomišček PhD, 53 years
President of the Supervisory Board

Mateja Božič MSc, 43 years
Deputy President of the Supervisory Board

Draško Veselinovič PhD, 51 years
President of the Supervisory Board's Audit Committee

Alojz Zupančič, 71 years
President of the Supervisory Board's Human Resource Committee

Anton Rous, 70 years

Mojca Osolnik Videmšek, 43 years

Employee representatives

Mateja Vrečer PhD, 43 years

Tomaž Sever MSc, 42 years

Franc Šašek, 42 years

From left: Aleš Rotar, Danica Novak Malnar, Jože Colarič, Zvezdana Bajc and Vinko Zupančič.

Management Board

The Management Board has the following **tasks**:
- to manage the Company and make business decisions directly and independently
- to adopt the Company's development strategy
- to ensure appropriate risk management, and
- to act with the care of a conscientious and honest manager and protect the business secrets of the Company.

The Management Board **comprises** five members:
- the President of the Management Board
- three members, and
- the worker director.

The Worker Director represents the interests of the employees in relation to human resource and social issues, but is not authorised to represent the Company.

The **term-in-office** for members of the Management Board is six years, with the possibility of re-appointment.

The **management board's operational function** and separation of duties is defined by the Management Board Rules of Procedure. Its prevailing approach is to coordinate opinions, and make decisions by consensus rather than on the basis of votes. In line with the Rules of Organisation and the Rules of Procedure of the Management Board, Management Board members also have executive tasks, as may be seen from the presentation of their responsibilities. Each member is also responsible for a number of organisational units, which facilitates direct cooperation between the Management Board and the executive directors.

The following company bodies support the work of the Management Board:
- board of directors
- 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 professionals from individual fields of the Krka organisation. They prepare business policies and strategies for individual areas and also have some decision-making responsibilities relating to implementing annual plans.

The **payment, reimbursement and other benefits** for Management Board members are defined in relevant contracts drawn up between the Supervisory Board and individual Management Board members. The Rules defining the Bonus Element of Management Board Remuneration are adopted by the Supervisory Board, which also defines the remuneration for Management Board members. Krka has not introduced a remuneration system for Management Board members in the form of options schemes, shares, or share-based derivatives. All salaries, reimbursements and other benefits paid to Management Board members in 2009 are presented in the financial report, in the notes entitled Transactions with Related Persons.

The same chapter also covers Management Board members' **ownership of shares** in the company. Members of the Management Board and persons related to them report any acquisition or disposal of shares in the company or associated companies to the company and competent institutions. Krka makes this information public.

Management Board members must disclose the existence of any **conflicts of interest** to the Supervisory Board and also notify other members of the Management Board. Members of the Management Board do not accept membership of the managing or supervisory bodies of unrelated companies during their term-in-office for Krka.

Members of the Management Board

Jože Colarič, 54 years
President of the Management Board and Chief Executive
Graduated from the Faculty of Economics in Ljubljana. He has worked for Krka since 1982, and began work in the Financial Sector. In 1989 he took charge of the Exports Service within the Import-Export sector. In 1993 he was named as the deputy to the Chief Executive for the area of marketing and finance, and in September of the same year started work as the Director of Marketing and Sales. In 1997 he was appointed as a Member of the Management Board. The following year the Company Supervisory Board appointed him as Deputy President of the Board, and in 2002 recognised him as future President of the Management Board, placing him in charge of the proposal for the new Management Board team. At its meeting of 12 July 2004, the Supervisory Board appointed him as President of the Management Board and CEO, with a 5-year term-in-office starting on 1 January 2005. At its meeting of 21 January 2009, the Company Supervisory Board appointed him for another 6-year term-in-office, from 1 January 2010.

Vinko Zupančič, 38 years
Member of the Management Board and Director of Product Supply
Graduated from the Faculty of Pharmacy in Ljubljana in 1996 with a master's degree in pharmacy and passed his professional specialisation in 1998. He joined Krka in 1997, and in 1998 became a warehouse technologist, later being made a senior technologist. In 2000 he was made assistant to the head of Warehouse and Transport Services, and 2002 he became Deputy Head of the Logistics Centre within Product Supply. In 2004 he was appointed as Director of the Krka representative office in Bangalore, India. He returned to Krka in Slovenia in July 2005 and assumed leadership of the Product Supply Logistics Centre. He was made Deputy Director for Product Supply in 2008, and Director on 1 January 2010. In July 2009 he was made a member of the Management Board for a 6-year term, starting on 1 January 2010.

Vinko Zupančič, new Management Board member from 1 January 2010.

Aleš Rotar PhD, 50 years
Member of the Management Board and Director of Research and Development
Attained his doctorate from the Faculty of Natural Science and Technology in Ljubljana. He gained his international MBA from the IEDC Centre Brdo. He started his work in Krka in 1984 in the Stability Department, in 1991 he was made Head of the Pharmaceutical Technology Division, and two years later became Head of Pharmaceutical Development in the Research and Development sector. In 1998 he became the Deputy Director of Research and Development, and in 1999 was made Director. He became a member of the Management Board in 2001, and began his second term-in-office in July 2002. He was reappointed for the period 31 July 2007 to 31 December 2009. He has been Director of Research and Development since 2002. At its meeting of 29 July 2009, the Company Supervisory Board appointed him for another 6-year term-in-office, from 1 January 2010.

Zvezdana Bajc, 57 years
Member of the Management Board and Director of Accounting and Controlling
Graduated from the Faculty of Economics in Ljubljana. Her career at Krka began in the Economics sector in 1977, and in 1979 she moved to Investment Services. In 1986 she took over as director of the Economic Planning Division. Since 1999 she has been the Director of Economics and Information Processing. Her term-in-office as Management Board member started on 1 April 2005, and she remains Director

of Accounting and Controlling. At its meeting of 29 July 2009, the Company Supervisory Board appointed her for another 6-year term, from 1 January 2010.

Danica Novak Malnar, 53 years
Member of the Management Board – Worker Director and Head of Pharmaceutical Production
Graduated from the Faculty of Natural Science and Technology in Ljubljana. She started working for Krka in 1982, and in 1986 she became Head of the Pharmaceutical Division in Ljutomer, and then for six years led the Division for Operative Production Planning. In 1994 she was placed in charge of the Production Planning Department. In 1998 she was appointed to the Management Board as the worker director, and was most recently reappointed by the Works Council and approved by the Supervisory Board in 2007, with her latest term-in-office beginning on 1 January 2008. Since 1999 she has been head of pharmaceutical production.

Governance of the Krka Group

Krka, d. d., Novo mesto has full control over all its subsidiaries.

The Krka Group consists of the controlling company Krka, d. d., Novo mesto, a subsidiary in Slovenia, and a number of subsidiaries abroad. All functioning subsidiaries are 100% owned by the Krka Company.

The operations of these companies take place in accordance with local legislation and mandatory rules and instructions for the operation of companies in the Krka Group, which are adopted by the Management Board of the controlling company.

Standard rules on governance, organisation and operation are applied generally to all companies in the Krka Group. As the controlling company, Krka defines the strategies and operational objectives for all companies in the Krka Group and monitors the implementation of plans. Applying the principles of functional leadership, where the business function in the controlling company manages the business function in the subsidiary company, ensuring the realisation of objectives at the operative level.

To ensure management cohesion across the Group, the Management Board of the controlling company also participates in the management and supervisory bodies of subsidiaries. The Management Board acts as the general meeting in all subsidiaries, while individual Management Board members and other experts take part in the supervisory bodies of the subsidiaries. The Krka Management Board also appoints the directors of subsidiaries.

Internal auditing

In 2009 we passed external assessment of compliance with Standards on the Professional Practice of Internal Auditing.

Comprehensive risk management.

Internal auditors carry out their mission within the Krka Group on the basis of medium-term and annual work plans and in line with the Standards for the Professional Practice of Internal Auditing (the Standards). In line with the Standards, an independent external assessment of the compliance of internal audit work with the Standards is required every five years. Krka carried out that assessment in 2009 and acquired a **positive opinion**.

Twelve regular internal audits were carried out in line with the 2009 annual plan, all using the **COSO ERM** methodology (Committee of Sponsoring Organisations – Enterprise Risk Management). The work plans and reports on internal auditing work are adopted and approved by the Management Board and the Supervisory Board's Audit Committee.

This methodology is globally recognised and forms the basis for comprehensive risk management. The internal auditors use the methodology to verify audit objectives in four categories: strategy, operations, reporting and compliance with the regulations for each audit field.

Internal audits were carried out in line with the methodology in the fields of sales, production planning, purchasing raw materials and materials for production, pharmaceutical ingredient production, and information technology. Regular internal audits were also carried out in three subsidiaries and four representative offices abroad.

Internal auditors were able to give assurance that the audited fields had a functioning and effective internal control system in place to achieve objectives in those fields. There are potential improvements, therefore a series of recommendations were made, categorised by individual level of risk, and their realisation is verified regularly.

Internal auditors also work with external auditors, certified information system auditors (CISA) and the Supervisory Board's Audit Committee. In 2009 amendments to the Standards led to a revised Rules of Procedure for the Internal Auditing in Krka Group.

Internal controls and risk management relating to financial reporting

Internal controls are guidelines and procedures that the Krka Group has put in place and implements at every level of operation to manage risk relating to financial reporting. The purpose of internal controls is to ensure operational efficiency and effectiveness, the reliability of financial reporting, and compliance with applicable legislation and other internal and external regulations.

The main accounting controls are:

- controlling the accuracy of financial data, which is achieved with various methods (e.g. reconciling open positions with customers and suppliers)
- controlling the completeness of data capture (e.g. document numbering, checking document sequence)
- controlling the division of responsibilities and duties (e.g. record-keeping separate from payments)
- controlling supervision of and checking the work and training of employees who work with financial data.

Accounting controls are based on the principles of veracity and separation of responsibility, transaction controls, ensuring records are up-to-date, reconciling the balance disclosed in ledgers and the actual balance, separation of recording-keeping from payments, professionalism of accounting staff and independence. Accounting controls are closely linked to information technology controls, which ensure, inter alia, restrictions and 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.

External auditing

The certified auditing company KPMG audits the financial statements of the controlling company and most of the subsidiaries. In line with the Corporate Governance Code recommendation, the company changes its auditing partner every five years.

As part of the financial statement audit, the external auditor reports its findings to the Management Board, Supervisory Board and the Auditing Committee of the Supervisory Board.

Transactions between the Krka Company and the auditing company KPMG Slovenija, podjetje za revidiranje, d.o.o. and transactions between companies within the Group and individual auditing companies are disclosed in the notes to the financial statements entitled Transactions with Auditing Companies.

Corporate Governance Code Compliance Statement

The Management Board and Supervisory Board of Krka, tovarna zdravil, d. d., Novo mesto hereby state that in 2009 individual members of the Management and Supervisory Boards, and the Management and Supervisory Boards as bodies of a listed company have acted in compliance with the principles of governance for listed companies and have worked to ensure their implementation within the company.

Krka complied with almost all the provisions of the Corporate Governance Code in their entirety, which were in force from 5 February 2007 until the end of 2009, and is published in Slovene and English on the website www.ljse.si.

The exception is Point 1.2.6. Organised Collection of Proxies. The Company operates and publishes information as transparently as possible via public media and its own website, and the special issue of the Utrip Prihodnosti review, which small shareholders receive before each general meeting, which encourages all shareholders to actively and responsibly exercise their rights. Nevertheless, the company does not organise the collection of proxies, which encourages shareholders to participate in general meetings in person, or to exercise their rights of governance at general meetings via proxies they select themselves.

Jože Colarič
President of the Management Board

Gregor Gomišček PhD
President of the Supervisory Board

Novo mesto, 15 April 2010

Krka Group development strategy

The Krka Group's development strategy for 2010 to 2014 was adopted at the end of 2009. The success of strategy implementation is measured at three levels: Group, product group, and individual business function. The Group performance criteria are monitored by the Management Board, while criteria at the level of product groups and business functions are monitored by the relevant committees. The guiding principle in managing the criteria system is to increase the competitiveness of individual companies and the entire Group.

Key strategies and objectives – to 2014

- Achieving an average annual sales growth of at least 5%, expressed in euros.
- Maintaining the proportion of new products in overall sales over 40% at least.
- Increasing the cost efficiency of products.
- Strengthening the competitive advantage of the product portfolio by maintaining vertical product integration and launching selected products as the first generic pharmaceutical on selected key markets.
- Improving asset efficiency.
- Improving innovation.
- Maintaining independence.

Key strategies – to 2014

- Prioritising focus on European and central Asian markets.
- Strengthening pharmaceutical and chemical activities.
- Developing generic medicines and preparing marketing authorisation documentation before the expiry of the patent for the original medicine.
- Strengthening competitiveness in western European markets by establishing own marketing companies.
- Strengthening the professional and cost synergy of the Krka Group, and maximising utilisation of competitive advantages in the business environments in which Krka companies abroad operate.
- Restructuring the purchasing market and achieving the continual reduction of purchasing prices.
- Strengthening the internationalisation of all business functions.
- Reducing the impact of financial risk and economic risk on Krka Group's operations.
- Pursuing a moderate dividend increase policy.
- Maintaining our economic, social and protection responsibilities for the environment in which we operate.
- Operating according to principles of business excellence.

Krka Group's business objectives for 2010

- The product and service sales target is EUR 1008 million, growth of 6%.
- The largest sales region is set to be Central Europe, where the highest sales growth is also planned. The Russian Federation will remain the most important individual market.
- The planned proportion of sales on markets outside Slovenia is 89%.
- Prescription pharmaceuticals, with growth anticipated at 6%, will remain the most important product group, and are expected to represent over 83% of overall sales.
- The planned net profit is EUR 159 million.
- At the end of the year the Krka Group will have 8430 employees, 46% of them abroad.
- Investments worth a planned EUR 176 million will primarily be aimed at increasing and upgrading R&D, production capacity and infrastructure.

Macroeconomic forecast for 2010

Macroeconomic data indicates that most countries recorded a rebound in 2009, so in 2010 we expect economic activity to strengthen. Macroeconomic forecasts for Krka main markets are set out below. We believe that the anticipated economic conditions will have a beneficial impact on Krka Group sales.

MACROECONOMIC ENVIRONMENT FORECASTS FOR 2010

Country	Growth in pharmaceuticals market (%)	Forecast value of pharmaceuticals market (EUR)	FX-rate (currency/EUR)
Slovenia	4	560 million	Eurozone
Croatia	–3	670–680 million	7.40
Russian Federation	5–8	9,500 million	42.90
Poland	10	5,100 million	3.90
Western Europe	2	160,000 million*	"Eurozone"
Romania	5	1,850 million	4.25
Ukraine	0	1,400–1,500 million	12
Czech Republic	–5	1,900 million	26
Hungary	6.5	2,100 million	270

Source for pharmaceutical market: IMS, MORION, Cegedim, World Generic Market Report, Farmexpert.
Source for FX-rates: bank reports.
* Forecast value for entire pharmaceutical market in 2009 for 11 western European countries (Austria, Belgium, France, Germany, Ireland, Italy, Netherlands, Portugal, Spain, Switzerland and the UK) taking forecast growth into account.

Slovenia

In 2009 Slovenia recorded one of the biggest slowdowns in the eurozone. In the second half of the year increased exports helped the economy strengthen slightly, which will continue in 2010, while a strong rebound is forecast in 2011. Given its export focus, the economic recovery in other EU countries will be vital, though only low single-digit growth has been forecast for the EU. The macroeconomic challenges in 2010 will focus on the level of public borrowing and the budget deficit, and reforms of both the pension and health systems, and the labour market.

Economic conditions in 2010 will have a favourable impact on Krka Group sales.

With anticipated growth of 4%, the Slovenian pharmaceuticals market should reach a value of around EUR 560 million in 2010.

Croatia

In 2009 Croatia experienced a considerable slowdown in economic growth, with GDP falling by 6%, due to a fall in domestic consumption and a significant reduction in inflows of foreign financing. Foreign trade flows have also slowed. Given the positive signs at the end of 2009, we expect increased domestic demand in 2010, increased lending by banks, and increased access to foreign and domestic financing. Given the relatively persistent and high level of unemployment, which is expected to continue in 2010, we expect economic growth to be just above zero in real terms. The country's high level of borrowing remains a challenge, one that is common to most countries around the world. No major changes in the kuna exchange rate are forecast.

In 2010 we expect the value of the Croatian pharmaceuticals market to continue to contract, by 3% this year, with a total value between EUR 670 and 680 million.

Romania

Rapid economic growth in the years before the crisis caused some macroeconomic imbalances, which led to the Romanian economy suffering more than other EU countries in 2009. The level of foreign loans was particularly high, constituting half of all financing in the private sector, while the trade deficit and public spending were also high. The crisis reduced these imbalances, which will have a positive effect on the economy in the long term, even though in the short term domestic spending and investment have been adversely affected. In 2010 slight economic growth is anticipated, with a rebound forecast for 2011. One challenge remains the structural measures to increase economic productivity while reducing budget spending. A moderate increase in the value of the Romanian lei is expected during 2010.

The Romanian market is expected to grow by 5% in 2010, increasing its value to around EUR 1.85 billion.

Russian Federation

Economically, in 2009 the Russian Federation experienced its worst year since the 1998 crisis, with a major fall in the rouble coinciding with a major outflow of foreign capital. Due to decisive measures taken by the state and the central bank in response to the crisis, the situation rapidly improved in the second half of the year, particularly in the final quarter. This was seen in a rise in macroeconomic indicators, the rallying of Russia's financial markets, and the stabilisation of the rouble exchange rate. Powerful industries, a large trade surplus and high oil prices form a sound basis for economic recovery in 2010, and the Russian government is forecasting growth of up to 6% in 2010. Forecasts from other institutions are somewhat lower, but despite this the Russian Federation should post one of the strongest economic performances in the region.

Fastest economic recovery forecast in Poland, the Russian Federation and in western Europe.

The rouble is expected to strengthen, largely due to the trade surplus, the end of a cycle of interest rate reductions, and the inflow of foreign capital.

Forecasts suggest that with 5 to 8% growth in 2010 the Russian pharmaceuticals market will reach EUR 9.5 billion.

Ukraine

After a double-digit fall in GDP in 2009, the Ukrainian economy is expected to have touched bottom and to start to recover in 2010. The steel industry, Ukraine's most important export sector, already achieved growth in 2009, as did other industrial sectors. The general economic situation will remain uncertain in 2010, as foreign and domestic financing will be difficult to access, and the growing budget imbalance remains a major problem, which Ukraine is resolving with IMF assistance. The Ukrainian hryvnia could lose a further 5% of its value in 2010.

We expect the Ukrainian pharmaceutical market to retain its 2009 value in 2010, at between EUR 1.4 and 1.5 billion.

Poland

Poland was the only EU state that did not record negative economic growth in 2009. The very sound economic foundations, large market and planned entry to the eurozone in the medium term, mean Poland remains one of the region's most attractive countries for foreign investment. Exports, which represent 40% of GDP, will probably have increased significantly in 2010, due in part to the zloty remaining weak. One challenge still to be tackled is the labour market reforms, which the European Commission assesses as one of the key factors in achieving long-term economic growth. Action taken should increase the proportion of the active population, particularly among the younger and older strata of the population. A moderate increase in the zloty is expected in 2010 due to economic strengthening and the end of an expansive monetary policy.

The highest pharmaceutical market growth forecast in Poland and Russian Federation.

Forecasts suggest that with a high growth at 10% the value of the Polish pharmaceuticals market will reach EUR 5.1 billion in 2010.

Hungary

The reduction in income tax, moderate inflation and low growth in wages will significantly contribute to Hungarian competitiveness and increase the flow of foreign investment, which slowed during the crisis. In 2010 economic growth is expected to remain at around zero, with economic activity strengthening in 2011. One of the medium-term challenges is the high level of public debt. According to European Commission forecasts, Hungary's debt-to-GDP ratio could be one of the highest among central and eastern European states. This has led Hungary to adopt even more austerity measures within the public sector, in addition to changes to the pension system and social security benefits.

Forecasts suggest that in 2010, with growth at around 6.5%, the value of the Hungarian pharmaceuticals market will reach EUR 2.1 billion.

Czech Republic

In 2009 the Czech Republic recorded the most serious recession in its history, but the recovery of Czech export markets in 2010 has led to forecasts of positive economic growth. The balance of payments suggests that foreign trade has improved, which will have a positive impact on economic growth and the koruna's exchange rate. The government will pass measures to increase public finance revenues to reduce the budget deficit in 2010. VAT, excise duties and property tax will be increased, while various social assistance payments will be lowered. No major changes in the koruna exchange rate are forecast.

The estimated value of the Czech pharmaceutical market in 2010 is EUR 1.9 billion, 5% down on the 2009 figure.

Western Europe

Economic prospects for 2010 are favourable, although the eurozone is not predicted to grow as quickly as the markets of central and eastern Europe. A faster recovery is expected in the eurozone than in the US, mainly due to lower public debt, and lower business and personal borrowing. Economic recovery will be rapid among the major European exporters.

In western European markets we expect moderate 2% growth in 2010, with the pharmaceutical market value reaching EUR 160 billion.

Risk management

Effective risk management and a rapid response to market conditions offer competitive advantages on global markets. When risk cannot be fully eliminated, effective management can reduce the consequences of risk to an acceptable level.

Financial risk management is centralised, operational risk decentralised.

Risk management guidelines are defined at Group level by the Krka board.

The controlling company manages financial risk centrally for the entire Krka Group, while operational risk is managed independently by subsidiaries, according to the controlling company's guidelines. Dedicated organisational units are responsible for risk management, with the content of their work being linked to specific types of risk.

Krka's Management Board defines the risk management guidelines for all companies in the Krka Group and monitors the results of measures already adopted. Internal management and supervisory bodies in the subsidiaries also monitor risk management.

The Krka Group regularly monitors exposure to various forms of risk and implements measures to manage those risks. Our effective responses ensured that in 2009 we again successfully managed operational and financial risks, significantly reducing any risks we were unable to fully eliminate.

Operational risk

Risk area	Description of risk	Risk management method	Exposure*
Intellectual property	Risks relating to intellectual property rights of third parties or unjustified use of Krka's intellectual property	Monitoring patent processes, consistent respect for intellectual property of others, and forming provisions for potential lawsuits	Moderate
Regulatory procedures	Risk of potential changes in legislation or interpretation thereof	Monitoring legislation and consultation with regulatory authorities in product development process	Moderate
Development process	Risk that developed product will not have appropriate properties	Vertically integrated business model	Moderate
Reliability of suppliers and contractual partners	Risk of inadequate (irregular or unsatisfactory) supplies or uncompetitive prices	Performing risk analysis of individual suppliers and adopting appropriate measures in case of inappropriate business relations with a supplier	Moderate
Availability of production capacity	Unplanned shutdowns, interruptions, or production errors	Business interruption insurance, regular preventive maintenance and tests	Low
Environmental protection	Risk of accidents occurring with a negative impact on the environment	Defining preventive drills and internal procedures for emergency incidents	Low
Information sources	Risk of disruption in business processes due to disruption to information sources	Independent security checks and preventive measures to rectify disruptions	Moderate
Employees	Risk of loss of key staff, lack of professionally qualified staff or social dialogue with employees	Systematic work with key staff, remuneration system, staff development, continual education, measuring organisational culture and climate	Moderate
Health and safety at work	Risk of injuries and accidents in the workplace	Testing technological procedures, computer-supported risk assessment system	Moderate
Asset protection	Risk of assets being stolen or destroyed	Preparing threat assessment and security plan	Moderate

* Exposure expresses the likelihood of the risk occurrence and level of potential damages or losses.

Financial risk

Risk area	Description of risk	Risk management method	Exposure*
Foreign exchange risk	Risk of losses due to unfavourable exchange rate movements	Managing open positions, monitoring currency markets, hedging with appropriate financial instruments	Moderate
Interest rate risk	Risk of losses due to unfavourable interest rate movements	Monitoring interest rate changes, negotiations with credit institutions, hedging with appropriate financial instruments	Low
Credit risk	Risk of customers defaulting on payment	Restricting maximum exposure to individual customers, active management of receivables, calculating credit ratings	Moderate
Liquidity risk	Risk of lack of liquid assets to settle financial and operating liabilities	Agreed credit lines and planning liquidity requirements	Low
Risk of damage to property	Risk of damage to property due to natural disasters and other accidents	Systematic threat assessment, taking measures in line with fire prevention studies, and arranging appropriate insurance	Moderate
Risk of claims for damages and civil lawsuits	Risks of claims by third parties due to loss events caused accidentally by company's activities, property or placing products on the market	Insurance for civil, employer and ecological liability, product liability insurance, and clinical testing liability	Moderate
Risk of financial losses due to business interruption	Financial damages arising from 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 impact of business interruption	Low

* Exposure expresses the likelihood of the risk occurrence and level of potential damages or losses.

Operational risk

Operational risk includes the areas of intellectual property, regulatory procedures, development procedures, reliability of starting material suppliers and contractual partners, production and production capacity management, environmental management, information resources and computer-managed processes, employees, health and safety at work, and asset protection.

Intellectual property risk

As a conscientious manager, the development of a new product begins with an analysis of property rights relating to the new product, and determining which solutions are protected by third-party patents and which solutions are available, i.e. not the subject of patents or other third-party property rights. The findings are studied and the development work directed accordingly. The current situation and potential changes in the patent protection field are monitored throughout a product's development, right up to launch. Respecting the property rights of third parties is a basic principle of our Company's operations.

When we assess that patents have been granted without grounds, meaning the subject of patent is not actually an invention (the solution does not include novelty or an inventive step), we use legal means permitted in law to ensure such patents are cancelled. This prevents holders of such patents from filing actions against us for infringements, and prevents third parties from taking possession of knowledge that is actually in the public domain and available to all.

If, despite all these measures, a patent holder considers that Krka has infringed its rights and takes legal action against us, we form appropriate provisions.

If we assess that the results of research work include novelty and an inventive step, then we protect the solution by patent.

An identical method of risk management applies to distinguishing marks and industrial designs (product names and designs) and other potential rights (e.g. copyright). Krka employs intellectual property experts in order to adequately manage risk relating to that field.

Regulatory risk

Regulatory risk management, which is related to changes in legislation and its interpretation, begins in the early stages of developing a product and lasts throughout the whole product life cycle. Krka assesses its development solutions for an individual product together with the regulatory authorities using official advisory mechanisms and the planned content of marketing authorisation documentation. This reduces the risk of problems or even failure occurring during procedures to acquire or extend authorisation procedures. We also participate in preparing legislative amendments via the working groups of industry associations.

Development process risk

This relates to technological and technical risk, since it can happen that a product does not have the key properties it should. These risks can be reduced by introducing new development processes and methods and through our own and acquired knowledge in the research and development field. Processes applied during the early phases of development reduce the risk of a product having negative properties. The final product must be high quality, safe and effective. An important factor in improving management of these risks is the vertically integrated development and production model, which is used to control the entire production process from raw materials to the final product.

Reliability of suppliers and contractual partners

A limited number of suppliers provide key input raw materials, which ensures safe, high quality and competitively priced supply. In 2005 Krka started performing risk analyses of contractual partners, suppliers, and pharmaceutical ingredient producers. The results of individual analyses are used to define priority assessments, which Quality Management personnel use in partner companies. Based on the findings of these assessments, agreements are reached with partners on measures to be taken, while in unusual cases a decision may be made to change partner.

Availability of production capacity

The reliable and high quality operation of production capacity is ensured by maintaining key strategic equipment and energy supply system. The planning, implementation and supervision of preventive maintenance has been made simpler and more transparent by the use of the SAP PM information system. This system maintains a large, up-to-date database to detect potential critical points in production, which supports effective and timely decision-making and action, as well as cost management. The results of efficiency and utilisation measurements for critical equipment are analysed regularly and used to find methods to improve performance in the long term. Risk is significantly reduced by means of our comprehensive system of continual training and knowledge development for technical personnel and production operators, who apply their new knowledge of production line set-up to product changeovers, making a major contribution to improving the efficiency and utilisation of machinery.

The risk of energy source failure has been reduced by modernising energy supply systems and installing reliable devices offering flexible capacity, which can be adapted to match any expansion of production capacity.

For more see the chapter Product Supply.

Environmental protection

Some incidents can have a negative impact on the environment, so it is important to reduce the risk of them occurring and to take effective action if they do. Krka has an internal procedure for identifying emergency incidents. All potential incidents are identified and evaluated, and actions and measures defined in case they occur. The probability of incidents occurring is reduced by preventive measures. Training and drills are used to ensure that any incident that does occur has a minimal impact on the environment. No accidents that could harm the environment occurred in 2009.

For more see the chapter Environmental Protection.

Information resources

A set methodology is used to define the criticality of information resources, based on assessments of the criticality of processes and the criticality of an information resource to an actual process. The major information resources are individual information services and applications. The criticality level is summarised for all infrastructural elements on which the information service or application depends. Independent security inspections of information infrastructure are one method of threat detection. Threats and risks were identified for all critical information sources, and the Management Board approved acceptable risk levels and the measures required to eliminate unacceptable risks.

Employees

We have observed a lack of suitable employees on the labour market, therefore we systematically plan and implement education and training for our employees in order to achieve national vocational qualifications. Specific attention is paid to key staff members, who are a key group in ensuring the competitiveness of the company. Their education and development are planned and monitored, while their responsibilities in the workplace are increased, and they are encouraged to take on new duties and positions. Along with a range of other incentives, these measures foster greater company loyalty, and reduce the possibility of them leaving. The risk relating to the lack of specialist staff members, which has appeared due to a demographic fall in university enrolment, is managed by increasing the volume of study grants on offer. This method provides the human resources required to meet the planned strategic, development and sales plans.

For more see the chapter Employees.

Health and safety at work

The probability of specific accidents, potential consequences and probable health implications in individual work positions are assessed using internal methodology that is in compliance with the Safety Declaration. Risk is assessed periodically, and action is taken to keep risks at acceptable levels. The risk from individual technological procedures is also assessed, in addition to assessing risk in specific work positions.

For more see the chapter Health and Safety at Work.

Asset protection

The first systematic threat assessment for individual facilities was carried out in 2004, with a follow-up in 2006 using an updated methodology. The assessment was reviewed in 2008. The assessment considers the probability of a specific event occurring (destruction or theft), and the probability of the timely discovery of an event and possibility of eliminating the consequences are also taken into account. A security plan was produced to manage asset protection and keep it at an acceptable level.

Financial risk

Foreign exchange risk

The Krka Group's wide-reaching international operations expose it to exchange rate risks relating to the Russian rouble, Croatian kuna, Romanian lei, Polish zloty, Czech koruna, Hungarian forint, Ukrainian hryvnia and the Serbian dinar.

> Movements in the US dollar exchange rate in 2009 did not have a material impact on our results.

An open currency position constitutes a gross exposure in a specific foreign currency for the Krka Group's statement of financial position. The Krka Group's statement of financial position discloses a surplus of assets over liabilities in all the currencies mentioned. More information on exposure to exchange rate risk is provided in the notes to the financial statements in the chapter Financial Instruments.

Due to the transition to invoicing in Romanian lei on the Romanian market in 2009, the US dollar position was reduced in comparison to 2008 to a level at which exchange rate movements no longer have a major impact on the Group's financial result.

Financial derivatives were not used to hedge against foreign exchange risk in 2009. Due to large interest rate differences between the eurozone and the currencies listed above, the financial markets did not offer any financial derivatives suitable for effectively eliminating foreign exchange risk. Currency positions therefore remained unhedged in 2009.

Over the year Krka generated a negative exchange rate difference. This was the consequence of falling exchange rates on our key sales markets in the first quarter. Over the rest of the year, the appreciation of individual currencies generated a positive exchange rate difference that partially offset the negative first-quarter figure.

Value and volatility in key exchange rates

FX-rate - EUR 1	31. 12. 2008	31. 12. 2009	Lowest value	Highest value	Average value	Standard deviation	Coefficient of variation (%)
RUB	41.28	43.15	38.89	46.71	44.11	1.14	3%
HRK	7.36	7.30	7.22	7.51	7.34	0.07	1%
RON	4.02	4.24	4.02	4.35	4.24	0.05	1%
PLN	4.15	4.10	3.97	4.88	4.32	0.20	5%
CZK	26.88	26.47	25.09	29.49	26.43	0.89	3%
HUF	266.70	270.42	264.59	316.50	280.15	12.43	4%
UAH	11.15	12.02	10.13	12.49	11.20	0.70	6%
RSD	87.47	95.02	87.47	96.00	93.61	1.17	1%
USD	1.39	1.44	1.26	1.51	1.40	0.07	5%

Interest rate risk

At the end of 2009 the Krka Group had seven long-term loans, linked to the 6-month EURIBOR. Two of these long-term loans were agreed in 2009 to refinance existing short-term borrowing. Exposure to the reference interest rate risk therefore increased in absolute terms compared to 2008. More information on exposure to interest rate risk is provided in the notes to the financial statements in the chapter Financial Instruments.

No interest rate hedging was put in place in 2009.

Probability of interest rates rising was low.

Reference interest rates were exceptionally low in 2009. Given the restricted financial conditions, there was no risk of the reference interest rate rising, so interest rate risk was not hedged in 2009.

Value and volatility of the 6-month EURIBOR

	31. 12. 2008	31. 12. 2009	Lowest value	Highest value	Average value	Standard deviation	Coefficient of variation (%)
6-month EURIBOR	2.97%	0.99%	0.99%	3.04%	1.45%	0	34%

Credit risk

The credit control process involves obtaining credit ratings for customers to which the controlling company and subsidiaries makes annual product sales of EUR 100,000 or over, and regular, dynamic monitoring of customer payment discipline. Over 400 of the Group's customers are included in the credit control system.

We extended pament terms on specific makets.

Credit control has positive effects. Krka keeps its credit exposure within acceptable limits through the regular monitoring of open and overdue trade receivables, maturity structure of receivables, and changes in average payment terms.

Receivables write-offs were low, but the trade receivables allowance was larger due to economic conditions.

The extension of payment deadlines on specific sales markets led to a gradual growth in total trade receivables. More information on exposure to credit risk is provided in the notes to the financial statements in the chapter Financial Instruments.

Receivables write-offs had no major material impact on Krka's financial position in 2009. The increase in total receivables and the general fall in customer credit ratings led to the formation of an additional allowance for trade receivables. Credit control is dealt with centrally for the entire Krka Group by the Risk Management Department and is organised for customers of subsidiaries and the controlling company according to standard procedures and rules.

Liquidity risk

Krka manages liquidity risk centrally. The objective is to ensure adequate liquidity for the controlling company and the subsidiaries, and provide all the Krka Group companies with financing under the most favourable conditions possible. Despite the contraction of the money markets, the Krka Group's liquidity risk was low in 2009.

Liquidity risk was managed effectively during the crisis.

Liquidity risk is managed through a range of mechanisms at the controlling company and subsidiary levels. Future cash flow requirements are assessed weekly, supported by the central business information system. Any liquidity shortage is covered with agreed credit lines at banks, while periodic cash surpluses are placed in short-term deposits with banks. In 2009 Krka's access to short-term financing from banks remained unchanged.

Below is a summary of key liquidity ratios and ratios to assess the management of working capital. The liquidity ratios strengthened over the year, due largely to an increase in current assets and the formation of liquidity reserves. The working-capital-to-sales ratio increased due to the increase in receivables.

Liquidity ratios for the Krka Group and a comparison with selected averages

Liquidity ratios	2009	2008	2007	2006	2005	Krka's 5-year average
Current ratio	2.92	2.01	2.00	2.15	1.85	2.18
Quick ratio	1.92	1.09	1.09	1.35	1.08	1.30
Acid test ratio	0.08	0.04	0.10	0.23	0.17	0.12
Receivables turnover ratio	2.85	3.94	4.25	4.17	3.90	3.82
Working capital / sales ratio (%)	40.70	34.13	30.00	30.60	28.55	32.80

Current ratio = current assets / current liabilities
Quick ratio = (current assets – inventories) / current liabilities
Acid test ratio = (financial investments + cash and cash equivalents) / current liabilities
Receivables turnover ratio = net sales revenues / accounts receivable and other receivables
Working capital = (current assets – cash and cash equivalents) – (current liabilities – short-term borrowing)

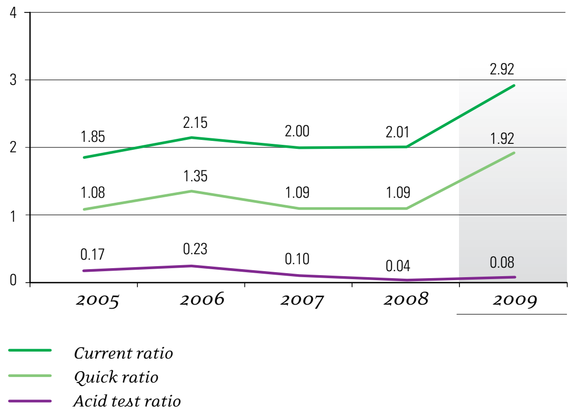
Due to the Krka Group's traditionally low indebtedness and high credit rating, its debt servicing liabilities again offered little liquidity risk in 2009. The notes to the financial statements in the chapter Financial Instruments (Liquidity Risk) show the value of contracted cash flows from financial liabilities by maturity.

The net debt/EBITDA and EBIT/interest expenses ratios disclosed in the chapter Business Operations Analysis remain conservative, and indicate that the Krka Group could pay off all its net debt in approximately half a year, while the operating profit is 46-times higher than interest expenses.

Krka Group financing remains conservative.

The increased cash inflows from operations in the final quarter of 2009 minimised the need for short-term financing, which has allowed additional liquidity cushion in the form of undrawn short-term loans from banks.

Movement in liquidity ratios for the Krka Group



Property, business interruption and liability insurance

The Krka Group uses property insurance to secure financial compensation:

- for damage to property caused by destructive natural forces, technical production issues, and human factors, and
- as reimbursement for the fixed costs of producing products from own ingredients and Group profits in the event of a lengthy interruption in production, and to create an insurance programme to protect the Group against third-party claims for damages.

International insurance

In 2009 Krka added its new foreign companies to its international insurance programme: Krka Pharma GmbH, Vienna, Krka Magyarország, Krka Farma d.o.o. Belgrade, Krka Romania, Krka Slovensko, Krka ČR and Krka Lietuva. This transferred insurance procedures to the controlling company. Insurance is centralised, and the companies acquire internally standardised procedures for taking out insurance and filing claims.

> Fire safety and anti-explosive measures reduce risk and insurance premiums.

Based on an analysis of car insurance for Krka vehicles abroad, a decision was passed on a standard deductible for motor hull insurance. The controlling company issued instructions arranging a standard method of insuring vehicles and setting the mandatory scope and amount of coverage.

External evaluation

The industrial complex at Ločna, Novo mesto, underwent insurance inspections by two reinsurance companies, together with representatives from Krka's insurer and a Slovenian reinsurance company. The aim of the visit was to review exposure to insured risks and exposure to business interruption caused by damage to property, to define the maximum potential loss, and to review realisation of recommendations made on the last visit. The Ločna site currently has 10 complexes subject to assessments of maximum potential loss from fire or explosion. The maximum potential loss is the total value of facilities, equipment, ongoing investment, inventories of an individual complex, costs incurred due to business interruption, and loss of profits.

> Risk management is already included in the project-planning phase.

The inspections found considerable progress in preventive and organisational and technical measures to reduce risk and the consequences of actual risks. The inspection teams were also satisfied with the implementation of recommendations from previous visits, most of which had been realised, and the inclusion of risk management in the project planning phase. In fact considerable progress had clearly been made in implementing recommendations from previous inspections.

Investor information

Shareholder return

Krka share price

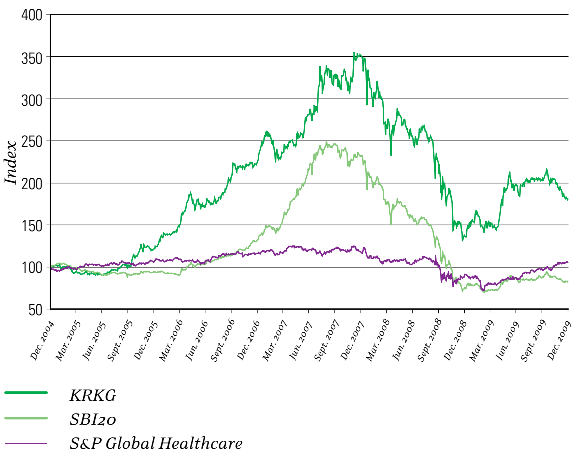
EUR	2009	2008	2007	2006	2005
Year high	76.17	123.47	126.58	79.14	44.87
Year low	47.78	46.02	79.23	42.74	31.69
On 31 December	64.04	48.27	124.29	78.48	42.72
Annual growth (%)	33	- 61	58	84	21

The number of shares following the 1:10 share split is used for all periods. The exchange rate on 31 December of each year is used for conversions from SIT to EUR in 2005 and 2006.

Due to stable business performance and a rally on the financial markets the share price increased by 33% in 2009; over the same period the Slovenian Stock Exchange Index (SBI 20) increased by 10%.

In 2009 Krka shares gained 33% in value.

Krka share performance relative to selected share indices (index: start of 2005 = 100)



The Krka share price in the past five years has significantly outperformed the SBI 20 and the global index for the sector, S&P Global Healthcare.

Dividend policy

Krka pursues a policy of stable dividend growth, with dividend payments made once per year. Shareholders decide on the dividend proposal at the Annual General Meeting, with payment taking place 60 days after the general meeting.

Dividends

	2009	2008	2007	2006	2005
Earnings per share[1] in EUR	5.14	4.61	3.92	3.30	2.88
Gross dividend per share[2] in EUR	1.05	0.91	0.80	0.69	0.58
Dividend pay out[3] (%)	23	23	24	24	30
Dividend yield[4] (%)	1.6	1.9	0.6	0.9	1.4

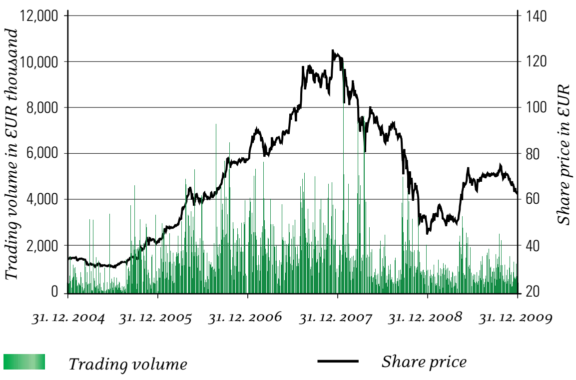
[1] Net profit of Krka Group majority shareholders/average number of shares issued in the period, excluding own shares
[2] Dividend paid in previous period/average number of shares issued in the period
[3] Gross dividend per share/earnings per share from previous period
[4] Applying share price on 31 December of year
The number of shares following the 1:10 share split is used for all periods. The exchange rate on 31 December of each year is used for conversions from SIT to EUR in 2005 and 2006.

Share trading and shareholding

> We follow a stable dividend growth policy.

Krka shares are listed on the Prime Market of the Ljubljana Stock Exchange with the trading code KRKG. The Prime Market is for companies that are outstanding in terms of liquidity, size and transparency of operations. All Krka shares are in the same class: ordinary and freely transferable. Each share (except treasury shares) represents one vote at the general meeting, and every shareholder has the right to participate and vote at the general meeting, regardless of the number of shares held. Krka shares can be freely traded through brokerage firms and banks that are members of the Ljubljana Stock Exchange.

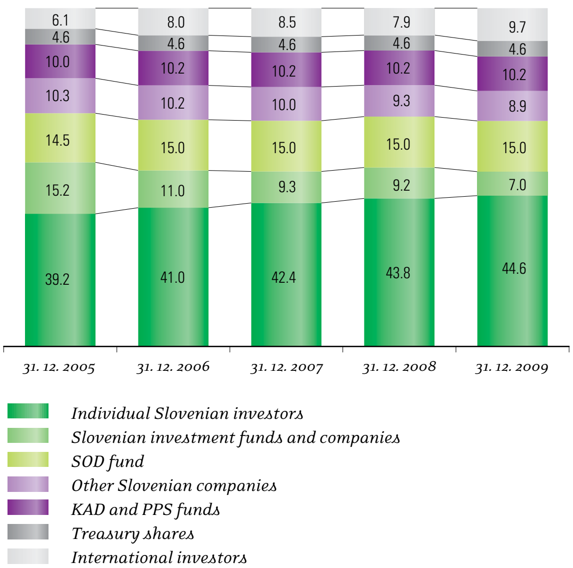
TRADING IN KRKA SHARES OVER PAST 5 YEARS



In 2009 the average daily trading volume in Krka shares on the Ljubljana Stock Exchange was EUR 0.8 million. This was a fall of almost one half compared to 2008. The average trading volume by number of shares was down less, by a third. Krka shares remain the most traded security on the Ljubljana Stock Exchange, however, trading liquidity was low, which is a challenge we are facing. Ljubljana Stock Exchange has joined the CEE Stock Exchange Group – headed by the Vienna bourse. Therefore we expect that recognition of issuers listed on the Ljubljana Stock Exchange will improve on international financial markets. Furthermore we also expect that the entire infrastructure and resources of the CEE Stock Exchange Group will be available to international investors, which will make trading on the Ljubljana Stock Exchange easier for them.

At the end of 2009 Krka had 82,606 shareholders, which is 6.9% more than at the end of 2008. The largest increase in ownership share was for international investors, up from 7.9% to 9.7%. The largest increase by number was for the individual investor group, increasing from 75,646 to 80,916. The ownership share of Slovenian state financial companies, SOD and KAD funds with PPS remained unchanged.

SHAREHOLDER STRUCTURE ON 31 DECEMBER (%)



10 LARGEST SHAREHOLDERS ON 31 DECEMBER 2009

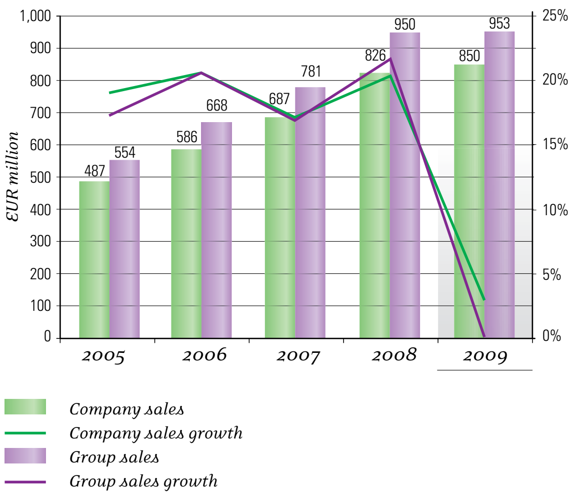
	Shareholder	Number of shares	Proportion (%)
1	SLOVENSKA ODŠKODNINSKA DRUŽBA, D. D.	5,312,070	14.99
2	KAPITALSKA DRUŽBA, D. D.	3,493,030	9.86
3	NEW WORLD FUND INC.	835,400	2.36
4	NFD 1 DELNIŠKI INVESTICIJSKI SKLAD, D. D.	479,930	1.35
5	UNICREDIT BANK AUSTRIA AG	453,929	1.28
6	LUKA KOPER, D. D.	434,470	1.23
7	ZAVAROVALNICA TRIGLAV, D. D.	388,300	1.10
8	DELNIŠKI VZAJEMNI SKLAD TRIGLAV STEBER I	384,187	1.08
9	MARIFARM, D. O. O.	225,000	0.64
10	AMERICAN FUNDS INSURANCE SERIES	209,640	0.59
		12,215,956	**34.48**

Business operations analysis

The business operations analysis includes data for the Group and the controlling company, whereas the commentary relates primarily to the Group.

Sales

Sales and sales growth for the Krka Company and Krka Group



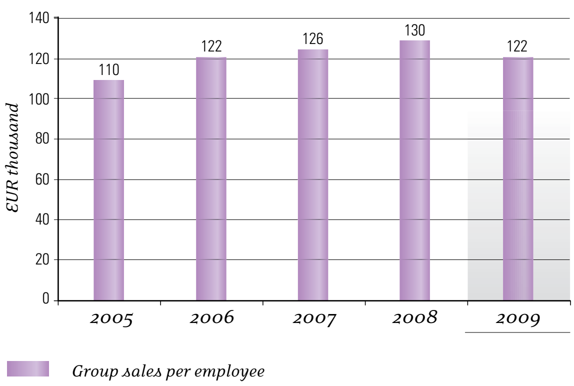
Despite the difficult economic circumstances globally, Krka achieved a small amount of sales growth in 2009. In 2009 the Group sold products and services worth EUR 953.0 million, an increase of EUR 3.1 million or 0.3% compared to 2008.

The Group's average annual sales growth for the past five years is 14.5%.

Over the past five years it has recorded continual growth at an annual average of 14.5%.

A more detailed analysis of the sales results by individual market and product group is given in the chapter Marketing and Sales.

Sales per employee for the Krka Group



Since the marketing and sales network is organised across the representative offices and subsidiaries abroad, the sales per employee figure is given for the Group only.

The average annual growth in sales per employee over the past five years has been 3.8%. The value of sales per employee had previously grown each year in absolute terms but in 2009 it recorded a decline compared to previous year's figure for the first time. In 2009 the number of employees within the Group increased by 5%, with an equal increase in Slovenia and abroad. For more see the chapter Employees. Due to pressure to reduce prices and unfavourable trends in a number of local currencies, sales expressed in euros only increased by 0.3%. The increase in physical volume of sales was higher than the growth in the number of employees.

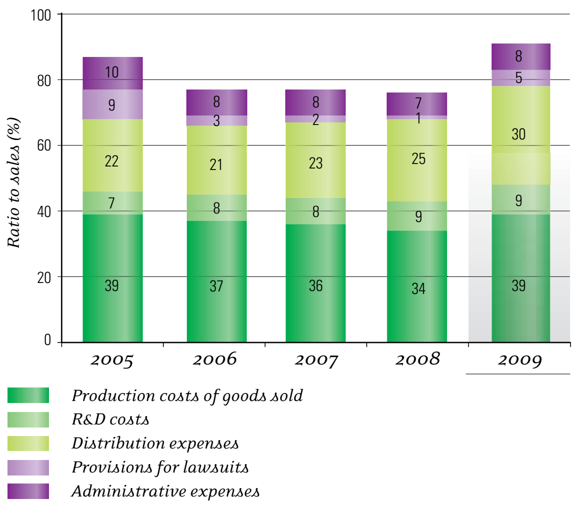
Operating expenses

The operating expenses to sales ratio in 2009 was 86%, and 81%, excluding provisions.

The Group incurred operating expenses of EUR 820.8 million indicating an increase of 14% on the previous year.

The Group's operating expenses include the production costs of goods sold at EUR 370.2 million, distribution expenses at EUR 289.2 million (of which newly formed provisions totalled EUR 47.5 million and refer to potential liabilities relating to a European Commission procedure initiated as a result of alleged infringement of competition regulations on the sale of perindopril on EU markets), EUR 88.3 million for R&D costs, and EUR 73.1 million for administrative expenses. The operating expenses to sales ratio has ranged between 76% and 87% over the period 2005–2009.

STRUCTURE OF GROUP'S OPERATING EXPENSES



In the structure of operating expenses the largest share (45%) refers to production costs of goods sold which increased by 14% compared to 2008. Their ratio to sales is 39%. The item of production costs of goods sold includes ongoing production costs incurred and the production costs of products sold from inventories.

At 45% of total operating expenses, production costs of goods sold was the largest item.

Distribution expenses, which in 2009 included provisions of EUR 47.5 million, increased by 19%. Excluding provisions, distribution expenses accounted for 25% of total sales in 2009, an increase of 2% on 2008. The growth in distribution expenses is primarily attributable in the continual expansion of the marketing and sales network abroad. The R&D costs to sales ratio was 9%, and the administrative expenses to sales ratio was 8%. R&D costs were up 4% compared to the previous year, while administrative costs increased by 5%.

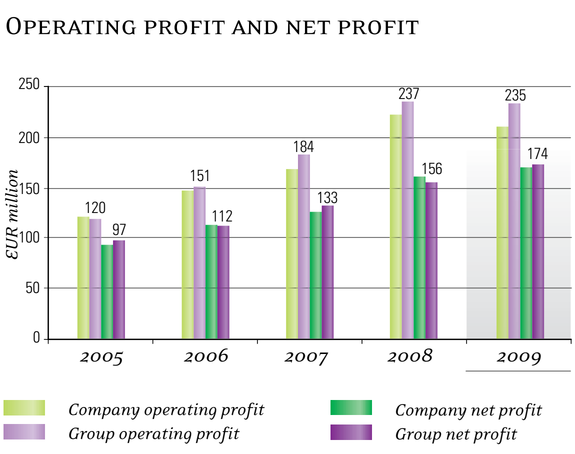
Financial income and expenses

	Krka Group					Krka Company				
EUR thousand	2009	2008	2007	2006	2005	2009	2008	2007	2006	2005
Financial income	1,070	3,029	7,635	8,924	10,605	12,160	4,856	11,791	10,518	8,987
Financial expenses	−11,740	−34,177	−16,343	−11,247	−7,596	−10,139	−22,780	−16,265	−10,836	−12,033
Net financial result	**−10,670**	**−31,148**	**−8,708**	**−2,323**	**3,009**	**2,021**	**−17,924**	**−4,474**	**−318**	**−3,046**

The 2009 net financial results was negative but still quite better than in 2008.

The Group's net financial result in 2009 records an improvement over the previous year. The financial expenses item includes EUR 3.6 million in net exchange losses, caused by falling exchange rates on key sales markets in the first quarter. Interest expenses for long-term and short-term borrowings stood at EUR 5.1 million, write-offs and allowances at EUR 1.5 million and expenses from derivative financial instruments at EUR 1.2 million.

Operating result



The Group's operating profit of EUR 235.0 million was 1% lower (EUR 1.8 million) than in 2008, while EBITDA increased by 1%. Given the improved net financial result, profit before tax increased by 9% (EUR 18.7 million) to EUR 224.3 million. The effective tax rate for the Group was 22.6%, which was 1.6 percentage points lower than the previous year.

Group net profit was 11% higher than in 2008.

The Krka Group generated a net profit of EUR 173.7 million, an increase compared to 2008 of EUR 17.8 million or 11%.

Assets

	Krka Group					Krka Company				
EUR thousand	2009	Prop. (%)	2008	Prop. (%)	Index 09/08	2009	Prop. (%)	2008	Prop. (%)	Index 09/08
Non-current assets	808,022	60.2	809,074	63.6	100	784,594	59.8	765,873	62.6	102
Property, plant and equipment	649,146	48.4	635,250	50.0	102	485,653	37.0	472,875	38.6	103
Intangible assets	126,581	9.4	128,980	10.1	98	29,683	2.3	28,137	2.3	105
Investments and loans	9,722	0.7	10,235	0.8	95	250,114	19.0	235,821	19.3	106
Other	22,573	1.7	34,609	2.7	65	19,144	1.5	29,040	2.4	66
Current assets	533,010	39.8	461,962	36.4	115	528,345	40.2	458,519	37.4	115
Inventories	181,646	13.6	211,347	16.6	86	138,612	10.5	169,939	13.8	82
Trade and other receivables	334,906	25.0	240,875	19.0	139	346,881	26.4	255,711	20.9	136
Other	16,458	1.2	9,740	0.8	169	42,852	3.3	32,869	2.7	130
Total assets	1,341,032	100.0	1,271,036	100.0	106	1,312,939	100.0	1,224,392	100.0	107

As at 31 December 2009 the Krka Group's assets were worth EUR 1,341.0 million, constituting growth of EUR 70.0 million since the start of the year. The growth in non-current assets was attributable to the increased value of property, plant and equipment (PPE), which grew by EUR 13.9 million, while the largest increase in current assets was for receivables, whereas the value of inventories decreased. The ratio of non-current to current assets changed slightly compared to the year-end of 2008, with the proportion of non-current assets decreasing by 3 percentage points to 60% of total assets.

Non-current assets represented 60% of total assets, and current assets 40%.

The total value of non-current assets remained around last year's level at EUR 808.0 million. The most important non-current asset item was property, plant and equipment, which was worth EUR 649.1 million and constitutes 48% of the Group's total assets. Despite the difficult economic climate for new investments, their value increased by 2%. In the total assets structure the intangible assets account for a bit less than 10%.

Current assets in total value of EUR 533.0 million increased by 15% and represented 40% of total assets. The growth is attributable mostly to receivables, which increased by 39% to EUR 334.9 million. Their increase is a result of higher sales at the year-end and the extended payment deadlines offered on specific sales markets, due to customer liquidity problems brought on by difficult operating conditions. The value of inventories fell by 14% and was worth EUR 181.6 million at the end of 2009. The combined value of inventories and receivables increased by 14% compared to 2008. The item of other current assets, cash and cash equivalents record an increase of EUR 5.8 million whereas short-term borrowings of EUR 0.9 million.

Equity and liabilities

	Krka Group					Krka Company				
EUR thousand	2009	Prop. (%)	2008	Prop. (%)	Index 09/08	2009	Prop. (%)	2008	Prop. (%)	Index 09/08
Equity	920,369	68.6	783,296	61.6	117	932,010	71.0	797,203	65.1	117
Non-current liabilities	237,834	17.8	257,526	20.3	92	205,785	15.7	222,067	18.1	93
Current liabilities	182,829	13.6	230,214	18.1	79	175,144	13.3	205,122	16.8	85
Total equity and liabilities	1,341,032	100.0	1,271,036	100.0	106	1,312,939	100.0	1,224,392	100.0	107

The Group's equity increased by 17%.

The Group's equity increased by EUR 137.1 million compared to 2008, which can be attributed to the Group's profit of EUR 173.7 million, and the deferred tax effect resulting from a change in the fair value of financial assets available for sale worth EUR 0.2 million. Equity was reduced by dividends paid totalling to EUR 35.5 million, a change in the fair value of financial assets available for sale of EUR 0.7 million, and a translation reserves worth EUR 0.4 million.

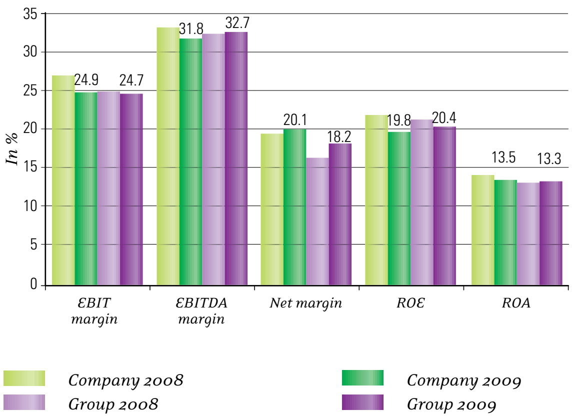
Non-current liabilities decreased, which is primarily attributable to a reduction of EUR 42.1 million or 28% in the value of long-term provisions. In 2009 the Company's reversal of provisions relating to intellectual property rights cases totalled EUR 91.7 million. In addition to the reversal of provisions, the Company formed new provisions worth EUR 47.5 million referring to potential liabilities relating to a European Commission procedure initiated as a result of alleged infringement of competition regulations on the sale of perindopril on EU markets.

Long-term borrowings increased by EUR 21.4 million or 26% as the controlling company raised two long-term loans in 2009. At the same time, short-term borrowings decreased by almost half. Total short-term and long-term borrowings decreased by 15%.

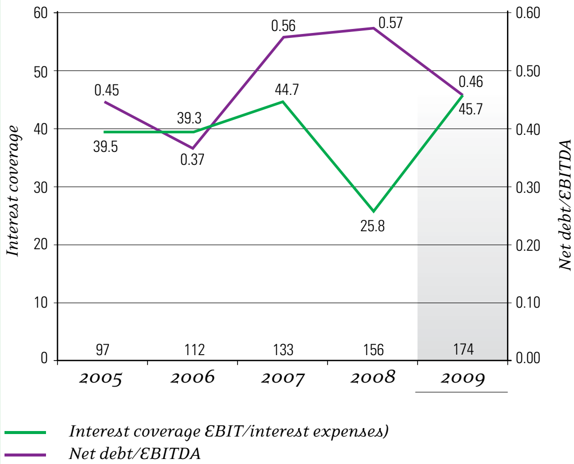
In the Group's current liability structure, operating liabilities increased by EUR 2.5 million or 4% compared to the start of the year, and other current liabilities were up by EUR 8.0 million or 16%. Short-term borrowings were reduced by EUR 49.0 million or 49% as the Group used two new long-term loans to refinance short-term borrowings.

Performance ratios

Profitability ratios



Liquidity ratios



In 2009 the performance ratios were in compliance with the strategic guidelines and annual objectives. Compared to 2008 the net margin improved for the Company, while for the Group the EBIDTA margin and ROA ratios improved as well as the net margin.

Interest coverage in 2009 was higher than in 2008 due to reduced interest expenses. The 2009 operating profit covered interest liabilities for almost 46 years. An indicator value of around 13 was in the United States for smaller, riskier companies enough to earn the top credit rating (AAA), while for larger, stable companies that figure was around 9.

The net debt/EBITDA ratio was 0.46, an improvement on 2008 due to the reduction in borrowing. The ratio indicates that the Group can pay its net debt in full in less than half a year.

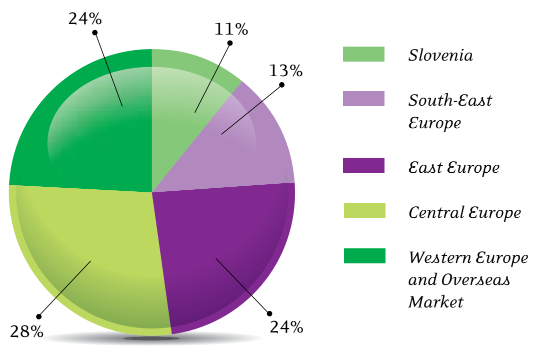
Operating figures for the past five years

	Krka Group					Krka Company				
EUR thousand	2009	2008	2007	2006	2005	2009	2008	2007	2006	2005
Sales	953,038	949,920	780,918	667,955	554,137	850,119	826,160	686,729	586,102	486,570
EBIT	234,992	236,781	183,642	151,079	120,250	211,635	223,642	168,672	147,568	121,378
– EBIT margin	24.7%	24.9%	23.5%	22.6%	21.7%	24.9%	27.1%	24.6%	25.2%	24.9%
EBITDA	311,667	308,390	240,856	198,783	166,042	270,430	275,371	213,055	183,761	156,352
– EBITA margin	32.7%	32.5%	30.8%	29.8%	30.0%	31.8%	33.3%	31.0%	31.4%	32.1%
Net profit	173,685	155,891	132,853	112,086	97,335	170,812	161,130	126,521	113,027	93,746
– net margin	18.2%	16.4%	17.0%	16.8%	17.6%	20.1%	19.5%	18.4%	19.3%	19.3%
Assets	1,341,032	1,271,036	1,121,418	879,127	788,265	1,312,939	1,224,392	1,057,258	854,286	760,723
ROA	13.3%	13.0%	13.3%	13.4%	13.5%	13.5%	14.1%	13.2%	14.0%	13.5%
Equity	920,369	783,296	680,913	570,905	479,585	932,010	797,203	672,010	569,918	477,726
ROE	20.4%	21.3%	21.2%	21.3%	22.0%	19.8%	21.9%	20.4%	21.6%	21.2%

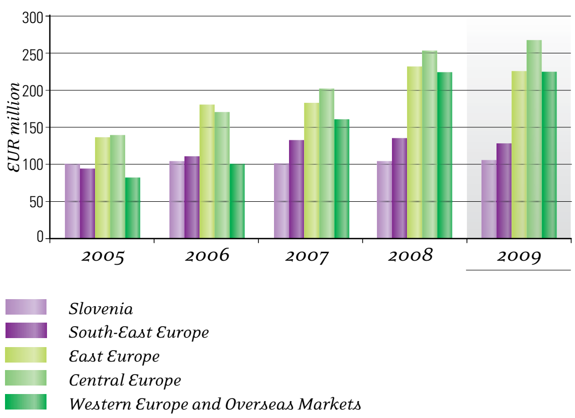
Marketing and sales

In 2009 the Krka Group's highest growth figures were in Regions Central Europe and Slovenia.

Krka Group sales by region in 2009



Krka Group sales by Region



Krka Group and Krka Company sales by Region

	Krka Group			Krka Company		
EUR thousand	2009	2008	Index 2009/2008	2009	2008	Index 2009/2008
Slovenia	105,994	104,426	102	73,847	71,793	103
South-East Europe	128,466	135,388	95	122,481	120,559	102
East Europe	225,744	232,163	97	198,378	225,289	88
Central Europe	267,688	253,631	106	261,243	231,470	113
Western Europe and Overseas Markets	225,146	224,312	100	194,170	177,049	110
Total	**953,038**	**949,920**	**100**	**850,119**	**826,160**	**103**

Slovenia

The Krka Group sales in Region Slovenia were worth EUR 106.0 million in 2009, growth of 1.5% on the previous year. Product sales reached EUR 71.5 million. The largest share of total sales came from prescription pharmaceuticals with 58%, while self-medication products and cosmetics were at 9%. Animal health products represented 2% of total sales. Despite the continuing reduction in pharmaceutical prices, their total sales value increased by 0.7% compared to 2008. Terme Krka achieved sales EUR 33.2 million, an increase of 2.1% on 2008.

Krka maintained its position as market leader on the Slovenian prescription pharmaceutical market with a 13% share. The leading pharmaceuticals are Prenessa (perindopril), Atoris (atorvastatin), Ultop (omeprazole) and Lorista (losartan).

Krka remained market leader on the Slovenian market.

The product range is constantly being expanded in line with Krka's policy of introducing new pharmaceuticals and adapting to increasing competition. In 2009 sales of medicines for treatment of the central nervous system and for treatment of the urinary tract grew particularly quickly.

Krka Group market position in Slovenia
Top-ranked pharmaceutical company, with a market share of 13%.
Our products are market leaders: • in the proton pump inhibitor group with a market share of over 43% • in the statin group with a market share of 40% • in the ACE inhibitor group with a market share of 40% • in the angiotensin II receptor antagonist group with a market share of around 34% • in the oral antiseptic group with a market share of over 30%.
Two Krka products are in the top 10 best-selling pharmaceuticals on the Slovenian market.
All Krka pharmaceuticals on the list of interchangeable medicinal products with the highest recognised price are available to patients without co-payment.

South-East Europe

Krka achieved product sales worth EUR 128.5 million on the markets of south-eastern Europe, which is EUR 6.9 million down on 2008. Lower sales were recorded in Bulgaria, Croatia, Montenegro and Serbia. Croatia remains the largest market in the region.

Sales in **Croatia**, one of Krka's key markets, contributed almost one third of sales in the region, but at EUR 41.1 million were 14% less than in 2008. The lower sales were mainly attributable to a significant reduction in the prices of pharmaceuticals on the official medicines list, which came into force in March. In 2009 Krka retained its position as the third-ranked generic producer in Croatia, just behind two domestic producers.

We remain the leading foreign generics producer in Croatia.

Our best-selling pharmaceuticals are Atoris (atorvastatin), Zyllt (clopidogrel), Ciprinol (ciprofloxacin) Enap (enalapril), Vasilip (simvastatin), Lanzul (lansoprazole) and Helex (alprazolam). It should also be mentioned that Krka's product range on the Croatian market was expanded significantly in 2009, which will contribute to future sales results.

Tablet production at the Jastrebarsko plant increased by around 50% compared to 2008.

Krka Group market position in Croatia
Krka is the leading foreign generic pharmaceutical company.
Krka is the fourth-ranked pharmaceutical company overall.
Our products are market leaders: • in the statin group with a market share of over 20% • in the fluoroquinolone antimicrobial group with a market share of over 55%. Our products are among the market leaders: • in the proton pump inhibitor group with a market share of 15% • in the benzodiazepine group with a market share of over 20%.

Romania is the second largest market in the region, with Krka achieving product sales there worth EUR 32 million in 2009. Sales grew by 9.3% compared to 2008, with growth recorded in all three groups of products. Almost 70% of total sales were generated by the top 10 selling medicines including Bilobil (ginkgo biloba), Enap (enalapril), Ciprinol (ciprofloxacin), Nolicin (norfloxacin) Tramadol (tramadol), Oprymea (pramipexole), Garamycin (gentamicin) and Rawel (indapamide).

Pharmaceuticals introduced to the Romanian market in 2009 offer considerable sales potential for 2010.

Krka Group market position in Romania
Krka is the third-ranked foreign generic pharmaceutical company.
Our products are among the market leaders: • in the fluoroquinolone antimicrobial group with a market share of around 30% • in the cerebral and peripheral vasotherapeutic group with a market share of over 20% • in the monocomponent ACE inhibitor group with a market share of around 10% • in the macrolide and pyranoside antibiotic group, with a market share of around 10%.

In **Serbia** sales fell compared to 2008, despite co-operative production with a domestic producer on select pharmaceuticals, due to the fall in prices on the market, and a number of major Krka pharmaceuticals being deselected from the reimbursement list. Sales also fell in **Bulgaria** and **Montenegro**, but grew in **Bosnia and Herzegovina, Macedonia** – where we remain the leading foreign generic producer – and in **Albania** and **Kosovo**.

In June 2009 Krka was awarded the prestigious 2009 Regional Business Partner award for the Best Slovenian Company in Serbia.

East Europe

The Krka Group generated sales worth EUR 225.7 million on the markets of Region East Europe. Sales growth compared to 2008 was achieved on all markets, except Ukraine, Belarus and Georgia.

The **Russian Federation** remains Krka's largest single market, and is naturally one of our key markets. In 2009 sales growth was achieved once more, rising 7.6% to EUR 170.2 million. The best-selling products were Enap (enalapril), Vasilip (simvastatin), Zyllt (clopidogrel), Nolicin (norfloxacin), Herbion, Macropen (midecamycin), Pikovit, Ultop (omeprazole), Atoris (atorvastatin) and Fromilid (clarithromycin). The very successful sales of two new medicines, Lorista (losartan) and Orsoten (orlistat), can also be pointed out. Similar sales success was recorded with animal health products, the leaders being Enroxil (enrofloxacin), Kokcisan (salinomycin) and Ecocid.

In 2009 we again won the prestigious Platinum Ounce award.

Krka has consolidated its position as a domestic producer, which is very important given the Russian government's commitment to enhancing domestic pharmaceutical production. The production capacity of the Krka-Rus subsidiary is continually being expanded, and the product range broadened. The subsidiary now covers one quarter of demand for Krka products on the Russian market.

In April 2009 Krka received the **Platinum Ounce** award for best pharmaceutical producer.

Krka Group market position in the Russian Federation
Krka is ranked fourth among predominantly foreign generic pharmaceutical companies.
Our products are market leaders: • in the statin group with a market share of around 25% • in the group of non-mineral multivitamins for pediatric use, with a market share of over 70% • in the group of pharmaceuticals to treat colds (other medicines), with a market share of over 20%. Our products are among the market leaders: • in the macrolide antibiotic group • in the group of ACE inhibitors and ACE inhibitor fixed-dose combinations with diuretics • in the platelet aggregation inhibitors group.

Operations in **Ukraine** saw the population's purchasing power drop, alongside an unstable domestic currency, and an unstable economy, which in countries without compulsory medical insurance means a fall in the market's value and the reorientation of customers towards cheaper domestic producers. The fall in market value was even greater for self-medication products. Despite this, by reorganising our work in the field and adjusting prices, Krka managed to sell EUR 23.5 million worth of pharmaceuticals in 2009, increasing its market share and enhancing its position among foreign pharmaceutical producers. The best selling products were Enap (enalapril), Naklofen (diclofenac), Herbion, Ciprinol (ciprofloxacin) and Fromilid (clarithromycin).

Krka Group market position in Ukraine
Krka is the second-ranked foreign generic pharmaceutical company.
Our products are market leaders: • in the statin group with a market share of almost 35% • in the group of ACE inhibitors in combination with diuretics, with a market share of over 20%. Our products are among the market leaders: • in the macrolide antibiotic group, with a market share of over 20% • in the glucocorticoid group with a market share of around 25% • in the group of anti-dementia medicines with a market share of around 20%.

Sales in Moldova, Azerbaijan and Armenia and in Kazakhstan, Uzbekistan, Mongolia, Kyrgyzstan and other Central Asia states increased in 2009, but the growth dynamic was dominated by the economic and financial crisis.

In **Kazakhstan** February's 20% fall in the value of the local currency slowed down the rate of growth on the pharmaceutical market. Despite this, Krka achieved sales growth of 11% in terms of value; the highest growth (21%) was for prescription pharmaceuticals, the leading examples of which were Enap (enalapril), Macropen (midecamycin) and Vasilip (simvastatin). In **Uzbekistan**, where we achieved 13% sales growth, operations were made more difficult due to customers' problems in acquiring currency to settle their trade payables. The key driver of the 11% growth achieved in **Moldova** was the growth in prescription pharmaceuticals sales, which increased 16%, with the performances of Enap (enalapril) and Ciprinol (ciprofloxacin) standing out. In **Azerbaijan**, relatively stable conditions allowed Krka to record 9% growth. In **Armenia**, where a Krka representative office began operating at the start of the year, sales grew 2%, despite a 25% devaluation of the local currency. A major contribution to the 36% sales growth in **Mongolia** was the opening of the new representative office in Ulan Bator. Sales in **Belarus** were down 5.5% compared to 2008, against the backdrop of a 30% fall in the value of the local currency in the first quarter, and a similar situation played out in **Georgia**.

Central Europe

Region Central Europe includes Poland, Hungary, Czech Republic, Slovakia, Lithuania, Latvia and Estonia, and in 2009 it was Krka's leading sales region. Krka's product sales on these markets totalled EUR 267.7 million, which is growth of 5.5% compared to 2008. With a 93% share in the total figure, prescription pharmaceuticals represented the bulk of sales. Prescription pharmaceuticals sales grew in 2009 by 5.8%, self-medication sales were up by 5.9%, but animal health product sales were 9% less than in 2008.

Poland, one of Krka's key markets, is also its most important central European market with 42% of sales in this Krka region. In 2009 we achieved product sales worth EUR 112.7 million. The sales result in euros was significantly influenced by the fall in the local currency against the euro. In terms of volume, sales of prescription pharmaceuticals increased by 23.1% compared to 2008, and self-medication products by 30.9%.

Atoris (atorvastatin) has become the most important pharmaceutical in the prescription product group, followed by Zalasta (olanzapine), Lorista (losartan), Nolpaza (pantoprazole), Vasilip (simvastatin) and Valsacor (valsartan). Worth highlighting among these pharmaceuticals, with which we achieved almost half of overall sales, are Valsacor (valsartan), which was launched in 2008 and became the sixth highest selling Krka product in Poland, and Atoris (atorvastatin), Lorista (losartan) and Nolpaza (pantoprazole), sales of which have increased despite the difficult economic conditions. Sales of self-medication products increased by 8.9%. The best selling are Septolete.

The subsidiary Krka-Polska also operated successfully in 2009. Krka's Bilobil won the prestigious **Polish Golden OTIS award for the most trusted products** in the memory improvement category for the second time.

Krka Group market position in Poland
Krka is the fourth-ranked foreign generic pharmaceutical company.
Our products are market leaders: • in the statin group with a market share of over 15% • in the group of angiotensin II receptor antagonists in fixed-dose combination with diuretics with a market share of almost 30% • in the group of intestinal anti-inflammatory medicines with a market share of around 35% • in the SSRI antidepressant group with a market share of over 10%.
Our products are among the market leaders: • in the proton pump inhibitor group with a market share of almost 12% • in the atypical antipsychotic group with a market share of around 15% • in the platelet aggregation inhibitor group with a market share of around 20% • in the fluoroquinolone antimicrobial group with a market share of over 30%.

In the Czech Republic we achieved high sales growth of 28.8%.

In the **Czech Republic**, Krka's second largest market in the region, we sold products worth EUR 59 million in 2009, achieving sales growth of 28.8%, over half of that with Atoris (atorvastatin), Lorista (losartan), Ampril (ramipril), Prenessa (perindopril), Asentra (sertraline) and Lanzul (lansoprazole). Krka also achieved good results with self-medication products, with sales growing 21.6% compared to 2008. Septolete products deserve particular mention with growth of 23%.

Krka Group market position in the Czech Republic
Krka is the third-ranked foreign generic pharmaceutical company.
Our products are among the market leaders: • in the monocomponent angiotensin II receptor antagonist group with a market share of over 28% • in the group of angiotensin II receptor antagonists in fixed-dose combination with diuretics, with a market share of 23% • in the group of ACE inhibitors in combination with diuretics, with a market share of 23% • in the statin group with a market share of over 15% • in the anxiolytic group with a market share of over 35%.

The sales growth achieved in **Hungary** was 10.4%, with sales reaching EUR 46.9 million. The highest sales came from Atoris (atorvastatin), Prenessa (perindopril), Nolpaza (pantoprazole), Lanzul (lansoprazole) and Lorista (losartan). Performances worth highlighting included those of Lorista (losartan) with growth of over 50% placing it among the five best selling products, and Zyllt (clopidogrel), launched in 2009 and ranked right behind it in terms of sales. Sales of self-medication products were down 9.3% compared to 2008, largely due to the performance of Bilobil (ginkgo biloba), while animal health product sales grew by 1.6%.

Krka Group market position in Hungary
Krka is the fourth-ranked foreign generic pharmaceutical company.
Our products are among the market leaders: • in the macrolide antibiotic group with a market share of 24% • in the statin group with a market share of 16% • in the proton pump inhibitor group with a market share of over 14% • in the monocomponent angiotensin II receptor antagonist group with a market share of 12% • in the fluoroquinolone group with a market share of over 11%.

Notable sales achievements on other markets in Region Central Europe include the smallest market Estonia, where we achieved the highest growth in the region, at 33.9%. Double-digit growth was also generated in Lithuania and Slovakia, while sales in Latvia were comparable to those generated in 2008.

West Europe and Overseas Markets

On the markets of Region West Europe and Overseas Markets the Krka Group achieved sales of EUR 225.1 million, which matched the sales achieved in 2008. The largest proportion of sales was generated via sales of prescription pharmaceuticals via partners, whose sales networks give them a presence throughout western Europe. We are strengthening sales on key Krka markets in the region, where we sell generic prescription pharmaceuticals under Krka trademarks via our own sales networks.

Sales of products under Krka trademarks strengthened on western European markets.

The most important markets in the region are **the United Kingdom, Germany, France, the Nordic countries** and **Italy**. The highest sales growth compared to 2008 was achieved in the UK, the Nordic countries and Spain. We achieved high-volume market shares on the markets of western Europe for individual generic products, primarily generic clopidogrel, lansoprazole, donepezil, venlafaxine, pantoprazole and enalapril. New launches in 2009 included generic sildenafil, pramipexole, a fixed-dose combination of perindopril and indapamide, quetiapine, montelukast, fixed-dose combination of paracetamol and tramadol, and repaglinide to patent cleared western European markets. In the animal health product range, Krka is the first generic producer to start marketing tablets on western European markets with the generic enrofloxacin (Enroxil flavour) and florfenicol.

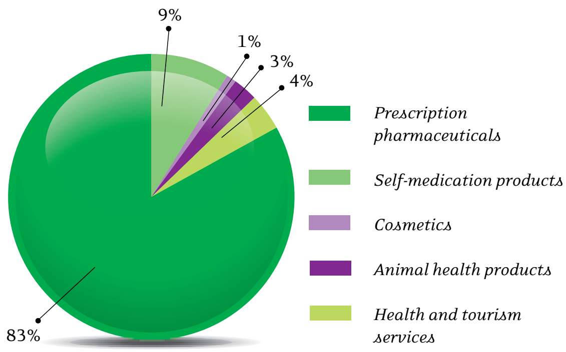
Krka Group market position on western European markets
Krka is the leading supplier of generic clopidogrel, lansoprazole, olanzapine, donepezil, enrofloxacin, florfenicol and salinomycin.
Krka is among the leading suppliers of generic amlodipine, enalapril, simvastatin, carvedilol, mirtazapine, pantoprazole, venlafaxine and perindopril.
Krka sells prescription pharmaceuticals under its own brand in Germany, the UK, the Nordic countries, Austria and Portugal.

Product and service groups

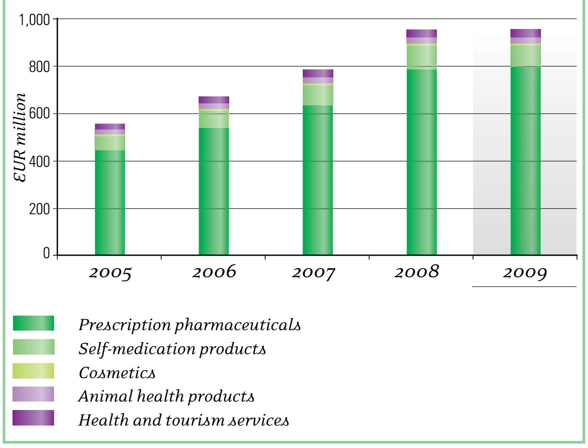
Prescription pharmaceuticals form the largest sales group.

Krka's main line of business is the production and sale of prescription pharmaceuticals. They are followed in sales value by self-medication products, animal health products and cosmetics. The company's activities are supplemented by health resort and tourist services.

KRKA GROUP SALES BY PRODUCT AND SERVICE GROUP IN 2009



KRKA GROUP SALES BY PRODUCT AND SERVICE GROUP



KRKA GROUP AND KRKA COMPANY SALES BY PRODUCT AND SERVICE GROUP

	Krka Group			Krka Company		
EUR thousand	2009	2008	Index 2009/2008	2009	2008	Index 2009/2008
Human health products	890,795	891,433	100	819,505	800,373	102
– prescription pharmaceuticals	793,903	782,199	101	732,382	694,598	105
– self-medication products	89,559	99,209	90	80,071	96,102	83
– cosmetic products	7,333	10,025	73	7,052	9,673	73
Animal health products	27,777	25,082	111	28,323	24,615	115
Health resort and tourist services	33,181	32,492	102			
Other	1,285	913	141	2,291	1,172	195
Total	953,038	949,920	100	850,119	826,160	103

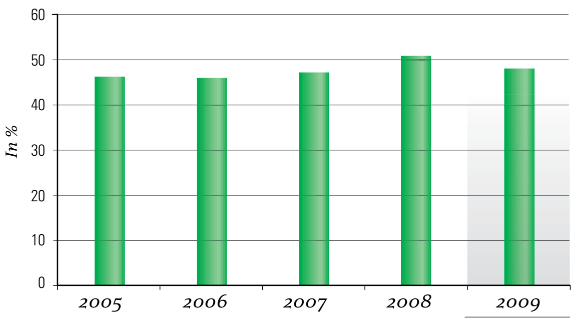
New products

In 2009 we started marketing a number of new pharmaceuticals.

In 2009 the share of overall sales from new products remained at the level of the past two years. The best-selling products include some of the newest pharmaceuticals: Zyllt (clopidogrel), Prenessa (perindopril), Nolpaza (pantoprazole) and Zalasta (olanzapine). In 2009 Krka started marketing several pharmaceuticals from key therapeutic groups with new active pharmaceutical ingredients, while the existing product range was expanded into new markets.

Almost 50% of sales come from products launched on individual markets in the past 5 years.

PROPORTION OF NEW PRODUCTS* IN KRKA GROUP SALES



* New products: products launched on a specific market in the past five years.

NEW PRODUCTS IN 2009

Prescription pharmaceuticals	
For the treatment of cardiovascular diseases	Clopidogrel hydrochloride* Valsacombi (valsartan and hydrochlorothiazide), which is also marketed under the name Co-Valsacor Co-Cazaprol (cilazapril and hydrochlorothiazide) Ezoleta (ezetimibe)
For the treatment of diseases of the central nervous system	Elicea (escitalopram) Zypsila (ziprazidone), which is also marketed under the names Ypsila and Zypsilan Oprymea (pramipexole) Nimvastid (rivastigmine), also in orodispersible tablet form Doreta (tramadol and paracetamol)
For the treatment of diseases of the alimentary tract and metabolism	Orsoten (orlistat)
For the treatment of infectious diseases	Ciprinol SR (ciprofloxacin) in tablet form with prolonged release
For the treatment of diseases of the respiratory system	Monkasta (montelukast)
For the treatment of diseases of the urinary tract	Vizarsin (sildenafil)
Self-medication products	
For memory and concentration	Bilobil intense (ginkgo biloba)
For the treatment of diseases of the alimentary tract and metabolism	Spazmonet (drotaverine)
Animal health products	
For the treatment of infections in pets	Enroxil flavour (enrofloxacin) in flavoured tablet form

* Clopidogrel in hydrogen sulphate form was first introduced on some markets in central, eastern and south-eastern Europe in 2005 and 2006.

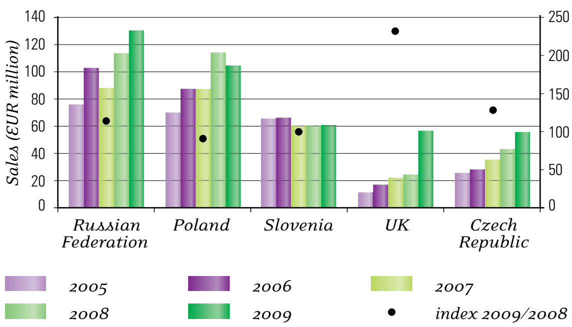
Prescription pharmaceuticals

In 2009 the Krka Group achieved sales of prescription pharmaceuticals worth EUR 793.9 million, which is 1.5% more than in 2008. Almost 85% of prescription pharmaceuticals were sold under Krka's own trademarks, the remainder via our partners in western Europe.

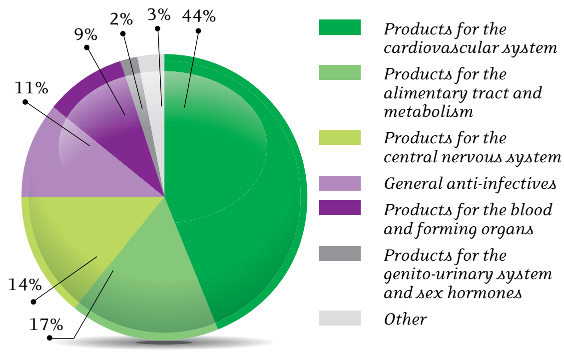
On the ten largest markets, prescription pharmaceutical sales increased most in the UK, Slovakia, the Czech Republic, the Russian Federation and Hungary. The largest increase in sales on other markets was achieved in Spain, Portugal, Austria, Mongolia, Estonia, the Benelux countries, Uzbekistan, Albania, Kazakhstan and a number of other small markets.

Almost 85% of prescription pharmaceuticals are sold under Krka's own trademarks.

PRESCRIPTION PHARMACEUTICALS SALES ON THE 5 LARGEST MARKETS



PRESCRIPTION PHARMACEUTICALS SALES BY THERAPEUTIC GROUP IN 2009



Medicines for the treatment of cardiovascular diseases

Statins

In 2009 Krka maintained its position as the leading generic producer of hypolipidemics on the markets of Slovenia, central, eastern and south-eastern Europe. Our Atoris (atorvastatin) has retained its position as statin market leader on these markets, while Vasilip (simvastatin) has remained the market leader among generic simvastatins. Our statins have gained that trust on the basis of a wealth of clinical trials confirmed by over 25 of our own clinical research works and the 1.5 million patients who use Krka statins on a daily basis.

Krka's product range includes the leading cardiovascular medicines.

Atoris (atorvastatin) is one of our leading pharmaceuticals. It is still the number one statin and number one atorvastatin in Slovenia (with a 55% market share) and Croatia, and has risen to a leading position in Poland. It is also among the market leaders in the Russian Federation, Hungary, the Czech Republic and Slovakia, Latvia, Ukraine and on other markets, where it has achieved a market share ranging from 20 to 35%. In 2009 we started to market it on new eastern European markets.

By 2009 **Vasilip** (simvastatin) already had a rich 10-year history of international clinical application behind it. It has remained the number one simvastatin in Slovenia and Ukraine with a market share of around 60%, over 45% in Kazakhstan, and over 30% in the Russian Federation and a number of other markets where it has a market share of around 20%.

Krka is the leading statin supplier on the markets of Slovenia and central, eastern, and south-eastern Europe.

In 2009 the hypolipidemic product group was expanded with a new pharmaceutical. **Ezoleta** (ezetimibe) works on the blood cholesterol level in a different manner to statins, as it does not inhibit the formation of cholesterol in the liver, but reduces its absorption from the bowel. Ezoleta is most frequently used in clinical practice in combination with statins to achieve dual control over cholesterol. In 2009 Ezoleta began to be marketed in Slovenia, and will soon be launched on other markets.

ACE inhibitors

In 2009 Krka retained its position as the number one producer of generic ACE inhibitors on the markets of Slovenia, central, eastern and south-eastern Europe. We are in second place among all producers by value, and in first place by volume. Our broad range of ACE inhibitors was enhanced in 2009 with new forms, fixed-dose combinations and pack sizes.

Enap (enalapril), Krka's gold standard for the treatment of high blood pressure, remained a leading Krka product in 2009. Doctors have trusted it for over 20 years. Together with its fixed-dose combinations with hydrochlorothiazide Enap H, Enap-HL and Enap-HL 20, it is the number one enalapril in Croatia, in the Russian Federation, Slovenia, Ukraine and in several other markets, where it achieves high market shares among enalaprils and fixed-dose combinations (the market share is over 90% in Croatia, over 70% in the Czech Republic, over 60% in Slovenia, and over 40% on many of the others).

Prenessa (perindopril) is a modern Krka's ACE inhibitor, which is being successfully marketed in central Europe, with good sales results on most western European markets as well. This leading generic perindopril and a perindopril in fixed-dose combination with indapamide, **Co-Prenessa/Prenewel**, together achieve good market shares (over 50% in Slovenia, between 20 and 25% in Hungary, the Czech Republic and Slovakia, and around 10% on other markets). Co-Prenessa/Prenewel is still the only generic fixed-dose combination of perindopril and indapamide on these markets. In 2009 we started to market it in Romania, and a new higher-strength Prenessa on several markets in Region Central Europe. Prenessa and Co-Prenessa/Prenewel have successfully treated almost one million patients. In western Europe, the UK – where we are the leading supplier of perindopril – was joined by Finland, France, Italy and Portugal in 2009.

Krka is the leading producer of generic ACE inhibitors on the markets of Slovenia and central eastern and south-eastern Europe.

Ampril/Amprilan (ramipril) is the third ACE inhibitor in our product range. Together with fixed-dose combinations with hydrochlorothiazide it is the number one generic ramipril in Slovenia, the Russian Federation and the Czech Republic (with market shares ranging from 15 to 25%), and one of leading generic ramiprils in Croatia, Ukraine, Lithuania and Romania. In 2009 we started to market it on new markets in Region Central Europe and Region East Europe.

Krka's ACE inhibitor product range was extended with a fixed-dose combination, **Co-Cazaprol** (cilazapril and hydrochlorothiazide).

Sartans (angiotensin II receptor antagonists)

Globally, sartans are the leading pharmaceuticals for the treatment of high blood pressure. Krka's product range includes two of the world's most frequently prescribed sartans – valsartan and losartan. Krka is the market leader in generic sartan production on the markets of Slovenia, central, eastern and south-eastern Europe with market shares of over 15% in terms of value, and over 25% in terms of quantity. The medicines Lorista (losartan) and Valsacor (valsartan) are used to treat around 800,000 patients every day.

Lorista (losartan), **Lorista H** and **Lorista HD** (losartan and hydrochlorothiazide) are established antihypertensives. They offer a valuable history of treatment and have been tested in our own clinical trials. Lorista, together with combinations, is the number one losartan in Slovenia, Hungary, and Bulgaria (with market shares from 25 to 65%) and one of the leading losartans in the Czech Republic, Slovakia, Lithuania, Romania, the Russian Federation and Ukraine (market shares from 15 to 45%). Losartan, including fixed-dose combinations, is also marketed in Portugal and Finland.

Krka is a leading sartan supplier on the markets of Slovenia and central, eastern and south-eastern Europe.

Valsartan is the world's leading sartan and the leading antihypertensive. Krka's **Valsacor** (valsartan) is the number one valsartan in Poland, Lithuania, Slovenia, Slovakia, the Czech Republic, Estonia, where it has a share of over 50%, by value, of each market. In 2009 we started to market it in the Russian Federation, Albania, Croatia and Bulgaria. Another new product in 2009 was the fixed-dose combination with hydrochlorothiazide **Valsacombi/Co-Valsacor/Valsaden**, which is currently only available in Slovenia and Croatia.

Other pharmaceuticals for the treatment of high blood pressure

Our product range also features **Coryol** (carvedilol), **Rawel SR** (indapamide) and **Tenox/Hipres** (amlodipine), which is one of the leading amlodipines in the Czech Republic, Hungary, Poland and Romania.

Platelet aggregation inhibitors

Zyllt (clopidogrel) belongs to the group of modern platelet aggregation inhibitors. Trust in its quality, efficacy and safety have made it the number one generic clopidogrel in Slovenia, central, eastern and south-eastern Europe in 2009. Krka is Europe's number one supplier of generic clopidogrel. After acquiring marketing authorisation in 2009, Krka started to successfully market its clopidogrel product on most EU markets, and it is already being used to treat 500,000 patients. Its efficacy and safety have been confirmed in Krka's clinical trials, and its competitive price enables increasing numbers of patients to be treated with this modern pharmaceutical.

Medicines for the treatment of diseases of the alimentary tract and metabolism

Proton pump inhibitors

are used to treat diseases of the upper alimentary tract, such as heartburn and ulcers of the stomach or duodenum. Krka is one of very few European pharmaceutical companies that can offer doctors three proton pump inhibitors: omeprazole, lansoprazole and pantoprazole.

In 1989 Krka was one of the first companies in Europe to produce and market omeprazole, our first proton pump inhibitor **Ultop**. In 2009 we organised a major international symposium to mark 20 years of working in the field of treatment of alimentary tract and metabolic diseases. In Slovenia Ultop is the most frequently prescribed proton pump inhibitor.

Krka has now been producing **Lanzul** (lansoprazole), the number one generic lansoprazole in Europe, for over 10 years.

Nolpaza (pantoprazole) is Krka's latest proton pump inhibitor. It is one of the leading pantoprazoles on the markets of Slovenia and central Europe, with its market share ranging from 20 to 60%. It is also the most frequently prescribed oral pantoprazole in central Europe. We placed Nolpaza on the Russian Federation market in 2009, as well as the Krka pantoprazole under the TAD trademark in Germany, where it is a leading generic pantoprazole.

> Krka is a market leader for proton pump inhibitors on the markets of Slovenia and central, eastern and south-eastern Europe.

In 2009 Krka became the number one producer of pharmaceuticals for the treatment of peptic ulcers and gastroesophageal reflux in Slovenia and the markets of central, eastern and south-eastern Europe.

Oral antidiabetics

Gliclada/Glyclada (gliclazide) in prolonged-release tablet form is one of the most modern pharmaceuticals for the treatment of type-2 diabetes from the sulfonylurea group. It is available on all central European markets, where it is the first generic gliclazide. In 2009 we launched it in Croatia. Krka's gliclazides are also well-known on numerous western European markets, where we are the leading supplier of generic gliclazide. The most important western European markets are France, Italy and the UK.

Medicines to treat obesity

In 2009 Krka entered a new therapeutic group with Orsoten (orlistat), a pharmaceutical used to treat obesity and excess body mass. We launched it in the Russian Federation and in future will be making it available to users on other markets.

Medicines for the treatment of diseases of the central nervous system

Antipsychotics

Krka is the only generic producer in the world producing four major atypical antipsychotics for the modern treatment of schizophrenia and bipolar disorder: olanzapine, quetiapine, risperidone and ziprasidone. Krka is a leading producer of generic antipsychotics, and its olanzapine is the second-ranked generic antipsychotic on the markets of Slovenia, central, south-eastern and eastern Europe.

> Krka has a wide range of medicines to treat diseases of the central nervous system.

Zalasta/Zolrix (olanzapine) is Krka's leading antipsychotic. At present it is available on a limited number of markets, where it is a leading olanzapine with market shares ranging from 20 to 40%. Its highest market share is 90% in Latvia. Krka is the number one supplier of generic olanzapine in Norway and Finland. It is produced in orodispersible tablet form, which offers added value and improves patient participation in treatment.

Kventiax (quetiapine) is a modern antipsychotic for the treatment of schizophrenia and bipolar disorder, which improves the patient's social participation and quality of life. It is characterised by a sound balance between efficacy and safety, and has a market share of over 20% in Slovenia. It is also marketed on most central European markets, including Croatia and Estonia since 2009.

Zypsilan/Zypsila/Ypsila (ziprasidone) is a modern atypical antipsychotic with an excellent safety profile with regard to metabolic parameters. It is the first generic ziprasidone in Europe. In 2009 we started to market it in Slovakia, Hungary, Poland, Lithuania and Latvia.

Antidepressants

Krka is the top-ranked generic producer of antidepressants on the markets of Slovenia and central, eastern and south-eastern Europe. Our range of antidepressants include representatives of the two highest selling groups of pharmaceuticals: in the serotonin-specific reuptake inhibitor (SSRI) group there are Asentra (sertraline) and the very new Elicea (escitalopram), and in the serotonin-norepinephrine reuptake inhibitor (SNRI) group there is Alventa/Olwexya (venlafaxine).

> Krka is the number one supplier of antidepressives on the markets of Slovenia and central, eastern and south-eastern Europe.

Alventa (venlafaxine) in prolonged-release capsule form is the leading venlafaxine in Slovakia and Lithuania, with market shares from 35 to 45%, and one of the leaders on other central European markets with market shares from 10 to 35%. Since 2009 we have marketed it in Croatia, Serbia and Romania. Over 600,000 patients are being treated with Krka venlafaxine.

Our range of antidepressants was enhanced in 2009 with a modern, new antidepressant called **Elicea** (escitalopram). Escitalopram is the most selective SSRI now available and is the world's leading active ingredient in this pharmaceutical group. Since 2009 Krka has marketed it in the Czech Republic, where it is the first generic escitalopram, and in future we will make it available on other markets.

Medicines for Alzheimer's disease

After seven years **Yasnal** (donepezil) is still one of the best-selling generic donepezils on Krka's traditional markets. In Slovakia, Slovenia and Lithuania it has a share of over 85% of the donepezil market. Krka is also the leading supplier of generic donepezil in Portugal, Norway and Finland. In 2009 we expanded our product range with a new antidementia product called Nimvastid (rivastigmine), which is already being marketed in Poland, Slovenia and Romania. **Nimvastid** is the first Krka antidementia product with an attested dual action, and the first rivastigmine in orodispersible tablets in Europe.

> Our new products offer more accessible treatment for patients with Alzheimer's or Parkinson's disease.

Medicines for Parkinson's disease

In 2009 we entered the field of treatment for Parkinson's disease. **Oprymea** (pramipexole) is a dopamine agonist and the first generic pramipexole in Europe, and is now available in Norway.

Analgesics

In 2009 the modern fixed-dose combination **Doreta** (tramadol and paracetamol) was added to the analgesics product range, which provides effective easing of medium to strong pain. The first generic fixed-dose combination of its kind, we are already marketing it in Portugal, Croatia, Slovakia and Slovenia.

Medicines for the treatment of infections

Macrolides

Fromilid (clarithromycin) is the number one generic clarithromycin and macrolide on the markets of Slovenia, central, eastern and south-eastern Europe, and the third ranking macrolide. It is the number one generic clarithromycin on many markets, with market shares between 20 and 50%. The prolonged-release tablet, Fromilid uno, is also available, which has been used to treat over four million patients since it was first launched.

Fluoroquinolones

Nolicin (norfloxacin) and **Ciprinol** (ciprofloxacin) have placed Krka among the leading producers of fluoroquinolones on the markets of Slovenia, central, eastern and south-eastern Europe. In 2009 we celebrated the 20th anniversary of Ciprinol and in the Russian Federation we launched Ciprinol SR with prolonged release.

Medicines for the urinary tract

Medicines for benign prostatic hyperplasia

Krka is the fourth ranked producer of pharmaceuticals to treat benign prostatic hyperplasia (BPH) in Slovenia, central, eastern and south-eastern Europe. Our product range includes active ingredients that globally represent three quarters of all prescription pharmaceuticals to treat BPH: **Tanyz** (tamsulosin),

Finpros/Finster (finasteride) and **Kamiren/Kamiren XL** (doxazosin). Our pharmaceuticals for BPH were used to treat over 140,000 patients in 2009.

Medicines for erectile dysfunction

Krka produces its first medicine to treat erectile dysfunction.

are new to our product range. **Vizarsin** (sildenafil) is the first generic sildenafil, launched on the basis of an EU centralised procedure. We first marketed it in Slovenia – where in the last months of 2009 it had already reached a market share of 30% – and then in Poland, Lithuania, Estonia and Spain. Due to considerable public interest, we prepared a special website www.for-us-2.com and www.midva.com on erectile problems and their treatment, with interesting features and advice for patients.

Medicines for the treatment of diseases of the respiratory system

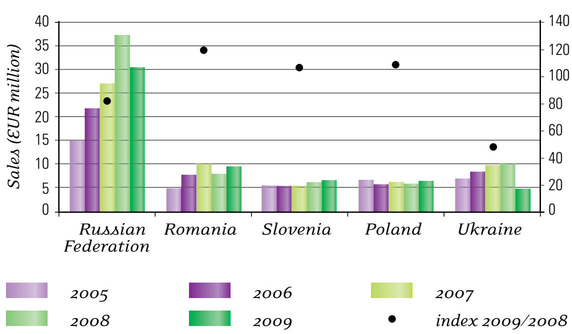
Monkasta (montelukast) is a new pharmaceutical to prevent and treat chronic bronchial asthma and to alleviate the symptoms of seasonal allergic rhinitis (hay fever), which is available in Slovenia, Poland, Lithuania, Estonia and Bulgaria. It was also launched in Finland with the name montelukast. **Cezera** (levocetirizine) is one of the most modern antihistamines. It is intended to treat the symptoms of allergic rhinitis and chronic idiopathic urticaria, and features rapid and powerful action. The medicine has been marketed in Slovenia since 2009 and on several new central European markets.

Self-medication products

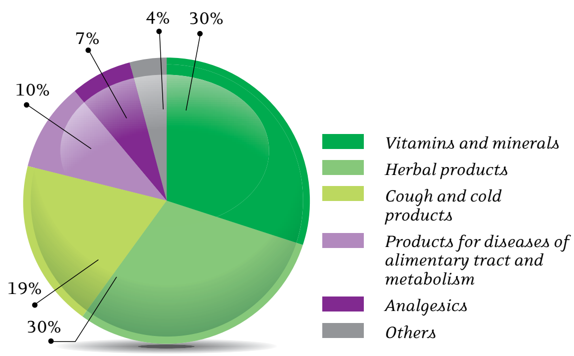
In 2009 growth was achieved on most markets, but on eastern European markets sales fell.

In 2009 the Krka Group achieved self-medication product sales worth EUR 89.6 million, which is 10% down on the previous year. On the 10 largest markets, the highest increases in sales were in Germany, the Czech Republic, Romania, Poland, and Slovenia. After several years of continual growth the economic conditions led sales to fall on two of the main eastern European markets, the Russian Federation and Ukraine. On other markets sales increased most in Slovakia, Bosnia and Herzegovina and Albania and on several smaller markets.

SELF-MEDICATION PRODUCT SALES ON THE 5 LARGEST MARKETS



SELF-MEDICATION PRODUCT SALES BY THERAPEUTIC GROUP IN 2009



Marketing and sales activities focused on the key brands for colds and coughs (Septolete), herbal medicines (Bilobil, Herbion), vitamin and mineral products (Duovit, Pikovit), and analgesics (Nalgesin S).

The sore throat products under the **Septolete** brand were among the market leaders on the markets of Slovenia, Croatia, Poland and the Czech Republic with market shares of up to 25%. In 2009 they appeared on most markets in a new, easier-to-recognise packaging, which won a prize in Croatia. Modern media were used in the marketing campaigns. Particularly important are **Septolete plus** with the strongest effect, and **Septolete with fruit flavours**, which won an award in the Czech Republic.

The **Bilobil** (ginkgo biloba) brand is consolidating its position as a natural product for memory and concentration. It is the leading ginkgo biloba product in Slovenia and Romania and with market shares between 15 and 30% is also a leading product in the Russian Federation, Ukraine and Poland. The brand is keeping pace with trends in the ginkgo category, and expanding to new higher strength products and new combinations. A new product for 2009 **Bilobil Intense** allows people to gain the maximum daily dosage with just two capsules per day. The product **Bilobil Aktiv** (ginkgo biloba and ginseng combination) has made the brand younger, as it is aimed at the active working population to improve alertness and concentration in everyday activities.

Key brands: Septolete, Bilobil, Duovit, Pikovit, Herbion and Nalgesin S.

Vitamin-mineral products are united under two well-established brands: **Duovit** for adults, and **Pikovit** for children. The product with the longest tradition in this product range, **Duovit**, continued its success in 2009, while the most important products in the newer generation were **Duovit for men** and **Duovit for women**, which are selling well on all key markets. The **Pikovit** brand offers vitamin and vitamin-mineral products for children up to the age of 14 in various pharmaceutical forms. It enjoys the trust and support of top professionals, as shown in official recommendations from the Union of Pediatricians in the Russian Federation, Ukraine and Romania, and won the product of the year award for best vitamin-mineral product for children in Uzbekistan. With market shares from 20 to 35% Pikovit is the market leader in the Russian Federation, Ukraine, Uzbekistan and Romania.

Pharmacists in the Russian Federation and Ukraine have given **Herbion** cough syrups a warm welcome, and frequently recommend them to their patients; in their opinion they are the first choice cough medicine. Herbion products are the right solution for both dry and productive coughs.

The most important analgesic is **Nalgesin S** (naproxen sodium), which provides rapid and effective pain relief.

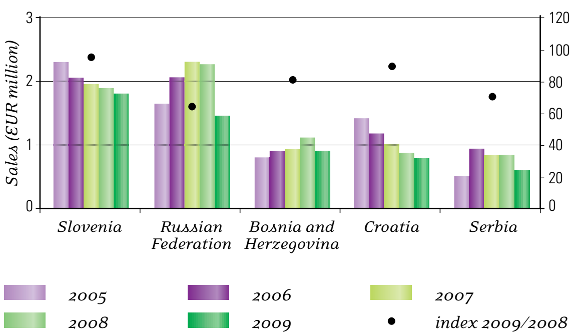
Cosmetic products

The Krka Group sold cosmetics worth EUR 7.3 million in 2009, which is 27% less than in 2008. There was a significant fall in sales in eastern and south-eastern Europe in particular.

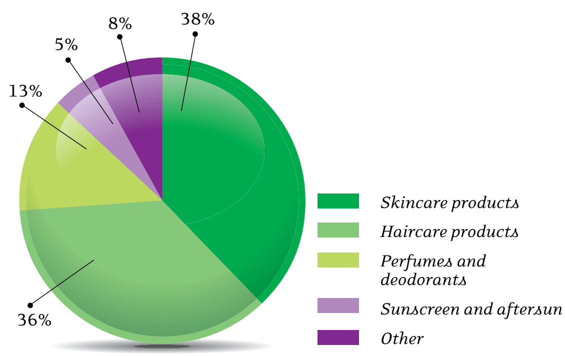
The key cosmetics brand is Fitoval. This range of products for hair and scalp care is offered in three product groups targeting the most frequent hair and scalp problems: damaged hair, hair loss and dandruff.

Haircare is becoming the most important area for cosmetics.

COSMETICS SALES ON 5 LARGEST MARKETS



COSMETICS SALES BY GROUP IN 2009

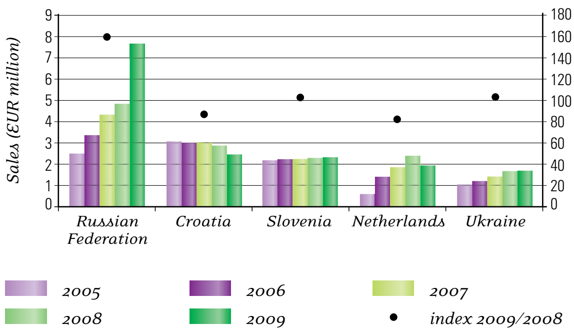


Animal health products

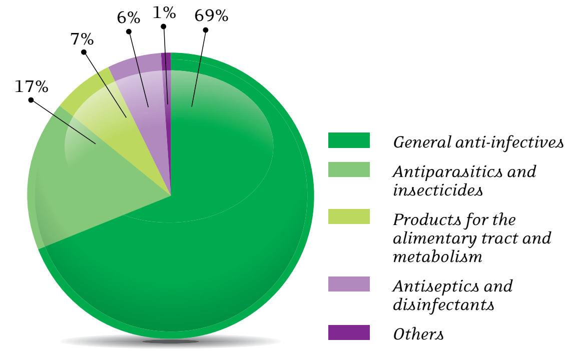
The highest growth was in western Europe (Germany, France) and in the Russian Federation.

In 2009 the Krka Group sold animal health products worth EUR 27.8 million, which was 11% more than in 2008. Sales increased most in Germany, France, the Russian Federation and Romania, which are all in the top 10 markets, as well as on smaller markets.

ANIMAL HEALTH PRODUCT SALES ON 5 LARGEST MARKETS



ANIMAL HEALTH PRODUCT SALES BY THERAPEUTIC GROUP IN 2009



Enroxil/Enrox (enrofloxacin) is the leading product in our animal health range. The new products, **Enroxil Max** for single dosage and **Enroxil flavour** in flavoured tablet form have consolidated our position as the leading producer of generic enrofloxacin.

Anti-infectives are the most important group.

The second most important product is the antimicrobial pharmaceutical **Floron/Fenflor** (florfenicol). On traditional markets it has remained the leading florfenicol, and sales on western European markets start well.

Kokcisan (salinomycin) is Krka's most important coccidiostatic. Its efficacy has been confirmed by independent institutions in Germany, the UK and Spain, and in practice, and it is now used in over 30 countries around the world.

Ecocid S/Oxicid S is a disinfectant with a balanced formula that is one of the leading disinfectants in the world. It meets the needs of users wanting an effective, environmentally friendly and high-quality product for use in biological safety programmes. Its effectiveness has been confirmed using the latest methods, compliant with EU standards.

Health and tourism services

In 2009 the Terme Krka Group generated revenues of EUR 33.2 million from its business units, Šmarješke Toplice, Dolenjske Toplice, Strunjan, Novo mesto and Otočec, which is 2.1% more than in 2008. The largest source of revenue by type (33%) was overnight accommodation. A total of 344,488 overnight stays generated EUR 11.4 million, growth of 3%, which we assess as a success given conditions in the tourist sector in 2009. The leading business unit was Talaso Strunjan with EUR 10.2 million and 8% growth, followed by Terme Dolenjske Toplice, which achieved growth of 5%.

Domestic guest visits increased by 2% and constituted 70% of total overnight stays in 2009. Italians, Austrians, Russians and Germans were the most frequent foreign guests. The highest annual occupancy rate (88%) was achieved by the Strunjan business unit, while Šmarješke Toplice achieved 72%. With its new Balnea hotel, the Dolenjske Toplice spa complex won a Planeta GV award as the most impressive location for a business event, while in a Tourist Association of Slovenia campaign it was voted as the most attractive spa in the smaller spa category and the Balnea Wellness Centre was recognised as the best wellness or relaxation centre in Slovenia. At the end of 2009 Otočec Castle became a member of the prestigious association of luxury hotels and restaurants, Relais & Châteaux, joining an elite of 475 top-quality destinations around the world.

Research and development

The basic objective of Krka's research and development remains the development of generic active substances and pharmaceutical forms and the technologies required to produce and evaluate them. Research on innovative technology and production and evaluation methods form the basis for developing generic products that offer added value. Ensuring the compliance of development procedures, data and documentation with regulatory requirements is essential to securing marketing authorisation for prescription pharmaceuticals, self-medication products, animal health products and cosmetics. Getting a new product to the market on time is the result of creative and innovation procedures and, above all, teamwork from the research and development staff. Developing and gaining authorisation for products includes making the best use of development opportunities, and applying strategic understanding of Krka's portfolio of companies and the specific features of individual markets to open up new sales opportunities. Remaining competitive in future will continue to demand effective research and development, protecting our industrial property, rapid marketing authorisation and launching competitive new products.

Marketing authorisations

In 2009 we gained marketing authorisation for 21 new products in 40 dosage forms, and on various markets acquired 874 new marketing authorisations.

In 2009 Krka acquired marketing authorisations for 21 new products in 40 dosage forms and a total of 874 new marketing authorisations across a number of markets. The marketing authorisations were achieved via a range of registration procedures in 58 countries.

Forty-four procedures were carried out for 18 products in various dosage forms via the most demanding European marketing authorisation procedures: centralised procedures (CPs), decentralised procedures (DPs), and mutual recognition procedures (MRPs), which delivered 1204 marketing authorisations.

Five demanding CPs were gained from the EMA.

Krka successfully concluded five complex CPs with the European Medicines Agency (EMA), which provides marketing authorisation for all 27 EU states. Other important achievements include the successfully completed CPs for two pharmaceuticals with the active substance **clopidogrel**. The marketing authorisations were also acquired via CP for **Nimvastid**, which includes the active substance **rivastigmine**, **repaglinide**, a medicine that balances blood-sugar levels, and Vizarsin, a generic version of **sildenafil**.

Marketing authorisations were acquired via DCPs and MRPs. We enhanced our sales opportunities in most EU countries by using these procedures to gain marketing authorisations for new pharmaceuticals and new dosage forms, and authorisations on new markets. A procedure was concluded for the antidepressant escitalopram, gaining marketing authorisations in 9 EU states, while marketing authorisation was acquired for atorvastatin in other western European countries.

New authorisations gained on the Russian market for 13 products in 40 forms, including the complex product Perineva in tablet form with the active substance perindopril, and Niperten in tablet form with bisoprolol.

A DCP was successfully concluded for two new combined medicines, **Doreta** and **Formagliben**. New European marketing authorisations for **Ezoleta** and **Co-cazaprol** were also significant.

It is vital to use optimal procedures within national and European legislation to ensure our work on marketing authorisations for pharmaceuticals is effective, and this includes making good use of experience gained in previous years, supplemented by innovative approaches. National procedures are also continually underway; these are important for supplying a good selection of new products in eastern and southeastern European countries. On the Russian market new marketing authorisations were acquired for 13 products in 40 dosage forms, and within the record quick time of one year gained authorisations for two products involving complex regulatory processes: **Perineva** in tablet form with the active substance **perindopril**, and **Niperten** in tablet form with the active substance bisoprolol.

In the self-medication sector Krka acquired marketing authorisations for 8 new products, which expanded the **Duovit** and **Septolete** brands.

Number of new marketing authorisations for the Krka Group by Region

	Slovenia		South-East Europe		East Europe		Central Europe	
	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms	No of products	No. of forms
2009	43	64	101	173	126	222	171	317
2008	29	49	113	241	177	284	93	215
2007	11	39	104	223	108	181	86	311
2006	23	36	114	234	97	152	84	210
2005	10	34	84	141	76	111	102	266

Protecting our know-how and intellectual property

Krka protects the results of its development work in key areas with patent applications. In 2009 Krka submitted patent applications for 19 new inventions, and 24 international patent applications on the basis of prioritised applications from 2008.

Our products are marketed under our own trademarks. In 2009 Krka registered 52 trademarks in Slovenia, and submitted 79 international applications, and 14 applications in individual countries.

Prescription pharmaceuticals

In 2009 we acquired marketing authorisations for 13 new prescription pharmaceuticals in 32 pharmaceutical forms.

The completion of CPs for two clopidogrel-based medicines was a major achievement – clopidogrel hydrogen-sulphate (Zyllt) and clopidogrel hydrochloride.

Marketing authorisation was acquired in all EU countries for **clopidogrel**, which is one of the world's bestselling pharmaceuticals and one of the most important anticoagulants, which is used to reduce blood clotting and hence incidence of strokes and heart attacks. Marketing authorisation was acquired for two pharmaceuticals based on clopidogrel: **clopidogrel hydrogen sulphate (Zyllt)**, and a pharmaceutical based on **clopidogrel hydrochloride** as an alternate salt.

Gaining marketing authorisation for the pharmaceutical **Nimvastid (rivastigmine)** expanded our range of products to treat diseases of the central nervous system. Nimvastid is used to treat Alzheimer's disease. It was registered in 2 pharmaceutical forms: capsules and orodispersible tablets. Krka is the only company to have successfully developed orodispersible tablets with rivastigmine. The new pharmaceutical form is user-friendly and represents a major breakthrough in pharmaceutical technology.

We are expanding our antidiabetic range, and have registered tablets with **repaglinide** in three strengths under the brand name **Enyglid**. Repaglinide is a new Krka pharmaceutical that balances blood sugar levels in diabetes patents. **Formagliben** contains a combination of two active substances, glibenclamide and metformin, which work reciprocally – **glibenclamide** promotes the release of insulin from the pancreas and **metformin** increases cell sensitivity to insulin.

Marketing authorisation has been successfully achieved for **Vizarsin** in every EU market. It is available as a film-coated tablet in three strengths and is a generic tablet with the active substance **sildenafil**. It works to counter erectile dysfunction and is used to treat impotence.

Marketing authorisation was acquired for a tablet form of the pharmaceutical **Doreta**, which alleviates moderate to severe pain. It is a fixed-dose combination of tramadol and paracetamol. The market permit was acquired in some EU states and Croatia. Krka's Doreta is the first generic product in this niche fixed-dose combination.

Ezoleta is the name of the new pharmaceutical with the active substance ezetimibe, which reduces blood fat levels by preventing the absorption of cholesterol. We acquired first marketing authorisations in 2009 in Slovenia and some EU countries.

Co-cazaprol is a pharmaceutical with **cilazapril** and **hydrochlorothiazide**, for which we have gained marketing authorisation in Croatia, the Czech Republic and Portugal. These have expanded the range of pharmaceuticals for the treatment of high blood pressure in patients for whom monotherapy is insufficient.

Niperten in tablet form with the active substance **bisoprolol**, for which we first gained marketing authorisation the Russian Federation is a new addition to the range of pharmaceuticals for the treatment of cardiovascular disease.

The **sartans** have been expanded with new pharmaceuticals and diversification of the current sartan range. A new marketing authorisation was acquired for an **olmesartan** with the name **Olimestra**, as a film-coated tablet in three strengths. Marketing authorisations have been gained for valsartan, a valsartan and hydrochlorothiazide combination, losartan, and a losartan and hydrochlorothiazide from the existing sartan range in most western European countries.

New marketing authorisations were acquired in western European states for two new strengths of **risperidone**, an anti-psychotic pharmaceutical in orodispersible tablet form.

In the proton pump inhibitor group, we achieved significant research and development results for the product in hard gelatine capsule form with the active substance **esomeprazole** and successfully managed a DCP procedure for marketing authorisation in some EU countries.

Number of marketing authorisations for prescription pharmaceuticals by Region

	Slovenia		South-East Europe		East Europe		Central Europe	
	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms
2009	22	43	71	140	73	158	148	292
2008	9	26	75	197	100	206	55	158
2007	8	36	68	176	65	127	79	304
2006	13	26	82	189	61	104	57	175
2005	8	30	60	110	55	84	87	243

Self-medication products

In 2009 we successfully concluded marketing authorisation procedures for 8 new self-medication products.

Marketing authorisations for new products expand the well established brands Duovit, Septolete and Pikovit.

The **Duovit** brand of vitamin-mineral products for adults has been developed with three new products. **Duovit Power**, in chewable tablet form, is a source of natural caffeine in a balanced combination of natural extracts and vitamins for additional energy and greater productivity. **Duovit for women 45+** and **Duovit for men 45+** in film-coated tablet form are products with a combination of vitamins and minerals specifically and differently adapted to the needs of men and women in this age group. They are also an important nutritional element, ensuring the body's balanced function.

The **Pikovit** range of vitamin-mineral products for children was developed in the nutritional supplement segment. We successfully concluded the notification procedure for new syrups, **Pikovit IQ/Pikovit Omega 3** and **Pikovit Balance/Pikovit Prebio**, in Ukraine and Kazakhstan.

New products were also added to the **Septolete** range in 2009. First marketing authorisations were acquired for **Septolete plus in lemon and honey** flavours. This new product in the Septolete line brings a new taste to the combination of the antiseptic active substance cetylpyridinium chloride and the local antiseptic benzocaine.

Notification was acquired for the **Septoaqua** nose spray **for children** and the **Septoaqua** nose spray **for adults**. These are medical products containing a sterile solution of mineral salts for elution, cleansing and moisturising of the nasal membranes.

Orsoslim/Orsofit capsules are a new product in the nutritional supplement category, marking the start of a product line to help people acquire a balanced body weight.

New European marketing authorisations have been acquired for our products with ginkgo and ginseng. The marketing opportunity for **Bilobil** was increased with marketing authorisation of **Bilobil Duo** in the Czech Republic and **Bilobil Intense 120 mg** on new markets: Slovenia, Hungary, Romania and Bulgaria.

The first notification was completed for the **Herbilex** syrup, a nutritional supplement containing Icelandic lichen extract intended to alleviate an irritating cough.

Number of marketing authorisations for self-medication products by Region

	Slovenia		South-East Europe		East Europe		Central Europe	
	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms
2009	10	10	22	22	33	43	21	23
2008	9	9	29	30	47	47	18	19
2007	2	2	32	43	34	39	4	4
2006	8	8	30	42	35	45	22	31
2005	2	4	24	31	15	19	15	23

Animal health products

The year was marked by an increased number of marketing authorisations for pharmaceuticals containing **enrofloxacin**, **colistin** and **florfenicol** on the markets of western, eastern and south-eastern Europe. Marketing authorisation was acquired in Ukraine and Croatia for **Enroxil Max** in injection solution form to treat respiratory infections. In Croatia the marketing authorisation was gained for use with cattle and extended for use with pigs. Marketing authorisation was also acquired in Croatia for **Enroxil flavour** tablets in 3 strengths. The product treats bacterial infections in cats and dogs. Marketing authorisation was gained for **colistin** in Macedonia and Kazakhstan. It is marketed under the brand name **Giraxa** as a powder for oral solution preparation to treat bacterial infections in farm animals. In the Russian Federation we acquired a marketing authorisation for **Floron** in injection solution form to treat infections in cattle. In Croatia, Kazakhstan and Moldova we acquired marketing authorisation for **Solvimin Se**, a vitamin-mineral powder for all farm animals. Marketing authorisation was acquired in Serbia for **Anemin**, an injection solution containing iron dextran, which prevents anemia in pigs.

Number of animal health product marketing authorisations by Region

	Slovenia		South-East Europe		East Europe		Central Europe	
	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms
2009	–	–	8	11	10	11	2	2
2008	3	6	6	11	13	14	20	38
2007	1	1	3	3	7	8	3	3
2006	2	2	2	3	2	3	4	4
2005	–	–	–	–	6	8	–	–

Cosmetic products

In 2009 we completed the development of 7 new sun protection products for the **Sun Mix** line in compliance with new legislative recommendations. We successfully concluded efficacy tests, and acquired a market permit in Slovenia, meeting the latest criteria for the quality, safety and efficacy of skin protection products.

Health and tourism services

This year was the first year of operation for the new hotel Balnea**** Superior at Terme Dolenjske Toplice, which took its name from the popular Balnea wellness centre. A whole series of new programmes was developed using attested therapeutic methods, especially reflexotherapy and acupuncture. At the end of 2009 a new cosmetic surgery clinic started operating at this renowned Slovenian spa complex, using minimally-invasive rejuvenation techniques that quickly and effectively assist in providing a fresher and younger look.

In 2009 considerable funds were again dedicated to developing the medical rehabilitation programmes and equipment for diagnostics and treatment, supporting our objective of maintaining our market share in the Slovenian health resort sector.

The most important investment at Terme Krka in 2009 was the extension of the Otočec golf course. Since June 2009 it has had 18 holes on a course spread over 70 hectares. It is one of the most attractive golf courses in this part of Europe, which has grown up in beautiful and slightly hilly terrain, enclosed by the Dolenjska forest. The investment was co-financed by the European Regional Development Fund, which contributed EUR 0.5 million.

Product supply

The supply chain, which includes production of active substances (APIs) and finished products, laboratory quality control, purchasing, production planning, managing production capacity at home and abroad, managing technologies and documentation throughout the product life cycle, storage and transport, successfully meets its objectives of fulfilling sales requirements and ensuring high quality, competitively priced products. Supply processes integrate, optimise and strengthen integration between companies in the Group and other production sites and other business functions. We optimise our response to market requirements and reduce costs. We ensure provision of several production sites and purchasing sources for active substances and other materials for strategic products.

> We successfully manage the supply chain in terms of fulfilling sales requirements and ensuring high quality, competitively priced products.

We support products launched on key markets by ensuring the flexibility and cost efficiency of our technologies. We also coordinate intermediate product and packaging technology transfer in Krka plants and Slovenia and abroad. In 2009 we improved our responsiveness in solving technology issues. Introducing alternative sources of active substances and new packaging for strategic products to regular production in coordination with all business functions has become regular practice, which has resulted in a validated technological production procedure. Updating of the production section of regulatory documentation is included in life cycle processes.

We can directly influence the optimisation of packaging processes and reduce packaging costs by managing packaging technology and defining secondary packaging. We continually study market requirements for new packaging technologies and adapt the technological capability of equipment accordingly. Process optimisation includes putting in place the technological bases for our work, such as packaging plans, technological procedures, bills of materials, etc. required before production starts, ensuring a rapid response to the specific needs of the market and product compliance, which are manufactured with the applicable regulatory status.

> The Logistics Centre forms a link between sales, purchasing, production, quality control, and other supply chain functions.

We efficiently maintain most of the master data for planning and implementing production within the SAP business information system, and the PAS production information system (material master data, validity statuses, bills of materials, resources, technological phases, etc.). This creates the conditions required for uninterrupted planning of materials and capacity, production management, and ongoing creation of e-records.

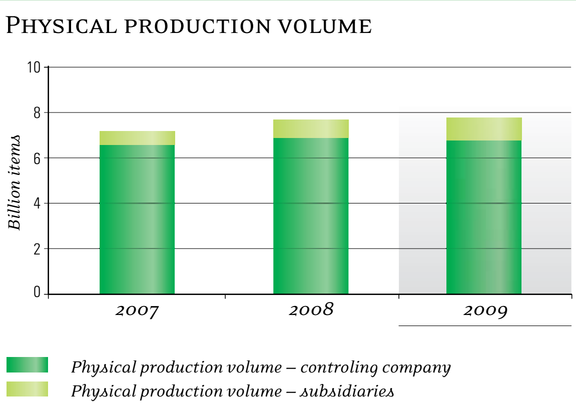
A major step forward was taken in the production documentation area, with the implementation of an electronic documentation system (paperless production), which was an exceptionally demanding project in a sector as strictly regulated as the pharmaceutical industry. The new system significantly reduces the time from finishing production to batch release to market. Transparency and document access speed have improved, paper archiving and distribution costs have been reduced, while accessing technological data for further optimisation has been made easier.

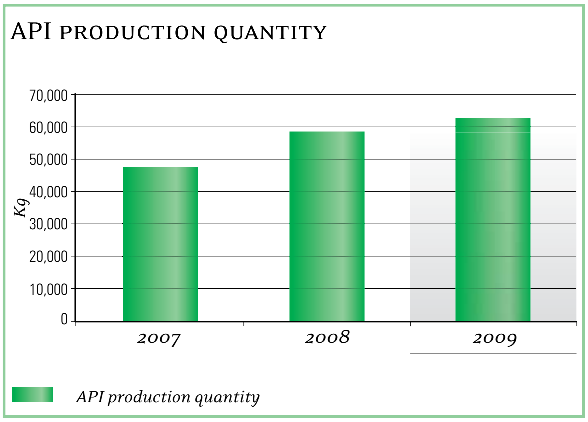
The Suppy Chain provides the link between sales, purchasing, production, quality control and other supply chain functions. Its key task is planning production in accordance with sales forecasts to ensure that we supply the required product quantities with the prescribed content and on time. At the same time it is vital to achieve optimal utilisation of production capacity. The number and variety of products are continually increasing, with new production capacity being continually brought online in Krka plants in Slovenia and subsidiaries abroad. Production planning and monitoring is therefore increasing in complexity, which has necessitated the use of an APO (Advanced Planning and Optimisation) information system, which has already been introduced in Slovenia and the Russian Federation, and is next planned for Croatia and Poland.

> The Bršljin plant reconstruction included a modern, new herbal-extract syrup plant, doubling syrup production capacity.

We organise adequate production capacity to reduce capacity risk through the continual renovation, expansion and upgrading of our own chemical API production capacity and finished products and through contracted production with partners, whose resources and knowledge contribute to meeting our sales orders.

The reconstruction works at the Bršljin plant included the building of a modern, new plant for syrup production, which more than doubled production capacity of extract-based syrups. At the same time a separate facility was organised to provide all the conditions required to produce new liquid and powder biocides for use in animal health care. We increased capacity for injection solution packaging, and tablet, capsule, pellet and pastille production, and the new Sinteza 4 production line for API production has already started up.





We are introducing TPM (Total Productive Maintenance) principles to production, and are developing the qualifications of our package preassembly and intermediate product production operators, and improving production processes to maximise production equipment utilisation and achieve the best possible batch production efficiency rate.

The technical availability of machinery and equipment is provided in production strands. Machinery and equipment is being maintained, its condition is monitored and safe operation ensured on the basis of planned and preventive maintenance. We are preparing technical production development, keeping up-to-date with innovations, and participating in the start-up and commissioning of new technological equipment.

We fully participate in the investment function within preparation of the annual economic plan for investment projects, investment maintenance and purchasing fixed assets in line with the company's development strategy.

We have passed increasing numbers of inspections and assessments by regulatory bodies and business partners.

Another important part of Product Supply is purchasing. The basic purpose is the timely supply of materials, equipment and services in line with the company's own quality standards. Managing and continually optimising purchasing costs is a major issue at present. We are developing a partnership strategy with suppliers, and we notify key suppliers of our development plans and provide training for them. From our suppliers we expect quality, conformity with specifications, long-term supply reliability, a development focus and a readiness to engage in cost reduction. All suppliers are part of our approval and qualification system and the regular quality audit system. We prioritise direct purchasing from producers, but we want to increase the number of approved suppliers. We continually monitor local and global material suppliers to achieve the most cost-effective products possible.

In laboratory quality controls we test the quality and compliance with pharmaceutical standards of input materials, intermediate products and finished pharmaceutical products for human and animal use, and self-medication products. Testing is used to control and guarantee the right quality level of products and materials and the production environment in all production locations. Optimal analysis response times are a vital component of the flow time for realising sales orders and effective analysis support during technology improvement processes therefore will remain a key objective in future.

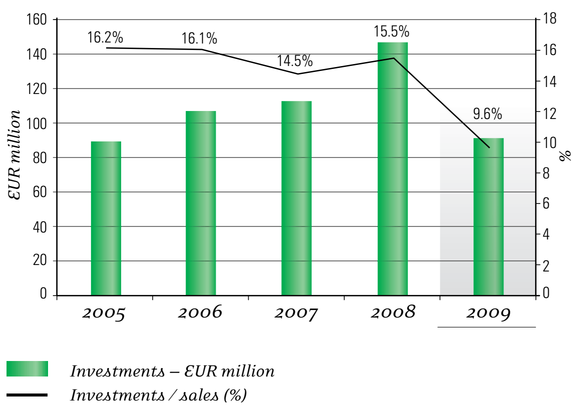
We also pursue the principles of quality, flexibility and responsiveness in warehousing and product distribution to customers. We have introduced scheduled supplies for our major suppliers, reducing handover time and increasing goods flow, while maintaining a high quality of work. We have also acquired the status of authorised economic operator for customs clearance. We also carried out a comprehensive renovation and upgrade of warehouse capacity at Gotna vas, which has facilities for secondary packaging and conditions for herbal drug warehousing. The reorganisation of security and entry control measures has significantly improved the operational security level of the hazardous substance warehouse. We are continuing with the modernisation of warehouse information support, which will provide integrated support for ordering and issuing goods via the SAP system, and improve the quality of these operations.

Investments

Investment spending in 2009 was adapted to the global economic crisis.

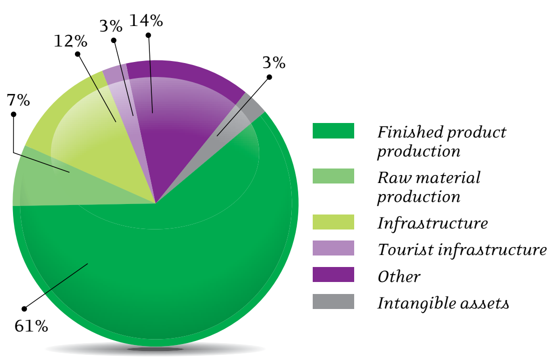
During 2009 the Krka Group's investments totalled EUR 91.5 million, with EUR 82.3 million invested by the controlling company, and EUR 9.2 million by subsidiaries. The global financial crisis and uncertain business conditions led to the pace of some projects being slowed down, with fewer funds being allocated than originally planned.

KRKA GROUP INVESTMENTS 2005–2009



Over half of all investment in 2009 was allocated to increasing production capacity for finished products.

STRUCTURE OF THE KRKA GROUP'S INVESTMENT SPENDING IN 2009



New capacity and technologies in 2009

In March 2009 work was completed on line 5 of Sinteza 4 and a permit for test operations was acquired. The additional line was needed to produce increasing quantities of new APIs, and cost EUR 11.2 million. Extraction line II at Sinteza introduced new technology for the production of oils for hydrogenation. Work on the line was completed by the end of September and a permit for test operations was acquired. The preparation and equipping of facilities for a pellet coating and granulate production line ensured an increase in production capacity and the conditions required for the timely launch of capsules to new markets.

Warehouse capacity was expanded at the Gotna vas site. A low-bay warehouse was constructed and a manual secondary packaging line.

The Bršljin investment will increase the plant's production capacity and optimise material flows. In 2008 we constructed the separate biocide production facility and in 2009 a modern syrup production plant. The purchase and installation of an additional line has eliminated a bottleneck and increased ampoule filling, checking and packaging capacity. The planning of new products in spray form led to the start, in September, of renovation works at the production facilities to ensure the required cleanliness and explosion-proofing standards.

Two major construction projects start

In June 2009 construction of a plant for production of solid pharmaceutical forms started at the Ločna site, with a capacity of 2.5 billion capsules, tablets or coated tablets per year. The facility will have five floors with a total surface area of 17,000 m² and by the end of the year the steel building core had already been erected. Currently the largest Krka investment, with an anticipated value of EUR 94 million, is scheduled for completion in mid-2011.

Solid dosage pharmaceutical plant is currently the biggest investment.

In autumn 2009 we started construction of the new RKC3-Development and Control Centre, with a total surface area of 13,000 m². The facility is being constructed for research and development and control purposes and will include state-of-the-art laboratory equipment. The value of the investment is assessed at EUR 21.6 million.

New projects

The new projects that will define the next five years, modernising or constructing new production capacity, R&D laboratories and infrastructure to ensure uninterrupted production processes are already in the conceptual and planning stages.

For 2010 we are planning the preparation of project documentation for construction of Notol 2, a new solid oral pharmaceutical dosage production plant, and construction of new Sinteza 1 API production capacities at the Krško site. This site will also require construction of all the normal energy and infrastructure for production.

Planning for Notol 2 will start in 2010.

Abroad

Increased production needs in Poland led to the replacement of a packaging line with a new, higher capacity model. The line started operating in 2009.

In 2009 intense preparatory work went on for the construction of additional production capacity in the Russian Federation with a logistics centre and a new factory for solid dosage pharmaceutical production to be built at our Istra site. The design concept of the new factory permits flexible and modular construction of production capacity over several phases. In phase one, six packaging lines are planned with an annual capacity of 1.5 billion tablets and capsules.

We will construct a new factory in the Russian Federation.

Terme Krka

June 2009 saw the reopening of the extended Otočec golf course, with a new irrigation system, and an additional nine holes making it a full 18-hole course. The total value of the investment was EUR 2 million, and was co-financed with a grant from the European Regional Development Fund (ERDF).

The spa and swimming pool areas are undergoing renovation at Terme Krka in Strunjan and hotel capacity increased with an overall investment value of EUR 7 million. The renovation works will be finished in the first half of 2010.

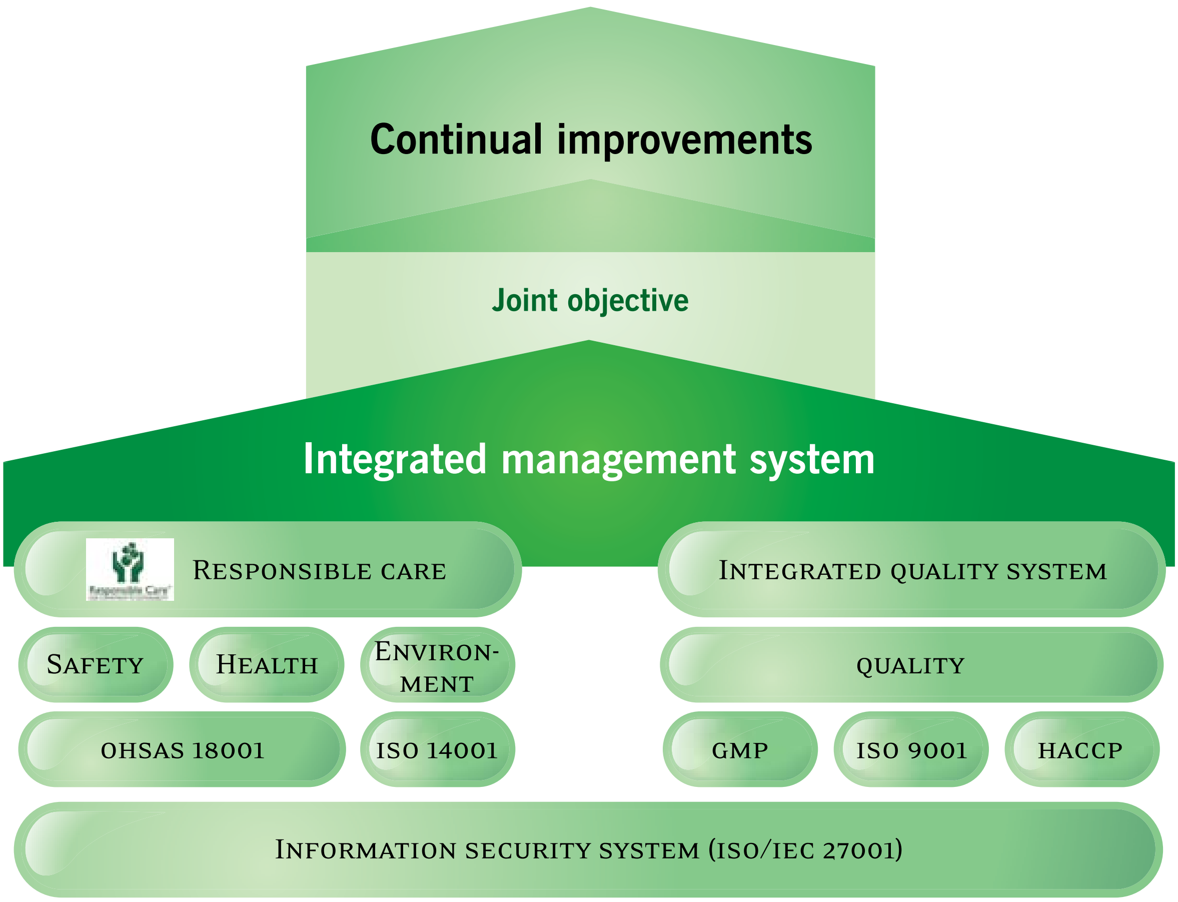
Integrated management system

The quality of products and services and continual improvement of key processes is an important Krka strategy. Krka's systematic approach is intended to ensure it exceeds customer requirements and achieves its operating objectives.

Management system

The IMS supports standardised, efficient and effective management of different systems.

The integrated management system (IMS) brings various aspects of operations (quality, the environment, health and safety at work, foodstuffs safety, and information security) into a single management system, which is intended to achieve the optimal operating objectives. It is described in full in Krka's Quality Manual. The IMS structure is based on the ISO 9001 standard, which has been upgraded and broadened by a number of other standards and principles: GxP, HACCP, ISO 14001, OHSAS 18001, and ISO/IEC 27001. The excellent performance of the IMS is supported by a centralised document management system, which is also being continually improved. We are gradually migrating from paper to electronic document management. The advantages electronic document management offers include reduced costs, reduced time from document production to application, easier access, faster document search, and only electronic documents being valid. To ensure the credibility of the IMS and consolidate the trust of our partners we undergo regular certification by independent external institutions (SIQ – Slovenian Institute of Quality and Metrology) and through regular testing by Slovenian and foreign inspectors from health agencies demonstrate our compliance with regulatory and legal requirements (good practices, GxP).



The driving force behind the progress and continual improvement of quality in every area of Krka operations comes from the ongoing changes and advances dictated by the standards and guidelines and the PDCA approach (Plan, Do, Check, Act) on the one hand, and Krka's commitment to such standards on the other. The process management system covers every step from customer requirements via marketing, research and development, product supply and sales, to the monitoring of customer satisfaction.

Quality system

The Krka system's compliance with the standards is reviewed and confirmed in regular inspections by domestic and foreign state regulatory bodies, and assessed by certification organisations.

- Inspectors from the Agency for Medicinal Products and Medical Devices of the Republic of Slovenia (JAZMP) carried out regular follow-up inspections on the quality management system, warehouses, production plants and quality control laboratories and confirmed our compliance with GxP requirements valid in the EU, which form the basis for re-issuing the GMP certificate and pharmaceutical manufacturing licence.

The IMS demonstrates Krka's approach to quality, environment, health and safety at work, and information security.Good results confirm the efficiency and effectiveness of the IMS.

- Our subsidiaries outside the EU (Krka-Farma Jastrebarsko and Krka-Rus) successfully underwent a JAZMP inspection and acquired an EU GMP certificate, which permits the production of pharmaceuticals for the EU area.

- Regular inspections for permission to start or continue operations on Krka's markets outside the EU are carried out by other medical agencies. All these inspections have been passed and the inspectors have confirmed our compliance with regulatory requirements for production. In some countries (e.g. Belarus, Russian Federation and Ukraine), Krka has special status as a high-quality pharmaceutical producer, meaning quality control on import is limited to three quality parameters, which reduces import costs and significantly accelerates the access of finished product batches to market.

- The Veterinary Administration of the Republic of Slovenia has inspected Krka as a wholesaler for pharmaceuticals for animal consumption. During the regular annual inspection, it also inspects Krka's safety and quality assurance system for products for animal consumption on the basis of Krka's status as a feed business operator. Inspectors found no cases of non-compliance.

- Internal audits verified that the safety and quality assurance system for foodstuffs and food (HACCP) was functioning correctly, which was confirmed by the regular annual inspection by SIQ. The Health Inspectorate of the Republic of Slovenia verified the HACCP system with regular inspections of mass catering facilities.

- The information security management system (ISMS), which is ISO/IEC 27001 certified, was upgraded in 2009, in accordance with the Slovenian Act on the Protection of Documentary and Archive Material and Archives, with the creation of the Krka Internal Rules on Archiving Documentary Material. Particular attention was paid to sharing and applying the ISMS system in our subsidiaries and representative offices abroad.

We are upgrading business continuity measures into an integrated business continuity management system in line with the BS25999 standard.

- In October 2009 Krka underwent an Integrated Management System (IMS) quality audit for the 14th successive year. A team of nine assessors from the Slovenian Institute of Quality and Metrology (SIQ) spent two days assessing the functioning of several systems simultaneously, which were produced on the basis of five different standards (ISO 9001, ISO 14001, HACCP, OHSAS 18001 and ISO/IEC 27001). No cases of non-compliance were found.

The IMS and quality management system undergo continual improvement, which was reflected in changes to the Quality Manual and related documents. Work was stepped up on procedures with a major impact on product and service quality.

Krka quality systems, particularly GxP, are regularly checked by our partners, for whom we develop and manufacture quality products.

The Krka management system is also subject to internal auditing. The management systems of suppliers and contracted partners are also assessed to ensure their product and process quality management remains at a high quality, with a focus on the areas with key impact on finished product quality. To this end we evaluate individual suppliers/partners and take measures required to reduce product quality risk to an acceptable level. We have a clear overview of the quality systems of our suppliers and contractual partners and define transparent client requirements and responsibilities within quality assurance contracts that form an integral part of our raw material and product production process, which together enables us to optimise work processes and reduce time and costs.

Customer satisfaction with our products and services is a key objective of the IMS, along with operational and performance support.

The management system is measured directly by means of customer satisfaction surveys and indirectly via customer complaint indicators. We regularly monitor indicators in this field and complaint management response times in order to introduce improvements. We also measure customer satisfaction via our partners' satisfaction with our services, support in preparing quality assurance contracts, annual quality audits and coordinated activities linked to product realisation within quality assurance at contractual partners. Finally, customer satisfaction is also seen in the successful assessments of production compliance with GxP and marketing authorisation requirements.

The performance of all major IMS processes is also periodically reviewed by the Quality Committee on the basis of performance criteria. The committee proposes the strategy for further development of these processes.

Krka also places special focus on the environment, and occupational health and safety (ISO 14001, OHSAS 18001) as well as open and honest public relations. We regularly inform the public about the improvements we introduce. The proof that our approach is successful and correct is our right to use the Responsible Care logo, which we attain each year.

CONDITIONING

Sustainable development

We have to invest in ourselves and all those heading for the summit with us.
To function well on the path, we must sense the environment around us. Understand it.
And give back everything the path has rewarded us with. Only in that way can we head for success and hope to achieve it in future.

Employees

Key data

Number of employees: 7975, of which 53% in Slovenia: 3563 in the Krka Company and 679 in Terme Krka

Average age: 38 years

Percentage of female employees: 62%

Percentage of employees with at least university qualification: 51%

In 2009 the number of employees in the Krka Group increased by 373, and by 181 in the Krka Company in Slovenia

At Krka, employees are the builders of success. Krka invests in the development of its specialist and management staff. Through our study grant policy and support for employees gaining higher education qualifications we provide employees with development, education and training. Taking care of health and safety at work, social security and quality of life are also extremely important.

We invest in employee development.

We want capable and committed people on our team, whom we can offer interesting work in an international environment and an opportunity to develop and advance in business, professional and personal spheres.

Together at Krka we are building a culture of mutual trust, respect, collaboration and teamwork, involving lifelong learning and responsible and effective work. We develop honest relations with all partners. Respect for legal norms and rules and an ethical approach to other people and the wider social environment form the very basis of our work. Our Human Resource Management Code also commits us to respect for ethical and professional standards of work, conduct and behaviour. This requires managers, human resource staff and all other Krka employees to work in line with agreed principles of HR management, with specific emphasis on respect for personal integrity and human dignity, equal treatment and respect for diversity, the protection of personal data, transparency and respect for the right to information and working in line with the Krka values.

We offer interesting work in an international environment.

The many prizes and awards Krka has been granted are the result of systematic work in the human resource sphere involving the corporate leadership, managers, specialist services and other partners. In Slovenia in 2009 Krka won the Top-10 award for investment and successful work in the education field, was a finalist in the Golden Thread awards, and gained an award for exemplary human resource management from the Dolenjska and Bela Krajina Chamber of Commerce and Industry.

The growth of the company and market expansion has led to a high rate of recruitment. A total of 3733 employees already work in companies and representative offices outside Slovenia, which is 47% of all employees in the Krka Group. Employment growth in subsidiaries and representative offices abroad is highest in marketing and sales while in Slovenia it is also high in production.

Almost half our employees work outside Slovenia.

New specialists are also found via study grant programmes. The Krka website has a permanent application section where university and school students can apply for study grants. In 2009 Krka had 109 students on study grants, primarily in pharmacy and chemistry. We also develop close relations with students who become familiar with Krka while doing internships or research for a thesis.

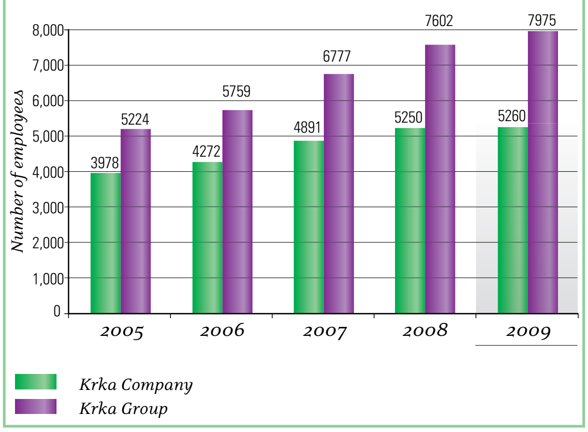
The need to identify and direct the most talented people early means we are also active in the wider social environment. The Krka Prizes are another means of encouraging young people to become involved in creative and research work. Over the past 39 years there have been 2283 Krka Prize winners. In 2009 Krka gave 5 prizes for special achievements in the field of research work, 29 prizes to students and high school pupils and 5 e-Krka Prizes.

Krka awards promote creative, research work.

Number of employees (on 31 December)

	2009	2008	2007	2006	2005	Index 2009/2008
Krka Company in Slovenia	3563	3380	3213	3016	2954	105
Krka Company representative offices outside Slovenia	1697	1870	1678	1256	1024	91
Krka Company	**5260**	**5250**	**4891**	**4272**	**3978**	**100**
Subsidiaries outside Slovenia	2036	1673	1240	857	620	122
Terme Krka Group	679	679	646	630	626	100
Krka Group	**7975**	**7602**	**6777**	**5759**	**5224**	**105**

Number of employees in the Krka Company and Group (on 31 December)



Educational structure

Intense investment in development, new capacity and complex technologies, and ensuring competitiveness on global markets all requires highly qualified specialists in all areas. The proportion of staff with a university level qualification is continually increasing and in the Krka Group in 2009 was 51% of all employees. At the end of 2009 the Krka Group had 4027 employees with at least a first university degree. This includes 82 people with doctorates and 215 with master's degrees and specialisations.

Highly educated and qualified employees.

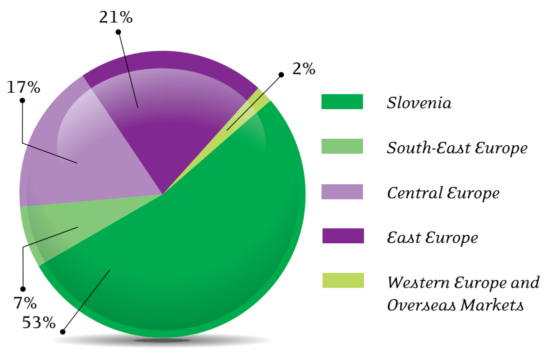
Education structure

Education structure on 31 December	2009	2008	2007	2006	2005
Doctorate	82	76	81	63	51
Master of science	215	178	161	162	153
University education	3730	3604	2875	2408	2018
Higher professional education	698	596	619	324	221
Vocational college education	240	225	201	222	206
Secondary school education	1599	1503	1404	1138	1104
Other	1411	1420	1436	1442	1471
TOTAL Krka Group	**7975**	**7602**	**6777**	**5759**	**5224**

Employee structure by region abroad

Region	31 Dec 2009	31 Dec 2008
South-East Europe	546	511
Central Europe	1332	1264
East Europe	1647	1571
West Europe and Overseas Markets	208	197
TOTAL for companies and representative offices abroad	**3733**	**3543**

EMPLOYEE STRUCTURE BY REGION



Employee education and development

Continuous learning is a Krka value.

We can only face the challenges of modern life and global competition, if we have skilled and qualified employees and by ensuring continuity in key functions and areas within the company, so the Krka Group invests significantly in the knowledge and development of all its employees. The company's needs are linked to the development of the individual potential and talent of employees, who we prepare for more complex and responsible tasks via a system of planned development, education, skills trainings and acquiring education in numerous areas.

In 2009, 894 or 11.6% of employees were included in the key and promising staff selection, including 353 foreign staff. Considerable emphasis is placed on identifying potential and employee development in companies and representative offices abroad, since this increases the talent pool, achieving multicultural synergy and an even better performance in the international environment.

Systematic early identification of promising employees.

A matrix assessment of the key and promising staff selection was used to create a group of 103 top employees with the most outstanding results and definite management or expert potential.

The Krka appraisal interview is another important tool of effective leadership and employee development. Managers and employees use the interviews to define objectives, agree on priorities and expectations relating to work and employee development, and on that basis plan the employee's continued training. To date 57% of employees have been included in the appraisal interview system, and this is gradually being expanded to include all employees.

We are building a competence system for various work areas that are used to determine requirements for knowledge development and updating, and the development of employee skills. On this basis we create education and training programmes and develop evaluation methods. The requirements defined from the competence system process are backed by strategies arising from regular measurements of organisational climate.

Krka has its own leadership school, which offers three programmes adapted to different levels of leadership: Krka International Management School, Operational Leadership School, and a basic level leadership programme. The international school also provides an internal programme to develop specialists with an emphasis on the development of communication skills, team and project work and personal development. Acquiring knowledge in the fields of leadership and management also takes place at well-known business schools.

Continual employee training enables professional and personal development and career advancement. Krka employees also continue their studies at universities, institutes and other institutions at home and abroad, with 95 staff members currently enrolled in postgraduate studies for masters' or doctoral degrees or specialisation programmes. In 2009, 555 Krka employees were studying part-time. The company supports them by co-financing school fees and offering study leave.

Most education and training is organised and implemented in the Company's training and development department. This involves numerous Krka specialists from a range of different fields. A team of over 60 internal trainers is responsible for ensuring the marketing and sales employees have all the skills and knowledge they need.

We develop our own training programmes.

Krka was one of the first companies in Slovenia to develop programmes for the national vocational qualifications (NVQs). Krka is the only provider in the country offering six NVQ programmes for the pharmaceutical industry, not only for Krka's employees but also for employees from pharmacies and other pharmaceutical companies. In 2009 we awarded certificates to 114 Krka employees. In total we have awarded 620 certificates since 2004, including 142 to participants from pharmacies and other pharmaceutical companies.

Continual training and education takes place in various specialist fields, leadership and personal development, using modern information technology, and quality, while foreign language learning is also widespread, particularly English and Russian. Traditional forms of education are supplemented by e-learning, which is becoming very important, as it allows us to reach employees in quite distant parts of the world. The content and forms of education match Krka's values, particularly efficiency, flexibility, partnership and creativity.

Our training programmes and working methods are imbued with Krka values.

Every employee in the Krka Group participated in more than four forms of training in 2009. On average they spent 38 hours in training. Education spending is equivalent to 0.66% of operating revenues.

Employee motivation and reward scheme

Employees in the Krka Company in Slovenia are included in a scheme rewarding individuals for particularly successful work. A performance bonus is also paid out to employees twice a year based on performance criteria defined in the annual business plan.

Local legislation is taken into account, in addition to the policies of the Krka Management Board, when organising incentive payments in companies and representative offices abroad. All employees abroad are entitled to anniversary bonuses and annual leave allowance, and are included in an individual performance scheme. Marketing and sales employees have a bonus system directly related to the result they achieve.

Since 1999 Marketing and Sales have selected and rewarded the best specialist staff in the field, with the selection later being expanded to include field managers, product managers, internal trainers and heads of marketing. In 2005 Research and Development joined the system by selecting employees of the year in the field of marketing authorisation acquisition. The same year, a scheme was introduced to reward the best employees and managers at the organisational unit and overall Group levels. For decades Krka has been recognising the efforts of its most loyal employees with anniversary bonuses and special awards. The ceremony at which we celebrate and recognise these achievements is known as the Krka Awards Day.

We encourage commitment and loyality, and reward excellence.

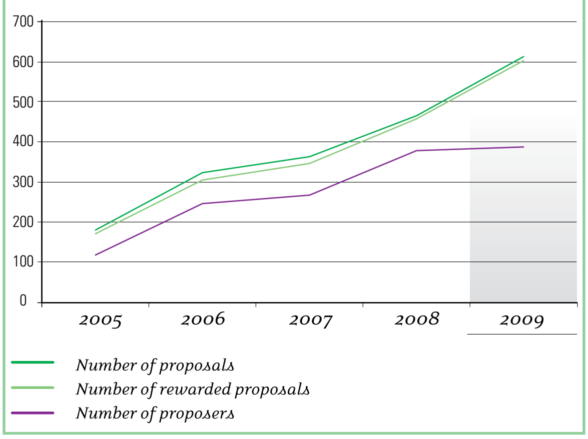
Encouraging inventive work

Krka's inventive work system allows every employee to propose innovations and improvements either spontaneously or as part of a specific campaign. The company leadership plays a very special role in this, being responsible for creating a positive atmosphere and encouraging employees to engage in innovative thinking, as well as implementing and rewarding their proposals. The inventive work system is incorporated into the continual improvement system, the quality system and hence is part of the integrated management system.

Number of proposers and useful proposals increasing.

Employees make a major contribution to reducing costs and improving work processes with their suggestions. In addition to the awards employees receive for each innovative suggestion, and awards for improvements based on calculated or estimated savings, innovation is also rewarded via other forms of incentive. Selected proposers receive special awards at the Krka Awards Day and every quarter a proposer receives a practical prize. Once a year, a meeting is organised for all proposers, and for New Year the President of the Management Board thanks all proposers for their suggestions and also gives them a practical gift.

NUMBER OF PROPOSALS AND PROPOSERS



In 2009 the number of proposals increased by 32% compared to 2008, and the number of proposers by 2%. More and more employees from a range of organisational units are being included in inventive work system.

Health and safety at work

Krka provides a safe working environment for its employees. The latest developments in occupational health and safety and fire prevention are incorporated into every new project and technology. The risk of accident and potential health implications is monitored for every work position and technology. Risk is assessed periodically, and action is taken to reduce risks to acceptable levels to ensure continual long-term improvements in working conditions. The most recent evaluation of organisational climate indicated that employee satisfaction with working conditions had increased to 4.1 (scale of 1 to 5).

Team work on employee health produces results.

We have an employee healthcare system that involves the heads of individual organisational units, their personal doctor, doctors specialising in occupational health, and the Health and Safety at Work Service. The Works Council and both trade unions are also part of the system along with the specialist services.

The Interpersonal Relations and Sick Leave project has been running for some years now, and contributes to reducing sick leave. In fact sick leave has dropped significantly since Krka introduced the scheme in Slovenia, and in 2009 it totalled 5%. Sick leave within the Krka Group was 4.7%, and maternity leave 3.2%.

A total of 5.5% of employees has a registered disability. In accordance with legislation and regulations we work with them and a team of experts to find appropriate work that matches their occupational profile. Preventive measures are taken to ensure they do not suffer further restrictions due to their disabilities. In addition to preventive and curative healthcare for employees with disabilities, Krka ensures that their workposts are adapted to their occupational abilities. Krka also provides appropriate requalification for employees who can no longer perform their duties.

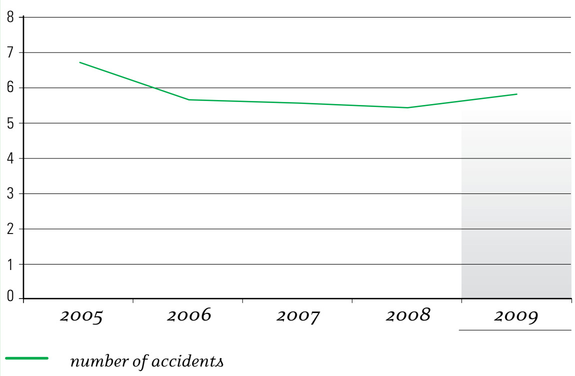
We are official partners of the European Agency for Safety and Health at Work.

The health and safety at work system is organised in accordance with the **BS OHSAS 18001:2007** standard. This area is incorporated into the integrated management system. Working groups for health and safety at work are found in each organisational unit, with each group including a certified health and safety officer. At the company level, there is a health and safety team that prepare key objectives and programmes that are submitted to the Management Board for approval. At the end of 2008 the Management Board approved the key objectives and programmes for the next two years.

In 2008 Krka joined a European risk assessment campaign in the field of health and safety at work entitled "Healthy Workplaces – Good for You. Good for Business". Due to our active participation in the campaign, in the first half of 2009 we acquired a **partnership certificate from the European Agency for Safety and Health at Work (EU-OSHA).**

Accident data is monitored continually. The LTAR (Lost Time Accident Rate) indicator in the graph below, which indicates the number of accidents in the workplace requiring three or more days of sick leave per million hours of work, stood at 5.8 in 2009. All accidents, except one, were minor.

Frequency of workplace accidents (LTAR)



No major incident, such as a fire or major spillage of hazardous chemicals occurred in 2009. The Fire Safety Department and the Industrial Fire Service Crew is responsible for emergency responses. In 2009 there were 13 exercises to increase emergency preparedness, one of which was a major exercise involving the Novo mesto Fire and Rescue Service. We demonstrated the possibility of an emergency actually occurring, and tested the coordination of the internal and external emergency teams, and the Krka first aid and medical teams.

We are well-prepared for emergencies.

Quality of life

For many years at Krka we have been focusing on and caring for our employees' quality of work and life. In all locations in which it is possible, we provide employees with high quality nutrition and warm meals. This also provides a good example and guide to employees about the importance of healthy food.

We offer advice to employees facing problems and even assist with one-off monetary assistance.

Health and good interpersonal relations at Krka are supported by organising preventive, recreational and social programmes and a wide range of cultural and sporting events. We offer employees preventive health recreation and spa treatment at the company's expense.

In 2009 we started a major project to improve health with a campaign called *Caring For Your Health – Together We Scale the Heights*, which is intended to encourage people to get moving and to tell them about the importance of a healthy lifestyle. Together with the Slovenian Mountaineering and Climbing Association we signposted and did maintenance work on 15 popular hiking routes around Slovenia. We organised hikes along five of the routes in 2009, and the other ten will be organised in 2010. Participation was very high, with over 500 on the two most recent hikes.

We offer quality of life for employees and Krka pensioners.

The Krka Trim Club organises weekly sporting activities in which over 850 employees take part. Krka has holiday accommodation, and offers employees discounts and the option of payment by instalment. The holiday accommodation is also available to retired Krka staff at discount rates. We also organise recreation for employees as a preventive health measure. Krka also helps resolve housing issues through housing loans and the possibility of renting Krka-owned flats.

Krka's Culture and Arts Society offers an art gallery, a choir, a drama club, and creative workshops as well as organising visits to events, enriching the quality of life for our employees.

Employee gatherings are an important part of Krka's corporate culture. Employees come together for Krka Day – a social and sports event for all employees, the Krka Awards Day, and New Year's events held by the various organisational units, as well as at other gatherings such as meetings for disabled staff, blood donors, volunteer firefighters, people involved in sports and others. Meetings have also long been organised for retired Krka employees as well.

Communications

Communications with investors

Business conditions in 2009 were difficult, which heightened the importance of rapid and high quality information provision to investors, and the need for flexibility in adapting communications to the changing economic circumstances.

Krka won award for most transparent public company for third successive year.

At Krka we are aware that high quality communications with investors and analysts strengthen the Krka business story and make a positive contribution to achieving the company's objectives. In 2009 we received the Ljubljana Stock Exchange award for the most transparent public company in Slovenia for the third consecutive year.

We work to make our investor communications as transparent, consistent and stable as possible. Communication content relates especially to past business performance and the company's future strategy and development, all in line with the company's disclosure policy.

The main communication objectives are:
- achieving a fair market valuation for Krka
- easier and cheaper access to capital
- a reasonable level of liquidity in Krka shares.

We achieve these objectives through:
- meetings with investors at the Company headquarters
- participating in investor conferences in Slovenia and abroad
- organising investor roadshows in financial centres around the world
- issuing publications for investors (presentational and promotional material for investors)
- Annual General Meetings
- press conferences announcing business results
- communicating with financial media.

Krka actively participates in meetings with investors on domestic and foreign financial markets. We try to meet all requests for meetings from interested investors or financial professionals. In 2009 we initiated over 80 individual meetings with foreign and domestic investors, including the first presentation of Krka to the US investor community.

First presentation of Krka to US investor community.

Krka's financial calendar is published on its website *(www.krka.biz/en/finance/koledar/)* and contains the dates of all major releases of business information.

The business results are available in Slovene and English on the Ljubljana Stock Exchange portal – SEOnet *(http://seonet.ljse.si)* and on the Krka website.

Shareholders can also contact the Finance department for more information, via telephone on +386 7 3312-109 or via email *finance@krka.biz.*

Communications with customers

Our awareness of the importance of good customer communications is seen in our Quality Manual, which defines the importance of acquiring customer feedback. Feedback informs our work at every level.

We classify our customers into four groups according to their involvement in the market of medicinal products: institutions (health, regulatory, industrial property services, health insurance etc.), direct customers (distributors, other pharmaceutical companies), indirect customers (pharmacies, hospitals, pharmacists, and doctors) and final users (patients, customers).

We cooperate with regulatory institutions, health insurance companies and other agencies in the medical sector in officially prescribed procedures, providing up-to-date and accurate documentation and ensure regular cooperation and a rapid response. We also successfully undergo a range of inspections in which these agencies verify the compliance of our operations and integrated management system with relevant standards.

Our specialist staff participate in various industrial and professional associations. We engage in fruitful cooperation with the University of Ljubljana, faculties and other education and science institutions via the Krka research awards, looking for new research and development solutions and the continual education of our experts.

The direct customers for our products are generally distributors and wholesalers, who are a link between Krka and the pharmacies where our final users meet our products. We gain feedback from our direct customers on a regular basis to monitor their satisfaction with our products, sales teams, how we handle orders, how we handle complaints and their general satisfaction. The annual monitoring indicates a high level of satisfaction, particularly with our sales teams and handling of orders.

One of our most important customer groups is the doctors and pharmacists who prescribe, recommend or dispense our products to the final users. We prepare all kinds of health professional materials on our products, always in the local languages of the individual markets. Since 2009 the redesigned website has been available in Slovene for medical professionals, which enables a simple and effective search for information on our products.

Ensuring that doctors and pharmacists are well informed is the responsibility of our marketing and sales networks, which with around 3000 employees is one of the strongest on the markets of Slovenia, central, eastern, and south-eastern Europe. Our medical representatives are in regular personal contact with doctors and pharmacists on these markets as well as in Germany and Portugal. In 2009 we expanded our sales and marketing network to Austria – with the acquisition of the Alternova company – and to Tajikistan and Turkmenistan, so we now have a presence on 34 markets. Our medical representatives carried out over 4.5 million visits in 2009.

Our marketing and sales network now covers 34 countries.

We also organised numerous specialist gatherings, which were attended by over one million participants. Current topics are selected for the workshops, lecture, symposiums and round table discussions, and with the help of external lecturers offer participants knowledge they can apply in practice. Guests at these events expressed a high approval rate, and were particularly satisfied with their organisation. In 2009 we also organised a whole series of international events, including an international satellite symposium at the European congress of psychiatry in Lisbon, a symposium at an international psychiatric congress in Ohrid, Macedonia, a symposium at a gastroenterological congress in Dubrovnik, and a symposium at the central European meeting on hypertension in Zagreb. The largest international participation was for the proton pump inhibitor symposium in Portorož, which we organised to mark the 20th anniversary of Krka's work in this field.

We pay particular attention to the competences of our medical representatives. We organise regular training for them on our products, using seminars and modern online teaching methods. Communication skills are essential for all our medical representatives so they regularly work on them in regular training sessions. This means we continually monitor, evaluate and guide their medical knowledge and their communication skills. In independent surveys of doctors and pharmacists on a number of markets our medical representatives have scored highest in terms of professional knowledge, communications skills and reliability, with Krka assessed as a leading company in terms of satisfaction with medical representatives.

Numerous clinical trials and monitoring of clinical efficacy and safety are one of the various forms of measuring the satisfaction of final users and indirect customers. We are one of the few generic pharmaceutical companies to carry out clinical trials. The system in place to monitor any adverse effects is standardised across every market and in compliance with applicable European requirements and legislation.

Krka only directly addresses final users within the legally prescribed framework. We issue a magazine aimed at the general public in Slovenia, called **"V skrbi za vaše zdravje" (Caring for Your Health)**, which is available in pharmacies and doctors' waiting rooms. The topic-based magazine was completely redesigned and modernised in 2009. We also issue a series of booklets called **Caring for Your Health** that address specific health products, and offer patients advice on what to do. In 2009 we prepared two booklets on gastroenterological issues, more specifically on reflux disease, and in cooperation with Terme Krka, a booklet on the role of family members in the rehabilitation of cardiovascular patients, including advice for the family members. All our publications for the general public are available online on the website *www.krka.si*, and were thoroughly revised and updated in 2009. For some years we have also issued an electronic newspaper

Many new product websites and redesigned www.krka.si.

e-mesečnik (e-monthly), which is connected to a public access website (*www.e-zdravje.com*). In 2009 we produced a new website, *midva.com*, in Slovene aimed at people affected by erectile dysfunction, and a website in Russian dedicated to problems with excess weight.

We also frequently produce material on self-medication products and cosmetics for final users. In 2009 we increased the provision of information online. We have launched over 30 product websites, focusing on Septolete, Nalgesin S, Pikovit and Fitoval.

We also provide consumers and patients who contact us about our products by telephone with an expert reply every day of the year, and systematically provide an up-to-date response to all questions submitted by email.

Communications with employees

At Krka we know that employees are the key to success in every company. We want to keep them up-to-date with events on Krka markets, in the pharmaceutical sector and inform them of business events within the company, which will all contribute to more effective work. Through effective communication, we are building a culture of mutual trust, respect, lifelong learning and responsible and effective work. Vertical and horizontal internal communications have been established at every level of the company (for more see the chapter Employees) using a range of internal communication tools to keep employees up-to-date.

Worker assemblies. Employee assemblies take place once a year, at which the Chief Executive and members of the Management Board inform employees of the previous year's operating results, the plan for the coming year, the company's development strategy and other news. Employees are encouraged to ask questions and put forward proposals.

Krkanet. The company's internal website in Slovene and English, provides current information about the company, and a selection of documents, acts, forms and other material to help work in their work. Organisational units and project teams also have their own sites on Krkanet, intended for documentation and communication between employees.

Bilten. An internal weekly bulletin, used to keep employees informed about current events, inside and outside the company. In addition to Slovene, it is also issued in local languages in our companies and representative offices in Poland, Croatia, the Russian Federation and Ukraine.

Utrip. A monthly internal newspaper that sets out the company's vision, mission, strategy, values and policies. It informs employees about major company decisions, achievements in individual areas of operation, and current events within the Company and on Krka's markets. In addition to Slovene, in recent years it has also been issued in Polish, Croatian, Russian and Ukrainian. In 2009 Utrip gained second place in the Papyrus awards for the best print and electronic internal newspapers in Slovenia, which are awarded by the Slovenian Public Relations Association.

Utrip newspaper wins second place award for internal print and electronic media in Slovenia.

M-Bulletin. A professional monthly aimed at all employees in the marketing and sales network, primarily specialist staff members, who form the largest employee category, and who are spread across all of our markets. It focuses on major marketing work and important in-house events. It is translated into the local language on most markets.

Information screens. The screens are used to notify employees of events at Krka such as visits by business partners, meetings of the management board and supervisory board, sector-level meetings, inspections, training and other happenings and cultural events.

Electronic notification. One of the simplest forms of communication at Krka. Employees are sent emails with information relating to their daily work as well as urgent notices.

Communications with the media

Krka makes all public information and notices available promptly via its online media centre *(http://www.krka.biz/en/mediji/)*. In addition to press releases and news, the media centre features photo and videomaterial, publications and other material for the public.

In 2009 Krka kept the media informed via quarterly press conferences to announce business results and numerous press releases. We also met journalists at other business events, such as openings, presentation of new products and other corporate events. We also respond promptly to all questions from the press on an ongoing basis, taking the corporate disclosure policy into account.

Communications with the community

Social responsibility is one of Krka's basic policies. We not only fulfil our mission of living a healthy life with top quality products to treat a wide range of diseases but also have a much broader understanding of that commitment: as caring about healthy living and the quality of life of all those in the community in which we work. We use grants and sponsorship to support the work of organised groups and individuals providing projects and actions that have a positive impact on the development of the social environment.

We offer financial support to numerous healthcare and humanitarian projects and invest in sport, education, science and culture. We also support campaigns to keep the environment clean and other activities to raise the quality of life in the community. Krka demonstrates its responsibility for the environment and the local community by helping those affected by natural disasters or social problems. In some cases we also offer own products as a direct form of assistance. In 2009 the Krka Company allocated EUR 4.2 million to sponsorship and grants, which is 0.4% of total sales.

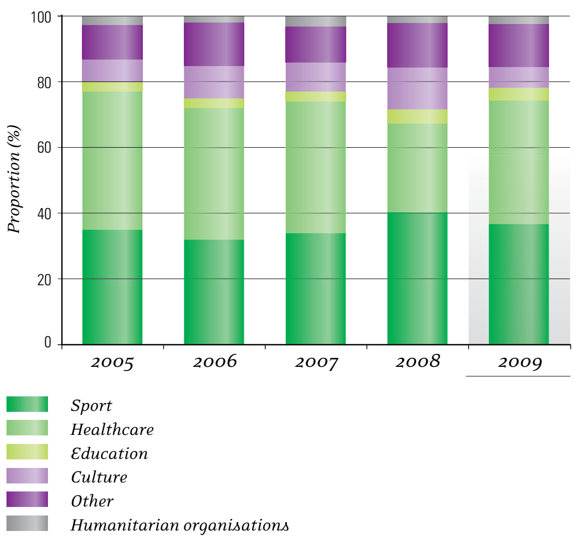
In 2009 the Krka Company gave EUR 4.2 million in sponsorships and grants.

We develop partnership relations with those we sponsor. In addition to financial assistance, we also offer organisational support and cooperation from our employees on specific projects. Once a year we organise meetings for recipients of Krka sponsorships. We give a detailed presentation of the company and our corporate identity strategy, and together assess opportunities for further cooperation. We cooperate in the leadership of the clubs and societies we sponsor and monitor their progress.

Most of the funds are allocated to not-for-profit activities in our community at the local and national level, while we also support specific projects outside Slovenia. We give priority to cooperation on long-term projects, which can contribute to improving the lives of as many people as possible.

We prioritise cooperation on long-term projects that improve the lives of as many people as possible.

Krka sponsorships and grants



We are extremely proud of the fact that it is not only as a company that Krka acts in a socially responsible manner by investing in social projects and campaigns, but that we also act as individuals. Our long-term cooperation with the wider community and contribution to its development does not just come

Social responsibility is not only seen in company policy, but also in the actions of individuals.

from sponsorships and donations, but also from actions by individual Krka employees, which is an important part of the Krka tradition. In recent years, two employee-led socially responsible projects have had a major profile: the stop smoking campaign (Krka has been smoking-free environment since April 2008) and the ready for work campaign.

In 2009 we launched a large-scale action together with the Slovenian Mountaineering and Climbing Association, which we called **Caring for Your Health – Together We'll Scale the Heights**. We signposted and did maintenance work on 15 hiking routes all over Slovenia, including walks among hills and mountains in particular, as well as mountain pastures and the coast. The aim of the action was to tell Krka employees how important caring for your health is and to promote walking and hiking which is the simplest possible exercise for improving physical and mental wellbeing. Lovers of hiking, Slovenian hills and mountain pastures can collect stamps on maps specially designed for the Krka hiking routes, and win useful prizes as well. Since the best way to tell somebody something is to show them, in October and November 2009 five hikes were organised for Krka employees, selected from the 15 special routes: to the tops of Šmarna Gora and Trdinov Vrh, from Bogojina to Murska Sobota, from Pomjan to Strunjan and the top of Lisca. Over 2200 hiking lovers took part in these walks.

Krka employees are also active in other areas. Numerous employees have been blood donors for many years or are volunteers in numerous charitable and not-for-profit organisations. Krka employees are closely connected to the local community, and each in their own way contributes to the development of the community and improving quality of life. Many are involved in the Krka Culture and Arts Society.

Healthcare. Krka allocates 34% of sponsorship and donation funds to health institutions for modernisation and equipment upgrades. In 2009 we donated the Endobase program to three medical institutions, which means that clinics can monitor the treatment of diseases of the alimentary tract faster, more accurately and more systematically. We also supported the translation of the book Depression for Dummies, which was published by the DAM depression and anxiety society in cooperation with Pasadena publishing house.

For the fifth year in a row, Krka marked World Hypertension Day together with the Arterial Hypertension Section of the Slovenian Medical Association with a campaign to measure the blood pressure of passers-by in ten towns around Slovenia. Over five years 12,000 blood pressure readings have been taken. The purpose of the action is to raise awareness of blood pressure, informing people of the importance of having their blood pressure measured regularly and warning of dangers linked to blood pressure.

Humanitarian actions. For a number of years, we have been the major donor to the Novo mesto-based society Sožitje, a charity helping people with mental health problems and the Dragotin Kette primary school in Novo mesto, which supports children with special needs. We frequently respond to Red Cross initiatives, we support the work of retirement homes in Novo mesto, and in different ways work to help people who need assistance, be they disabled or affected by natural catastrophes. In 2009 we donated separator cards to the Novo mesto Society of Voluntary Work which they used in programmes with socially-excluded groups.

Science and education. We firmly believe at Krka that progress is based on knowledge. Every year since 1956 Krka has offered study grants to university and high school students, while the Krka Prizes, which have been presented to junior researchers, their mentors and the institutions in which they study and do research, are also an essential element in Krka's development strategy. In 2009 we presented the 39th edition of the Krka Prizes. In 2009 we supported the selection of the best female Slovenian scientist. Krka also cooperates with numerous scientific and education institutions in the field of development and education.

Culture. Krka has supported the Anton Podbevšek Theatre since its foundation. We also support the work of other cultural institutions, such as the Marjana Kozina Music School, the Dolenjska Museum, and the Krka Wind Orchestra. In 2009 we started the Krka book collection, and to date have issued two monographs – the first, a history of the Krka river, the second about Novo mesto. In spring, Krka made a significant donation to the Miran Jarc library, a copy of the Iconotheca Valvasoriana, a collection of the graphic works of Janez Vajkard Valvasor, the seventeenth century Slovenian polymath, an invaluable historical source and unique cultural artefact of global significance. We also supported numerous other cultural projects locally and far beyond state borders. Since 1971 Krka has had its own Culture and Arts Society, which has organised numerous art and photographic exhibitions by local artists in the Krka galleries in Novo mesto and Ljubljana. The society also supports the work of the Krka choir, organises its traditional book fair at the Krka in gallery Novo mesto, and the Ljubljana Theatre Club, and hosts creative workshops and a literary section.

Sport. Krka's awareness of the importance of healthy lifestyles means it allocates considerable funds to sports activities. For many years Krka has sponsored a wide range of sports clubs: Krka basketball club, Krka men's handball club, Krka women's handball club, Krka men's volleyball club, Krka women's football club, Krka men's football club, Krka athletic club, Krka table tennis club, Krka tennis club, Krka equestrian club, Krka karate club Šentjernej, Krka chess society, Krka Rog skiing society, Adria Mobil Novo mesto cycling club, Grad Otočec golf club, and others. We have also supported the ski-flying competition at Planica. In 2009 Krka also supported the Slovenian Olympic Committee. Krka employees have now been involved in the organisation of sports and recreation activities within the Krka Trim Club for three decades.

Supporting the wider social community is a constant of Krka policy, which maintains and consolidates good relations with the public, while increasing employee loyalty, given the involvement of Krka staff and their families in all the different clubs and societies.

Environmental protection. At Krka we are well aware that environmental projects and the sustainable improvement of the environment depend on high-quality interpersonal relations. In 2009 Krka organised a meeting with its closest neighbours, people living in the direct vicinity of Krka's central location in Novo mesto. With open dialogue we exchanged opinions and acquired information on their views on environmental protection.

Krka has started concerted efforts to save energy. When there is no one in an office and at the end of the working day we switch off lights, computers and photocopy machines, we frequently air our premises and take care not to use extra electricity in doing so. Where possible, we separate waste, and do not print documents unless necessary.

In July 2009 Krka's senior management, led by the Chief Executive and President of the Management Board organised a clean-up campaign, which included cleaning the riverbanks of the Krka and graffiti at the Novo mesto bus station. In this way over 30 people contributed directly to cleaning up the environment in which Krka functions, while encouraging our fellow citizens to help care for a clean and well-kept shared living space.

Environmental communication

The everyday work Krka engages in to preserve a healthy environment is also seen in the open dialogue with employees and the local and wider social community. By addressing environmental communication we have assumed an active role in providing and disseminating environment-related information within the company and externally. In 2009 we organised our now well-established meeting with the local community to present our work, and especially our environment protection plans, and new challenges and responsibilities the future and sustainable development will bring. We take the comments and suggestions of local residents into account, and also communicate with the media on environment matters. We support junior researchers and students working on final theses or dissertations at all levels of study, and open our doors to professional groups with an interest in the modern environmental technology we use at Krka.

A high level of environmental awareness among all our employees is a precondition for implementing the environmental programmes and objectives we have planned. We have therefore added environmental protection content to the induction seminar for new employees. Environmental protection issues are regularly published in the internal newspaper and on the internal website.

Environmental protection

Responsible environmental management is a vital part of Krka's work at every level, and our environmental awareness requires us to keep the environment we work in healthy. We can only meet our objectives and properly carry out our work through concerted action and an integrated approach to environmental protection. Our environmental policy is the driving force of all our work in this field, and enables us to maintain and continually improve the effect of our environment management. It is also the starting point for setting environmental objectives and programmes.

The environmental standard and environmental legislation

Introducing the ISO 14001 standard in 2001 added new quality to the environmental protection field at Krka, leading to the creation of a coherent approach connecting all the relevant aspects: emissions into the environment (water, air, noise, light pollution, waste) use of natural resources, energy efficiency, emergency awareness and management, and communicating with the public. Progress has been made in all environment-related areas since the ISO 14001 was introduced almost a decade ago. Our transparent environmental legislation monitoring and notification system means we identify new developments promptly and integrate them into our environmental programmes and objectives.

At the end of 2009, the Slovenian Environmental Agency, part of the Ministry of the Environment and Spatial Planning, started processing the application for an Integrated Pollution Prevention Control (IPPC) for the Ločna site. The agency commission performed a detailed site inspection, and all the documentation was completed correctly. The permit is expected in the first quarter of 2010.

Environmental protection training

Only carefully planned and targeted environmental education and awareness training can improve our attitude to the environment and ensure we keep our environment healthy in a sustainable manner. We have therefore added environmental protection content to the introductory training for new employees. Environmental protection issues are regularly published in the internal newspaper and on the internal website.

The service has cooperated with various educational institutions since its very conception. Students and young researchers have produced work under the mentorship of Krka specialists responsible for environmental protection. In 2009 we enabled four students to carry out 400 hours of work experience, while two students were assigned mentors for undergraduate dissertations and one for a master's thesis. We also offered expert assistance to a student from a Novo mesto high school in preparations for the International Biology Olympiad in Japan, where she won a bronze medal.

Significant environmental protection achievements in 2009

- Reduced quantity of landfill waste by 25%
- Reduced environmental load by over 5000 tonnes of CO_2
- Reduced specific energy use by 12.7%
- Acquired environmental protection permit for emissions to water for Beta Šentjernej plant
- Construction of oil traps in cooling and meteoric sewer system.

Environmental protection objectives and programmes for 2010

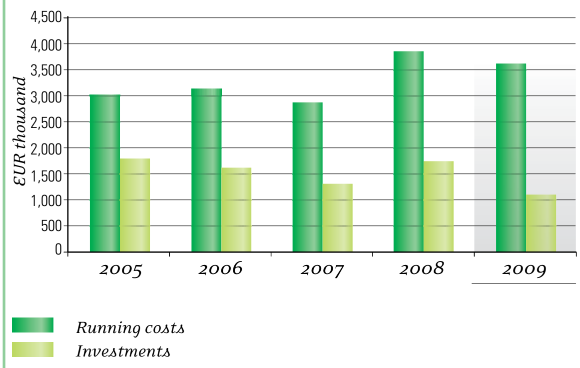
- Maintaining low pollution levels from the waste water treatment plant, regardless of anticipated production growth
- Replacing moist air filtration system with dry de-dusters in tablet production plant
- Training and informing employees on environmental protection topics
- Preparing energy consumption monitoring system at all production locations in Slovenia
- Continuing to reduce waste
- Acquiring IPPC permit for Ločna site
- Acquiring environmental permit for Bršljin and Ljutomer sites.

Environmental protection costs

Investment in environmental protection

Investment in environmental protection is seen as part of Krka's responsibility to the environment and the local community, and in the long-term is also an investment in sustainable development.

Over the past five years Krka has invested over EUR 24 million in environmental protection (running costs and investments). The value of investments fluctuates from year to year depending on the volume of environmental protection projects. In 2009 environmental protection running costs totalled EUR 3.6 million, while investment was worth EUR 1.1 million.



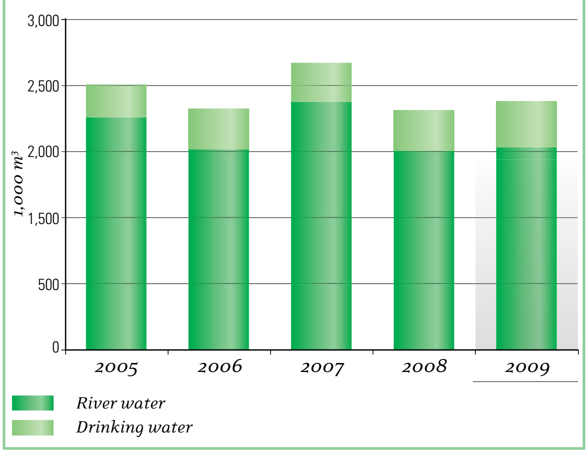
Use of natural resources

Water

Water is a natural resource and essential to our existence and healthy living. There can also be no economic development without water, so we work very hard to ensure careful, rational use of drinking and river water, and to develop awareness of the importance of protecting water resources among our employees.

Most of the river water Krka uses is for cooling, especially its fermentor units, and for secondary cooling via heat conductors. The remainder is used for preparation of various forms of process water for energy and production needs. River water use increased minimally compared to the previous year. The use of drinking water rose by around 12% in 2009 compared to the previous year.

DRINKING WATER AND RIVER WATER

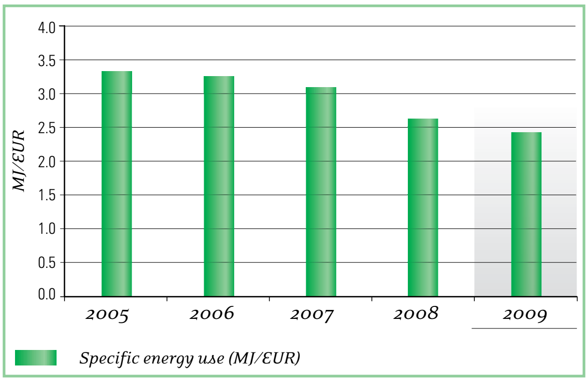


Energy

- Krka's main sources of energy are:
- natural gas
- liquid petrol gas (LPG)
- electricity, and
- extra light fuel oil, as a back-up fuel.

Specific energy consumption

In recent years, specific energy consumption has been falling, due to numerous energy efficiency measures. Specific energy consumption in 2009 was reduced by 12.7% compared to 2008.

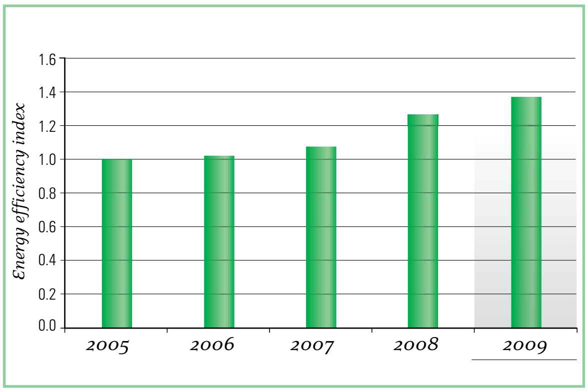


Krka – 2009 energy efficient company award winner

Krka demonstrates a responsible approach to efficient energy management and general environmental management across every area of operation. This is confirmed by the continual reduction in specific energy use. Already in 1998 Krka received energy efficient company award.

Over the past five years we have invested over EUR 3.5 million in renovating energy systems. The purpose of the renovation has been to reduce specific energy use. We have invested primarily in upgrading the boiler, constructing a central heating station with heat pipeline network, installing high-efficiency cooling equipment, cooling energy distribution network, and have also invested significantly in systems to utilise waste heat within the company. Since 2005 the 'green energy' brand has formed 10% of our total energy consumption, since we recognise the importance of renewable sources of energy.

Krka wins energy efficient company award for second time at 11th Energy Conference.



Specific energy use has been reduced by over 31% in the past five years, while the energy efficiency index has increased by 45%. *All these measures contributed to reducing environmental load by over 5000 tonnes of CO2 in 2009 alone.*

Introduction of energy management

As a major energy consumer, Krka is aware of the importance of the economical use of energy in everyday operations. In 2009 a new EU standard, SIST EN 16001:2009 Energy Management Systems, came into force, which defines a system for improving energy efficiency and makes a major contribution to successful operation of an organisation as a whole.

Putting the standard's guidelines into practice, in 2009 we formalised Krka's energy management system. A company energy manager was appointed along with a team of energy officers. This increases oversight of the main consumers of natural resources and improves the accountability system for energy use, and has the full backing of the company leadership.

Information support for energy management will be introduced at the same time as the comprehensive, targeted energy consumption monitoring system at all production locations in Slovenia.

Increasing employee awareness of efficient energy use

In addition to creating the accountability system for energy use for individual sections, work is also ongoing to educate employees and raise awareness. Important messages and articles on efficient energy use are published in internal media, including the Bilten and Utrip magazines.

In 2009 we started an intense energy efficiency information campaign that reached employees via email. The energy saving tip of the week feature had a very positive response.

Emissions

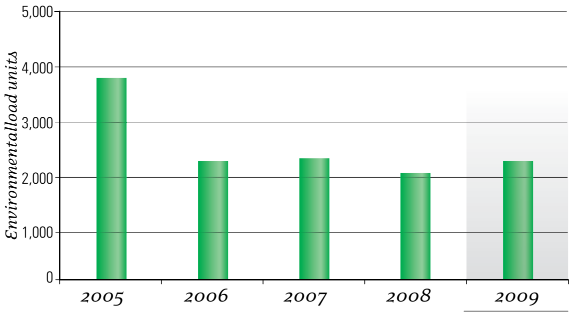
Waste water

Despite the large fluctuations in waste water composition and load, waste water treatment is stable and highly efficient.

In 2009 we treated a higher quantity of waste water, while the reduced fluctuation in total load was lower due to the changed waste water composition and flow. Pilot tests on sludge stabilisation were carried out at our own waste treatment plant in Ločna, and research into the possibility of chemical pre-treatment for chemical synthesis waste water began. Work will increase in these two areas in 2010. Oil traps were added to the cooling and meteoric sewer system.

In 2009 the environmental protection permit for emissions to water was acquired for the Šentjernej site, with permits anticipated for the Ljutomer and Bršljin sites in 2010.

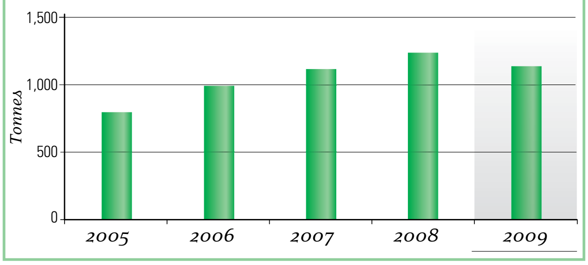
Waste water management (total load)



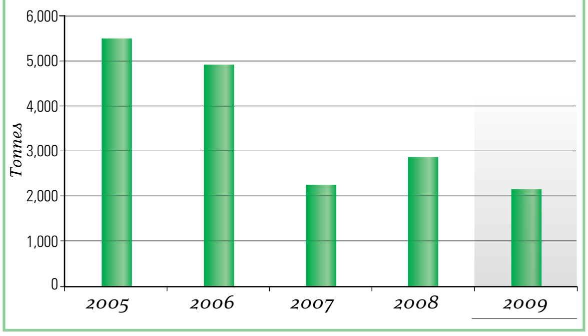
Waste

Landfill is the final and least environmentally acceptable option in the waste management process, so Krka's strategic objectives include reducing the quantity of landfill waste, and good results were achieved in 2009. **There was a reduction of 25% or 710 tonnes in the quantity of waste sent to landfill compared to 2008.** This was achieved by harvesting waste with a high energy value and directing it into energy use, by composting herb waste, and reducing the quantity of sludge from the waste water treatment plant. The slight reduction in useful separated waste (paper, plastic, glass, metal, wood) is not due to poorer waste separation, but is the result of more rational purchasing of packaging, and purchasing some raw materials in larger packaging units or returnable packaging.

Useful separated waste



Landfilled waste



Noise

In 2009 we introduced extensive noise pollution measurements at every production location in Slovenia. The results indicate that Krka does not exceed the legally prescribed limit values for noise at any measurement point. The results are generally some decibels below the legal limits.

Air emissions

Air emissions were reduced by cleaning systems fitted to all outlets constituting a potential source of air pollution. Using effective de-dusting systems, filters, moist filtration systems, condenser columns and thermal oxidisers keeps air emissions below the legal limit values and at the level achievable with the best available technology for air emission reduction. **We keep particle emissions from outlets polluted with dust below 0.3% of the legally defined limit value.**

Environmental protection at Krka's foreign subsidiaries

Emissions into the environment are managed in subsidiaries in accordance with the requirements of local legislation. Modern emission reduction procedures are being introduced into the subsidiaries as in the controlling company. These locations are production facilities for finished products, which has a lower environmental load. A separate waste collection system has been put in place, hazardous waste is transferred for incineration, waste water is led off to public waste treatment plants, and particle emissions are reduced by installing filtration devices.


THE SUMMIT

Financial statements

Reaching the summit together is extremely rewarding; it is the result of a whole year's work for so many individuals. That kind of success puts things in perspective. We see how high we have come, and we see other summits, even higher and yet to be climbed. At the summit we always look to the future and see new challenges to come.

Contents

Introduction to the financial statements 102
Statement of compliance 103
Consolidated financial statements of the Krka Group 104
- Statement of consolidated financial position (balance sheet) 104
- Consolidated income statement 105
- Consolidated statement of comprehensive income 105
- Consolidated statement of changes in equity 106
- Consolidated statement of cash flows 108
- Notes to the consolidated financial statements 109
- Auditor's report 143

Financial statements of Krka, d. d., Novo mesto 144
- Statement of financial position (balance sheet) 144
- Income statement 145
- Statement of comprehensive income 145
- Statement of changes in equity 146
- Statement of cash flows 148
- Notes to the financial statements 149
- Auditor's report 186

Signing of the 2009 Annual Report and its constituent parts 187

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 (hereinafter also 'Group'), whereas the second section encompasses the financial statements and related notes of Krka, d. d., Novo mesto (hereinafter also 'Company'). The financial statements have been prepared in compliance with the International Financial Reporting Standards (hereinafter 'IFRS'), which is in compliance with the resolution adopted at the 11th Annual Meeting held on 6 July 2006. As defined by the said resolution, the Company no longer prepares reports pursuant to the Slovenian Accounting Standards.

The financial statements of the Company and the Krka Group are presented in euros, rounded to the nearest thousand.

Each section of financial statements was audited by KPMG SLOVENIJA, podjetje za revidiranje, d. o. o. and two separate reports as individual chapters have been prepared accordingly.

The Statement of Compliance that is presented below includes an acknowledgement of responsibility for all financial statements of both the Company and the Group.

Statement of compliance

The Management Board of Krka, d. d., Novo mesto is responsible for the preparation of the Annual Report of the Company and 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 the Company and its subsidiaries in 2009.

The Management Board hereby acknowledges that:
- the financial statements of the Company and its subsidiaries were 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 the Company and the Group have been prepared in accordance with the effective legislation and the IFRS.

The Management Board is responsible for taking the measures required to maintain the Company's and the Group's value and to prevent and detect fraud and other forms of misconduct.

Management Board of
Krka, d. d., Novo mesto

Novo mesto, 15 February 2010

Consolidated financial statements of the Krka Group

Statement of consolidated financial position (balance sheet)

in EUR thousand	Notes	31 Dec 2009	31 Dec 2008
Assets			
Property, plant and equipment	12	649,146	635,250
Intangible assets	13	126,581	128,980
Deferred tax assets	16	22,392	34,273
Long-term loans	14	4,064	3,892
Investments	15	5,658	6,343
Other non-current assets		181	336
Total non-current assets		**808,022**	**809,074**
Inventories	17	181,646	211,347
Trade and other receivables	18	334,906	240,875
Short-term loans	14	2,213	1,393
Current investments, including derivatives	15	834	743
Cash and cash equivalents	19	13,411	7,604
Total current assets		**533,010**	**461,962**
Total assets		**1,341,032**	**1,271,036**
Equity			
Share capital	20	59,126	59,126
Own shares	20	–19,489	–19,489
Reserves	20	150,494	146,454
Retained earnings	20	728,554	595,382
Equity holders of the parent		**918,685**	**781,473**
Minority interest	20	1,684	1,823
Total equity		**920,369**	**783,296**
Liabilities			
Long-term borrowings	22	105,113	83,734
Provisions	23	107,536	149,663
Government grants and grants by the European Union	24	6,763	5,353
Deferred tax liabilities	16	18,422	18,776
Total non-current liabilities		**237,834**	**257,526**
Trade payables	25	72,500	69,996
Short-term borrowings	22	51,084	100,111
Income tax liabilities		1,695	10,533
Other current liabilities	26	57,550	49,574
Total current liabilities		**182,829**	**230,214**
Total liabilities		**420,663**	**487,740**
Total equity and liabilities		**1,341,032**	**1,271,036**

Consolidated income statement

in EUR thousand	Notes	2009	2008
Revenues	5	953,038	949,920
Production cost of goods sold		–370,244	–325,102
Gross profit		**582,794**	**624,818**
Other operating income	6	102,786	8,617
Distribution expenses		–289,185	–242,274
R&D costs		–88,283	–84,746
Administrative expenses		–73,120	–69,634
Operating profit		**234,992**	**236,781**
Financial income	10	1,070	3,029
Financial expenses	10	–11,740	–34,177
Net financial expenses		**–10,670**	**–31,148**
Profit before tax		**224,322**	**205,633**
Income tax expense	11	–50,637	–49,742
Profit for the period		**173,685**	**155,891**
Attributable to:			
– equity holders of the parent		173,766	155,955
– minority interest		–81	–64
Basic earnings per share (in EUR)	21	**5.14**	**4.61**
Diluted earnings per share (in EUR)	21	**5.14**	**4.61**

Consolidated statement of comprehensive income

in EUR thousand	Notes	2009	2008
Profit for the period	20	173,685	155,891
Other comprehensive income for the period:			
Changes in retained earnings	20	–126	45
Changes in fair value of financial assets available for sale	20	–686	–5,432
Deferred tax effect - change in fair value of financial assets available for sale	20	170	1,228
Deferred tax effect and tax effect of transition to IFRS	20	–37	–973
Translation reserve	20	–242	–9,391
Deferred tax effect – translation reserve	20	–202	–45
Total other comprehensive income for the period		**–1,123**	**–14,568**
Total comprehensive income for the period		**172,562**	**141,323**
Attributable to:			
– equity holders of the parent		172,701	141,387
– minority interest		–139	–64

Consolidated statement of changes in equity

in EUR thousand	Called capital	Own shares	Reserves					Retained earnings			Equity holders of the parent	Minority interest	Total equity
			Share premium	Legal reserves	Statutory reserves	Fair value reserves	Translation reserves	Other revenue reserves	Net profit for the period	Net profit carried forward			
Balance at 01 Jan 2009	59,126	−19,489	120,992	14,990	17,184	2,620	−9,332	450,417	102,955	42,010	781,473	1,823	783,296
Net profit for the period	0	0	0	0	0	0	0	0	173,766	0	173,766	−81	173,685
Other comprehensive income for the period													
Changes in profits of previous periods	0	0	0	0	0	0	0	0	0	−68	−68	−58	−126
Changes in fair value of financial assets available for sale	0	0	0	0	0	−686	0	0	0	0	−686	0	−686
Deferred tax effect - change in fair value of financial assets available for sale	0	0	0	0	0	170	0	0	0	0	170	0	170
Deferred tax effect and tax effect of transition to IFRS	0	0	0	0	0	0	0	0	0	−37	−37	0	−37
Translation reserve	0	0	0	0	0	0	−242	0	0	0	−242	0	−242
Deferred tax effect – translation reserve	0	0	0	0	0	0	−202	0	0	0	−202	0	−202
Total other comprehensive income for the period	0	0	0	0	0	−516	−444	0	0	−105	−1,065	−58	−1,123
Total comprehensive income for the period	0	0	0	0	0	−516	−444	0	173,766	−105	172,701	−139	172,562
Transactions with owners recorded in equity													
Formation of statutory reserves	0	0	0	0	5,000	0	0	0	−5,000	0	0	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board	0	0	0	0	0	0	0	62,000	−62,000	0	0	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	0	0	−102,955	102,955	0	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	0	0	57,937	0	−57,937	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	−35,489	−35,489	0	−35,489
Total transactions with owners recorded in equity	0	0	0	0	5,000	0	0	119,937	−169,955	9,529	−35,489	0	−35,489
Balance at 31 Dec 2009	59,126	−19,489	120,992	14,990	22,184	2,104	−9,776	570,354	106,766	51,434	918,685	1,684	920,369

in EUR thousand	Called capital	Own shares	Reserves					Retained earnings			Equity holders of the parent	Minority interest	Total equity
			Share premium	Legal reserves	Statutory reserves	Fair value reserves	Translation reserves	Other revenue reserves	Net profit for the period	Net profit carried forward			
Balance at 01 Jan 2008	59,126	−19,489	120,992	14,990	14,184	6,824	104	356,945	87,052	30,149	670,877	10,036	680,913
Net profit for the period	0	0	0	0	0	0	0	0	155,955	0	155,955	−64	155,891
Other comprehensive income for the period													
Changes in profits of previous periods	0	0	0	0	0	0	0	0	0	45	45	0	45
Changes in fair value of financial assets available for sale	0	0	0	0	0	−5,432	0	0	0	0	−5,432	0	−5,432
Deferred tax effect - change in fair value of financial assets available for sale	0	0	0	0	0	1,228	0	0	0	0	1,228	0	1,228
Deferred tax effect and tax effect of transition to IFRS	0	0	0	0	0	0	0	0	0	−973	−973	0	−973
Translation reserve	0	0	0	0	0	0	−9,391	0	0	0	−9,391	0	−9,391
Deferred tax effect – translation reserve	0	0	0	0	0	0	−45	0	0	0	−45	0	−45
Total other comprehensive income for the period	0	0	0	0	0	−4,204	−9,436	0	0	−928	−14,568	0	−14,568
Total comprehensive income for the period	0	0	0	0	0	−4,204	−9,436	0	155,955	−928	141,387	−64	141,323
Transactions with owners recorded in equity													
Formation of statutory reserves	0	0	0	0	3,000	0	0	0	−3,000	0	0	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board	0	0	0	0	0	0	0	50,000	−50,000	0	0	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	0	0	−87,052	87,052	0	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	0	0	43,472	0	−43,472	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	−30,827	−30,827	−113	−30,940
Acquisition of minority interest	0	0	0	0	0	0	0	0	0	36	36	−8,036	−8,000
Total transactions with owners recorded in equity	0	0	0	0	3,000	0	0	93,472	−140,052	12,789	−30,791	−8,149	−38,940
Balance at 31 Dec 2008	59,126	−19,489	120,992	14,990	17,184	2,620	−9,332	450,417	102,955	42,010	781,473	1,823	783,296

Consolidated statement of cash flows

in EUR thousand	Notes	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		**173,685**	**155,891**
Adjustments for:		**133,908**	**128,468**
– amortisation /depreciation	12,13	76,675	71,609
– foreign exchange differences		–696	–3,729
– investment income		–1,328	–4,528
– investment expense		3,363	5,729
– interest expense and other financial expense		5,421	9,599
– income tax		50,637	49,742
– other		–164	46
Operating profit before changes in net operating current assets and provisions		**307,593**	**284,359**
Change in trade receivables		–85,629	–65,458
Change in inventories		29,701	–39,377
Change in operating debts (liabilities)		3,589	–2,956
Change in provisions		–42,127	5,943
Change in grants received from the government and the European Union		1,410	2,254
Change in other current liabilities		7,814	7,355
Income taxes paid		–56,612	–45,227
Cash generated from operations		**165,739**	**146,893**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		737	373
Proceeds from sale of current investments		0	14
Dividends received	10	13	21
Proceeds from sale of property, plant and equipment		1,649	3,650
Purchase of intangible assets	13	–8,065	–10,325
Purchase of property, plant and equipment	12	–83,419	–132,823
Acquisition of subsidiaries and a share of minority interest without obtained assets		0	–9,051
Given long-term loans		–1,238	–1,067
Proceeds from repayment of long-term loans		1,035	859
Acquisition of non-current investments	15	–65	–1,085
Proceeds from sale of non-current investments		219	150
Acquisition of current investments and loans		–9,115	–1,760
Proceeds from sale of current investments and repayment of short-term loans		8,073	1,661
Payments in connection with derivative financial instruments	10	–1,035	–1,099
Proceeds from derivative financial instruments	10	0	1,886
Net cash used in investing activities		**–91,211**	**–148,596**
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		–6,941	–7,699
Repayment of long-term borrowings		–29,541	–23,978
Long-term borrowings received		60,000	0
Repayment of short-term borrowings		–322,668	–309,258
Proceeds from short-term borrowings		266,082	365,488
Dividends paid		–35,327	–30,852
Net cash used in financing activities		**–68,395**	**–6,299**
Net increase in cash and cash equivalents		**6,133**	**–8,002**
Cash and cash equivalents at beginning of period		7,604	15,784
Effect of exchange rate fluctuations on cash held		–326	–178
Net cash and cash equivalents at end of period		**13,411**	**7,604**

Notes to the consolidated financial statements

Krka, d. d., Novo mesto (hereinafter 'Company') is the controlling company in the Krka Group with its registered seat at Šmarješka cesta 6, 8501 Novo mesto, Slovenia. The consolidated financial statements for the year ended 31 December 2009 refer to the Krka Group (hereinafter 'Group') consisting of the controlling company and its subsidiaries in Slovenia as well as abroad.

The Group is engaged in development, production, marketing and sale of human health products (prescription pharmaceuticals, self-treatment products and cosmetics), veterinary products, and health-resort and tourist services.

1. Basis for the preparation of the financial statements

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter 'IFRS') as adopted by the EU and in compliance with the Companies Act.

The consolidated financial statements were approved by the Company's Management Board on 15 February 2010.

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 assets available for sale, where the fair value has been taken into account. Methods applied in the measurement of fair value are presented in Note 3.

Functional and reporting currency

The consolidated financial statements are presented in euro, which is the Company's functional currency. All financial information presented in euro has been rounded to the nearest thousand. As a result of rounding-off, insignificant deviations occur in figures presented.

The use of estimates and judgements

The preparation of financial statements pursuant to IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information on significant estimates about uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is presented in the following notes:

- Note 13 Impairment testing of the trademark and goodwill,
- Note 23 Measurement of defined benefit obligations,
- Note 23 Provisions for lawsuits and contingent liabilities,
- Note 28 Valuation of financial instruments.

Changes in accounting policies

Accounting for borrowing costs

Since 1 January 2009, borrowing costs of property, plant and equipment that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of that asset. In previous periods, all borrowing costs were recognised as cost.

This change in accounting policy was due to the adoption of IAS 23 Borrowing Costs (2007) in accordance with the transitional provisions of this standard and had no significant impact upon earnings per share.

Determination and presentation of operating segments

In accordance with IFRS 8 Operating Segments, the Group applies the management approach in operating segment reporting since 1 January 2009, which is based on the internal reporting system used by the management during the decision-making process. Segment results and disclosures are reviewed regularly by the controlling company's Management Board to make decisions about resources to be allocated to the segment and assess its performance.

Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

Presentation of financial statements
The Group applies the revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard.

Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

2. Significant accounting policies

The Group applies the same accounting policies in all periods, presented in the accompanying consolidated financial statements, except in connection with the change of the accounting policies as explained in Note 1.

Group companies apply uniform accounting policies. Accounting policies applied by subsidiaries have been changed where necessary and adjusted with policies applied by the Group.

The comparable data are in accordance with the information referring to the current financial year. Where necessary, they were adjusted so as to comply with the information referring to the current financial year.

Basis for consolidation

Subsidiaries
Subsidiaries are entities controlled by the controlling company. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable 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
Intra-group balances and transactions, and any unrealised income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. 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 retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency 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 available-for-sale equity instruments, a non-financial liability designated as a hedge, or qualifying cash flow hedges, which are recognised directly in comprehensive income. Non-cash items measured at historical cost in foreign currency are translated into the functional currency by applying the exchange rate valid at the date of 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 euro at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to euro at the rate approximating to the foreign ex-

change rate ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in other comprehensive income – 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.

Financial instruments

Non-derivative financial instruments
Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value. With instruments not recognised at fair value through profit or loss, fair value is increased by any directly attributable transaction costs associated with the instrument's purchase or issue. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting of financial income and expenses is discussed in Note 'Financial income and financial expenses'.

Available-for-sale financial assets
The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. 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 transferred to profit or loss. Impairment losses and foreign exchange gains and losses on available-for-sale monetary items are recognised directly in profit or loss.

Financial assets at fair value through profit or loss
An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value and in accordance with the investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Receivables and loans
Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Derivative financial instruments
Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value. Attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Economic hedges
The Group does not account for cash flow hedges (hedge accounting).

Economic hedges are applied if the hedging instrument no longer meets the criteria for hedge accounting. These derivative instruments are applied for hedging monetary assets and liabilities denominated in foreign currencies, as well as for hedging the assets exposed to interest rate risk. Changes in the fair value of such derivatives are recognised in profit or loss as part of financial income and expenses.

Share capital
Repurchase of share capital
When share capital recognised as equity is 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 Group's financial statements as a liability in the period in which they are declared by the Annual Meeting.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (see accounting policy 'Impairment').

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other directly attributable cost of preparing the asset 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 by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within 'other operating income' or 'other operating expenses' in profit or loss.

Subsequent costs
The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs are recognised in the income statement as an expense as incurred.

Depreciation
Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. 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 occurred with 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.

Acquisition of minority interest
Positive and negative differences occurred at the acquisition of the minority interest and are recognised in equity.

Research and development
All other costs referring to the research and development work within the Group are recognised in the income statement as expense upon their accrual.

Other intangible assets
Intangible assets with infinite useful life (trademark) are on an annual basis tested for impairment. 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 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 brands, is recognised in profit or loss when incurred.

Amortisation
Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets (except of goodwill, trademarks and customer data base) from the date that they are available for use.

The estimated useful lives for software, licences and other rights are 2 to 10 years.

Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price at the reporting date less selling expenses and other possible administrative expenses.

An inventory unit of raw materials and materials, as well as supporting 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 cost of material includes also cost of production, such as: direct labour, direct cost of depreciation, direct cost of services, energy, maintenance and quality management. Inventories of work in progress and finished products are carried at standard cost. An inventory unit of merchandise is valued at cost including cost of purchase, import duties and all costs directly attributable to the acquisition, decreased by discounts. Inventories of merchandise are carried at moving average prices.

Impairments

Financial assets
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in other comprehensive income is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in comprehensive income.

Non-financial assets
The carrying amounts of the Group's non-financial assets (except for inventories and deferred tax liabilities) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. Impairment of goodwill is estimated on each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.
The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in the previous periods.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Long-term employee benefits

Provisions for retirement benefits and anniversary bonuses
Pursuant to the local legislation of countries where the controlling company and subsidiaries are located, the Group is liable to pay to its employees anniversary bonuses and retirement benefits upon retirement. For these obligations, long-term provisions are formed. There is no other obligation in respect of pension.

Provisions are determined by discounting, at the reporting date, the estimated future benefits in respect of retirement benefits and anniversary bonuses paid to employees in those countries, where this legal obligation exists. The obligation is calculated by estimating the costs of retirement benefits upon retirement and the costs of all expected anniversary bonuses until retirement. The calculation is performed by the use of the projected unit credit method. All actuarial gains and losses are recognised upon accrual in the profit or loss.

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 economic benefits will be required to settle the obligation.

Provisions for lawsuits
The Group discloses provisions for lawsuits referring to alleged patent infringements. The eligibility of provisions formed in terms of the lawsuit's favourable or unfavourable outcome 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.

Revenues

Revenues from sale of goods are recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale but usually transfer occurs when the product is received at the Group's warehouse.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, also continuing managerial involvement with the goods. Revenues from the sale of goods and services rendered are measured at selling prices stated in invoices or other documents, reduced by rebates approved either when the sale is made or subsequently, including those granted for early payment.

Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

Financial income and expenses

Financial income comprises interest income on funds invested, dividend income, gains on the disposal of financial assets available for sale, changes in the fair value of financial assets at fair value through profit or loss, and exchange 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 Group'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, exchange losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method, except those that are attributable to property, plant and equipment under construction.

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the financial position liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. The amount of deferred tax bases on the expected way of settling the carrying amount of assets and liabilities, using tax rates enacted at the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Earnings per share

The Group presents basic and diluted earnings per share (EPS) data. Basic 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 registered shares.

Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services within a particular geographically defined economic environment. Segments are different in terms of risks and returns. The Group's segment reporting is based on the Group's internal reporting system applied by the management in the decision-making process.

Inter-segment pricing is determined on an arm's length basis.

The segments include following: the European Union (all countries of the European Union), South-East Europe (Croatia, Macedonia, Serbia, Bosnia and Herzegovina, Montenegro, Kosovo, Albania) and East Europe (Russian Federation and other former Soviet Union countries excluding the Baltic countries).

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets.

New standards and interpretations not yet adopted

Numerous new standards, amendments to standards and interpretations that are not yet effective for the year ended 31 December 2009, and have thus not been applied in preparing the financial statements are presented below.

1. Revised IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 July 2009)

   The scope of the revised Standard has been amended and the definition of a business has been expanded. The revised Standard also includes a number of significant changes including:
   - all items of consideration transferred by the acquirer are recognised and measured at fair value as of the acquisition date, including the consideration the payment of which depends on future events (contingent consideration).
   - subsequent change in contingent consideration will be recognized in profit or loss.

- transaction costs, other than share and debt issuance costs, will be expensed as incurred.
- the acquirer can elect to measure any minority interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

As the revised Standard should not be applied to business combinations prior to the date of adoption, the revised Standard is expected to have no impact on the financial statements with respect to business combinations that occur before the date of adoption of the revised Standard.

Revised IFRS 3 is not relevant to the Group's financial statements as the Group does not have any interests in subsidiaries that will be affected by the revisions to the Standard.

2. Revised IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009)

   In the revised Standard the term "minority interest" has been replaced by "non-controlling interest", and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest.

   Revised IAS 27 is not relevant to the Group's financial statements as after the respective date no events were recorded by the Group that would be affected by the revisions to the Standard.

3. Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual period beginning on or after 1 February 2010)

   The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency, are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

   The amendments to IAS 32 are not relevant to the Group's financial statements as the Group has not issued such instruments at any time in the past.

4. Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for annual periods beginning on or after 1 July 2009)

   The amended Standard clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however inflation cannot be designated, except in limited circumstances.

   The amendments to IAS 39 are not relevant to the Group's financial statements as the Group does not apply hedge accounting.

5. IFRIC 12 Service Concession Arrangements (effective for first annual reporting period beginning on or after 1 April 2009)

   The Interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements.

   IFRIC 12 is not relevant to the Group's operations as none of the Group companies entered into any service concession arrangements.

6. IFRIC 15 Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2010)

   IFRIC 15 clarifies that revenue arising from agreements for the construction of real estate is recognised by reference to the stage of completion of the contract activity in the following cases:
   - the agreement meets the definition of a construction contract in accordance with IAS 11.3;
   - the agreement is only for the rendering of services in accordance with IAS 18 (e.g. the Group is not required to supply construction materials); and
   - the agreement is for the sale of goods but the revenue recognition criteria of IAS 18.14 are met continuously as construction progresses.

In all other cases, revenue is recognised when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g. upon completion of construction or upon delivery).

IFRIC 15 is not relevant to the Group's financial statements as the Group does not provide real estate construction services or develop real estate for sale.

7. IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 July 2009)

   The Interpretation explains the type of exposure that may be hedged, where in the group the hedged investment may be held, whether the method of consolidation affects hedge effectiveness, the form the hedged instrument may take and which amounts are reclassified from equity to profit or loss on disposal of the foreign operation.

   IFRIC 16 is not relevant to the Group's financial statements as the Group has not designated any hedges of a net investment in a foreign operation.

8. IFRIC 17 Distributions of Non-cash Assets to Owners (effective prospectively for annual periods beginning on or after 1 November 2009)

   The Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled, the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in profit or loss.

   No non-cash assets are paid out to owners.

9. IFRIC 18 Transfers of Assets from Customers (effective prospectively for annual period beginning on or after 1 November 2009)

   The Interpretation requires an entity that receives a contribution in the scope of the Interpretation to recognize the item as an asset at its fair value if the transferred item meets the criteria for property, plant, and equipment in IAS 16, Property, Plant and Equipment. The Interpretation also requires the entity to recognize the amount as revenue; the timing of revenue recognition depends on the facts and circumstances of the particular arrangement.

   IFRIC 18 is not relevant to the Group's financial statements as the Group does normally not receive contributions from customers.

3. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods presented below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment
The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

Intangible assets
The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

Inventories
The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Investments in equity and debt securities
The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price as regards foreign securities, whereas with investments made in Slovenia the uniform exchange rate at the reporting date is considered. The fair value of held-to-maturity investments is determined for disclosure purposes only.

Trade and other receivables
The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Derivatives
The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps equals the market price recorded as at the reporting date.

Non-derivative financial liabilities
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

4. Financial risk management

A brief summary of financial risk management policies is given below. Detailed comments, data and ratios are given within the Business Report under 'Risk Management', as well as within the Note 28 Financial instruments of the consolidated financial statements.

Credit risk

The credit control procedure includes the credit rating of customers who on an annual basis purchase from the controlling company products worth EUR 100,000 and more; the control procedure includes also active monitoring of payments by customers. More than 400 customers of the Group are jointly included in the credit control system.

The results of the credit control are positive. Considering the market situation the Group keeps its credit risk exposure under control by regular monitoring due trade receivables, the aging structure of receivables and the average payment deadlines.

Extension of payment deadlines in several individual markets was reflected in a gradual increase in total trade receivables. Due to the worsened market situation, the credit exposure ratios of the Group deteriorated in comparison to the previous financial year. Detailed information on credit risk exposure is presented in the note 'Financial instruments'.

No significant receivable write-offs due to default have been recorded in 2009. Allowances for receivables were increased due to an increase in total receivables as well as due to the generally lower credit ratings of trade receivables arising from the fierce market and liquidity situation in Krka's key markets.

The credit control for the Group is centralised and conducted by the Risk Management Department and applies uniform procedures and rules for customers of subsidiaries as well as of the controlling company.

Liquidity risk

The liquidity risk is managed by the Group on a centralised basis with the aim to provide adequate liquidity of the controlling company and of subsidiaries, as well as to enable all Group companies financing under most favourable conditions and terms. Despite the adverse business conditions in money markets, the Group managed to maintain the liquidity risk in 2009 at a low level.

The liquidity risk is managed by applying various mechanisms on the level of the controlling company as well as subsidiaries. Supported by a central business information system, future cash requirements are monitored on a weekly basis. Possible cash deficits are secured in advance by banks based on agreed-upon credit lines, while possible cash surplus is allocated to short-term bank deposits. As regards the accessibility of Krka to short-term bank borrowings, no changes incurred.

By keeping low indebtedness and high credit standing, the Group managed to maintain a low liquidity risk associated with debt servicing. Values of contractual cash flows arising from financial liabilities in terms of maturity are presented in the note 'Financial instruments' (Liquidity risk).

Due to increased cash inflows from operations in the last quarter of 2009, the requirements for short-term financing were minimized, thus providing the Group with an additional liquidity reserve in the form of unutilized short-term bank loans.

Currency risk

The Group is exposed to currency risks due to its extensive international operations. The emphasis lies on the exchange rates of the Russian rouble, the Croatian kuna, the Romanian leu, the Polish zloty, the Czech koruna, the Hungarian forint, the Ukrainian hryvnia and the Serbian dinar.

The open foreign currency position represents the Group's gross financial position exposure to the individual foreign currency. As for all above stated foreign currencies the Group records excess of assets over liabilities. Detailed information on currency risk exposure is presented in the note 'Financial instruments'.

No derivatives were used for hedging against currency risk in 2009. Due to high interest rate differentials between the aforementioned individual currencies and the euro, the financial markets lack appropriate derivatives which could be used for effective hedging against currency risk. For this reason, open foreign currency positions were not hedged in 2009.

The Group recorded foreign exchange losses in 2009, resulting from a drop in the foreign currency exchange rates in the Group's key markets in the first quarter 2009. Due to appreciation of the individual currencies, exchange gains were generated later in the financial year; these partly neutralised the foreign exchange losses recorded in the first three months of 2009.

Interest rate risk

By the end of 2009, seven long-term borrowings were recorded by the Group with the 6-month EURIBOR reference rate. Two additional long-term loans were raised in 2009 to be used for refinancing the existing short-term borrowings. The exposure to interest rate risk has thus increased in comparison to the total borrowings in 2009. More information relating to the interest rate risk is provided within the financial statements under the note Financial instruments.
As the reference rates were extremely low in 2009 and due to a sharp financial situation, there was no indication of the reference rate to increase. Accordingly, no interest rate hedge instruments were applied in 2009.

Capital management

The management decided to maintain a large amount of equity in order to keep the confidence and to secure further development of the Group. It defined return on equity as one of the key ratios, namely as a relation between the generated net profit of the majority stockholders and the average value of the majority stockholder's equity. For the past five years, the average return on equity (ROE) was recorded at 21.3%.

The Group implements the method of moderately increasing the dividend amount, paid out on an annual basis. The Management Board and the Supervisory Board of the controlling company define the amount of the dividend. Dividends are paid from the controlling company's accumulated profit which is formed pursuant to regulations applicable in Slovenia and allocated pursuant to the resolution adopted by the Annual Meeting.

In compliance with the resolution of the Annual Meeting, the controlling company of the Group has formed a fund of own shares up to 10% of the share capital. As at the reporting date own shares were recorded in the amount of 1,626,620, i.e. 4.6% of the share capital.

The Group has no specific goals as regards the ownership share held by employees, as well as no programme of share options. There were no changes in the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

5. Segment reporting

Segment information is presented in terms of certain geographical segments. Revenues generated on segments are presented by the geographical location of customers.

SEGMENT REPORTING

	European Union		South-East Europe		East Europe		Other markets		Total	
in EUR thousand	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Revenues to non-Group companies	626,214	605,013	86,160	95,162	225,745	232,162	14,919	17,583	953,038	949,920
Revenues to Group companies	120,679	101,674	52,822	54,848	84,610	79,591	0	0	258,111	236,113
Revenues from reversal of long-term provisions and other revenues	99,233	8,617	0	0	0	0	3,552	0	102,785	8,617
Operating profit	192,968	183,731	19,661	29,511	16,366	23,012	5,997	527	234,992	236,781
Interest revenue	720	306	13	4	6	8	0	0	739	318
Interest expense	5,110	9,130	31	41	0	0	0	0	5,141	9,171
Net financial income/ expenses									-10,670	-31,148
Income tax expense									-50,637	-49,742
Profit for the period									173,685	155,891
Total assets	1,032,586	966,822	89,927	105,558	208,465	188,049	10,054	10,607	1,341,032	1,271,036
Total liabilities	277,412	313,282	34,874	43,180	102,588	123,108	5,789	8,170	420,663	487,740
Capital expenditure	90,554	142,348	0	3,565	934	1,148	0	0	91,488	147,061
Depreciation of property, plant and equipment	51,562	44,353	4,893	4,961	9,625	10,632	396	392	66,476	60,338
Amortisation of intangible assets	7,851	8,999	717	654	1,542	1,519	89	99	10,199	11,271

Segments presented within the financial statements differ from segments or sales regions of the Krka Group which are illustrated in its Business Report. The respective segments are used in connection with reporting to the Management Board and support also the bookkeeping method applied within the Krka Group. As for the Business Report, sales are presented in terms of regions and groups of products, taking account of bookkeeping within the sales and marketing.

As for the Group's structure of revenue, none of the customers generated 10% or more among total revenue.

6. Other operating income

in EUR thousand	2009	2008
Reversal of non-current provisions, government and EU grants	93,249	427
Profit from the sale of property, plant and equipment and intangible assets	439	2,062
Other operating income	9,098	6,128
Total other operating income	**102,786**	**8,617**

7. Costs by nature

in EUR thousand	2009	2008
Cost of goods and material	−213,730	−225,477
Cost of services	−193,035	−196,496
Employee benefits cost	−239,380	−224,049
Amortisation/Depreciation	−76,675	−71,609
Formation of provisions for lawsuits	−47,500	−5,500
Other operating expenses	−30,586	−28,630
Total costs	**−800,906**	**−751,761**
Change in the value of inventories	−19,926	30,005
Total	**−820,832**	**−721,756**

8. Employee benefits cost

in EUR thousand	2009	2008
Gross wages and salaries and continued pay	185,891	175,643
Social security contributions and payroll tax	34,142	33,835
Retirement benefits and anniversary bonuses	8,608	4,904
Other employee benefits cost	10,739	9,667
Total employee benefits cost	**239,380**	**224,049**

The item of other employee benefits cost in the reporting period includes the vacation bonus and travel allowances.

9. Other operating expenses

in EUR thousand	2009	2008
Grants and assistance for humanitarian and other purposes	3,526	2,324
Environmental levies	1,528	1,625
Other levies	5,170	5,730
Loss in the sale of property, plant and equipment and intangible assets	2,138	2,309
Write-offs and allowances for inventories	11,925	7,913
Other costs	6,299	8,729
Total other operating expenses	**30,586**	**28,630**

10. Financial income and financial expenses

in EUR thousand	2009	2008
Interest income	739	319
Change in fair value of investments through profit or loss	101	0
Gain on the sale of securities	0	50
Income from derivative financial instruments, thereof:	0	2,076
– inflows	0	1,886
– changes in fair value	0	190
Dividend income	13	21
Other income	32	111
Reversal of impairment	185	452
Total financial income	**1,070**	**3,029**
Exchange differences	–3,560	–12,522
Interest expense	–5,141	–9,171
Change in fair value of investments through profit or loss	0	–736
Income from derivative financial instruments, thereof:	–1,225	–2,682
– outflows	–1,035	–1,099
– changes in fair value	–190	–1,583
Other expenses	–280	–516
Write-offs and allowances for receivables	–1,534	–8,550
Total financial expenses	**–11,740**	**–34,177**
Net financial expenses	**–10,670**	**–31,148**

11. Income tax

Adjustment to effective tax rate

in EUR thousand	2009	2008
Income tax	39,178	50,798
Deferred tax	11,459	−1,056
Total income tax	**50,637**	**49,742**
Profit before tax	224,322	205,633
Income tax calculated using the actual tax rate	47,107	45,239
Tax exempt expenses	22,911	5,143
Tax incentives	−4,485	−4,829
Revenue decreasing the tax base	−21,133	−795
Revenue increasing the tax base	591	94
Effect of different tax rates, and other	5,646	4,890
Total income tax expenses	**50,637**	**49,742**
Effective tax rate	**22,6%**	**24,2%**

12. Property, plant and equipment

in EUR thousand	31 Dec 2009	31 Dec 2008
Property	29,253	29,097
Plant	300,078	297,214
Equipment	269,803	262,430
Property, plant and equipment under construction	50,012	46,509
Total property, plant and equipment	649,146	635,250

In 2009 advances for property, plant and equipment as well as inventories were included among the items of receivables. Accordingly also comparable data for 2008 have been prepared in all further schedules which included these advances.

As for the reporting period the Group's biggest investment (EUR 16,265 thousand) relates to the reconstruction of the Bršljin plant. EUR 9,540 thousand were invested into the production plant for solid pharmaceutical forms (tablets), EUR 5,846 thousand were invested into increasing the production capacities for capsules and EUR 4,694 thousand were invested into extending the warehouse capacities on the location Gotna vas in Novo mesto.

In 2009 the total value of investments in the Terme Krka Group was recorded at EUR 3,167 thousand with most of the assets being invested into the reconstruction of the pool and health area of the Svoboda hotel in Strunjan. The production or warehouse capacities were increased in the subsidiaries of Krka-Polska (EUR 1,995 thousand) and of Krka-Rus (EUR 1,399 thousand).

Movement of property, plant and equipment (PPE)

in EUR thousand	Property	Plant	Equipment	PPE under construction	Advances for PPE
Cost of purchase					
Balance at 01 Jan 2008	25,234	456,217	476,572	71,276	1,029,299
Increase due to acquisition	0	0	5	0	5
Additions	0	0	0	136,736	136,736
Capitalisation – transfer from PPE under construction	3,996	53,546	103,351	−160,893	0
Disposals	−77	−4,639	−13,393	0	−18,109
Exchange differences	−70	−5,283	−5,646	−610	−11,609
Transfers among assets and other reclassifications	14	−17	3	0	0
Balance at 31 Dec 2008	29,097	499,824	560,892	46,509	1,136,322
Balance at 01 Jan 2009	29,097	499,824	560,892	46,509	1,136,322
Additions	0	0	0	83,422	83,422
Capitalisation – transfer from PPE under construction	396	24,210	54,995	−79,601	0
Disposals	−251	−460	−9,489	0	−10,200
Exchange differences	12	−2,560	−7,271	−318	−10,137
Transfers among assets and other reclassifications	0	0	−2	0	−2
Balance at 31 Dec 2009	29,254	521,014	599,125	50,012	1,199,405
Accumulated depreciation					
Balance at 01 Jan 2008	0	−188,272	−272,496	0	−460,768
Depreciation	0	−20,029	−40,309	0	−60,338
Disposals, deficits, surpluses, other	0	3,463	11,233	0	14,696
Exchange differences	0	2,228	3,110	0	5,338
Balance at 31 Dec 2008	0	−202,610	−298,462	0	−501,072
Balance at 01 Jan 2009	0	−202,610	−298,462	0	−501,072
Depreciation	0	−20,953	−45,523	0	−66,476
Disposals, deficits, surpluses, other	0	455	8,385	0	8,840
Exchange differences	0	2,172	6,278	0	8,450
Balance at 31 Dec 2009	0	−220,936	−329,322	0	−550,258
Carrying amount					
Balance at 01 Jan 2008	25,234	267,945	204,076	71,276	568,531
Balance at 31 Dec 2008	29,097	297,214	262,430	46,509	635,250
Balance at 01 Jan 2009	29,097	297,214	262,430	46,509	635,250
Balance at 31 Dec 2009	29,254	300,078	269,803	50,012	649,147

Based on the contracts that had been signed in connection with the ongoing investments, the Group accounted for EUR 25,339 thousand of future liabilities resulting from acquisition of property, plant and equipment as at the reporting date.

In 2009 no borrowing costs refer to the item of property, plant and equipment.

13. Intangible assets

in EUR thousand	31 Dec 2009	31 Dec 2008
Goodwill	42,644	42,644
Trademark	42,403	42,403
Concessions, patents, licences, trademarks and similar rights	35,302	38,390
Intangible assets under construction	6,232	5,543
Total intangible assets	126,581	128,980

Movement of intangible assets (IA)

in EUR thousand	Goodwill	Trademark	Concessions, patents, licences, trademarks and similar rights	IA under construction	Total
Cost of purchase					
Balance at 01 Jan 2008	42,278	42,403	58,286	6,568	149,535
Increase due to acquisition	366	0	213	0	579
Additions	0	0	807	9,518	10,325
Transfer from IA under construction	0	0	10,557	–10,557	0
Disposals	0	0	–2,509	0	–2,509
Exchange differences	0	0	–292	14	–278
Balance at 31 Dec 2008	42,644	42,403	67,062	5,543	157,652
Balance at 01 Jan 2009	42,644	42,403	67,062	5,543	157,652
Additions	0	0	336	7,730	8,066
Transfer from IA under construction	0	0	7,041	–7,041	0
Disposals	0	0	–316	0	–316
Exchange differences	0	0	74	0	74
Transfer from property, plant and equipment	0	0	2	0	2
Balance at 31 Dec 2009	42,644	42,403	74,199	6,232	165,478
Accumulated amortisation					
Balance at 01 Jan 2008	0	0	–19,681	0	–19,681
Amortisation	0	0	–11,271	0	–11,271
Disposals	0	0	2,013	0	2,013
Exchange differences	0	0	267	0	267
Balance at 31 Dec 2008	0	0	–28,672	0	–28,672
Balance at 01 Jan 2009	0	0	–28,672	0	–28,672
Amortisation	0	0	–10,199	0	–10,199
Disposals	0	0	14	0	14
Exchange differences	0	0	–42	0	–42
Transfer from property, plant and equipment	0	0	2	0	2
Balance at 31 Dec 2009	0	0	–38,897	0	–38,897
Carrying amount					
Balance at 01 Jan 2008	42,278	42,403	38,605	6,568	129,854
Balance at 31 Dec 2008	42,644	42,403	38,390	5,543	128,980
Balance at 01 Jan 2009	42,644	42,403	38,390	5,543	128,980
Balance at 31 Dec 2009	42,644	42,403	35,302	6,232	126,581

Impairment testing for the TAD Pharma trademark and goodwill

For the purpose of impairment testing for the trademark and the goodwill relating to the acquisition of the company TAD Pharma, the German market was taken into account as a cash generating unit. By this acquisition, the Krka Group secured itself direct access to the entire German market. Basis for the calculation were the planned sales values for the period from 2010-2014 whereas also the average annual growth of 5% was taken into account. While calculating the cost the profitability generated in 2009 was taken into account as well as the fact that constant pressure for price-cutting shall take a tougher line. The said calculation applied the 9.12 percent discount rate equalling the weighted average capital cost of TAD Pharma (WACC). Based on the discounted cash flows it was established that the recoverable amount of the cash generating unit exceeds its carrying amount, including the goodwill and the trademark, hence no need for the respective impairment exists.

14. Loans

in EUR thousand	31 Dec 2009	31 Dec 2008
Long-term loans	4,064	3,892
Short-term loans	2,209	1,391
Short-term interest receivable	4	2
Total loans	**6,277**	**5,285**

Long-term loans include mostly housing loans which are extended by the controlling company and some subsidiaries to its employees in accordance with the Group's internal acts. 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. In 2009 the said rate ranged between 2.016% and 3.805%. The loan related repayment period must not exceed 15 years.

15. Investments

in EUR thousand	31 Dec 2009	31 Dec 2008
Non-current investments	**5,658**	**6,343**
– financial assets available for sale	5,658	6,343
Current investments, including derivatives	**834**	**743**
– instruments held for trading	145	128
– derivatives	0	190
– other current investments	689	425
Total investments	**6,492**	**7,086**

EUR 969 thousand of financial assets available for sale refer to investments made in Slovenia, whereas EUR 4,689 thousand to investments made abroad.

Other current investments refer to Slovenian mutual funds in the amount of EUR 241 thousand (2008: EUR 192 thousand), assets under management in the amount of EUR 268 thousand (2008: EUR 233 thousand) and EUR 180 thousand of bills received as repayment of receivables. The change of fair value is recognised through profit or loss.

Movement of non-current investments – financial assets available for sale

in EUR thousand	Financial assets available for sale
Balance at 01 Jan 2008	**10,722**
Purchase	1,085
Decrease	–32
Change in fair value	–5,432
Balance at 31 Dec 2008	**6,343**
Purchase	1
Change in fair value	–686
Balance at 31 Dec 2009	**5,658**

Adjustments of non-current investments (i.e. available-for-sale financial assets) to the market value or fair value are disclosed in its full amount among comprehensive income (fair value reserve) as the amounts are not lower from the initial cost.

16. Deferred tax assets and deferred tax liabilities

	Assets		Liabilities		Assets – liabilities	
in EUR thousand	2009	2008	2009	2008	2009	2008
Intangible assets, and property, plant and equipment	29	658	15,938	15,625	–15,909	–14,967
Financial assets available for sale	0	0	526	696	–526	–696
Inventories	917	0	220	795	697	–795
Receivables/liabilities	1,483	1,973	1,979	1,945	–496	28
Provisions for lawsuits	9,799	19,459	0	0	9,799	19,459
Provisions for retirement benefits	9,156	9,459	1	0	9,155	9,459
Transfer of tax loss	1,007	2,724	–242	–285	1,249	3,009
Total	**22,391**	**34,273**	**18,422**	**18,776**	**3,969**	**15,497**

Deferred tax assets relating to losses of subsidiaries were not recognised.

in EUR thousand	Balance at 1 Jan 2008	Recognised in profit or loss	Translation reserve	Recognised in comprehensive income	Balance at 31 Dec 2008	Recognised in profit or loss	Translation reserve	Recognised in comprehensive income	Balance at 31 Dec 2009
Intangible assets, and property, plant and equipment	−16,154	1,002	185	0	−14,967	−776	−166	0	−15,909
Financial assets available for sale	−1,924	0	0	1,228	−696	0	0	170	−526
Inventories	−1,420	527	98	0	−795	1,418	74	0	697
Receivables/liabilities	899	−841	−30	0	28	−635	111	0	−496
Provisions for lawsuits	19,177	282	0	0	19,459	−9,660	0	0	9,799
Provisions for retirement benefits	10,301	131	0	−973	9,459	−267	0	−37	9,155
Transfer of tax loss	3,352	−45	−298	0	3,009	−1,539	−221	0	1,249
Total	14,231	1,056	−45	255	15,497	−11,459	−202	133	3,969

17. Inventories

in EUR thousand	31 Dec 2009	31 Dec 2008
Material	58,036	64,934
Work in progress	47,076	55,250
Products	59,421	73,182
Merchandise	17,113	17,981
Total inventories	181,646	211,347

The write down of inventories to net realisable value amounted to EUR 3,180 thousand (2008: EUR 1,977 thousand), whereas the write-off of inventories amounted to EUR 8,745 thousand (2008: EUR 5,936 thousand). The write down and write-off of inventories were recognised within other operating expenses.

18. Trade and other receivables

in EUR thousand	31 Dec 2009	31 Dec 2008
Short-term trade receivables	305,572	218,448
Other short-term receivables	29,334	22,427
Total receivables	334,906	240,875

In 2009 allowances for and write-offs of receivables recorded within financial expenses amounted to EUR 1,534 thousand (2008: EUR 8,550 thousand).

Short-term trade receivables *in EUR thousand*	Gross value	Allowances for doubtful and disputable receivables	Net value at 31 Dec 2009	Net value at 31 Dec 2008
Domestic customers	14,023	505	13,518	13,229
Foreign customers	302,650	10,596	292,054	205,219
Total trade receivables	**316,673**	**11,101**	**305,572**	**218,448**

18% of trade receivables are secured.

Other short-term receivables

Other receivables refer mostly to receivables due by the state, in particular arising from VAT refund.

19. Cash and cash equivalents

in EUR thousand	31 Dec 2009	31 Dec 2008
Cash in hand	90	70
Bank balances	13,321	7,534
Total cash and cash equivalents	**13,411**	**7,604**

20. Equity

Share capital

Share capital of the controlling company consists of 35,426,120 ordinary registered no-par value shares. There is solely one class of shares, whereas the first and only issue of shares was carried out in 1995.

Own shares

As of the reporting date the controlling company recorded 1,626,620 own shares, i.e. 4.6% of the share capital value. The number of own shares in this reporting period remained unchanged if compared to 2008.

At the 14th Annual General Meeting held on 2 July 2009, the shareholders adopted a resolution authorising the Management Board to acquire own shares, with the proviso that the combined share of all own shares acquired and already held, could not exceed 10% of share capital or 3,542,612 of shares. The Company may acquire own shares on the regulated market at respective market prices. The Company may acquire own shares also outside the regulated market. When purchasing own shares on the regulated market or non-regulated market, the purchase price must not be lower than the book value based on the last published audited financial statements for the Krka Group. Furthermore, the purchase price must not exceed 30-fold the earnings per share held by the majority stakeholders as stated in the last available audited financial statements of the Krka Group. The authorisation is valid for 36 months from the date on which the Annual General meeting took place.

Reserves

The Group's reserves comprise the share premium, legal and statutory reserves, fair value reserves and translation reserves.

As at the reporting date *the share premium* is recorded at EUR 120,992 thousand; it has not changed compared to 2008. The share premium consists of the general equity revaluation adjustment (EUR 90,659 thousand) which was during the transfer to IFRS included among share premium, reserves for own shares (EUR 19,489 thousand) and share premium (EUR 10,844 thousand) formed pursuant to the special regulation applicable in the ownership transformation of the controlling company.

Legal reserves amounted to EUR 14,990 thousand as at 31 December 2009 and remained unchanged compared to the previous financial year.

Statutory reserves amounted to EUR 22,184 thousand EUR as at the reporting date and show an increase of EUR 5,000 over the previous period. The increase of reserves was approved by the controlling company's management based on statutory provisions.

Compared to 2008 *the fair value reserve* decreased by EUR 516 thousand and as at 31 December 2009 amounts to EUR 2,104 thousand. The total change results from the decrease of fair value of available-for-sale investments (by EUR 686 thousand) and the increase of EUR 170 thousand referring to the related deferred tax effect.

Compared to 2008 the *translation reserve* went down by EUR 444 thousand and as of the reporting date amounted to EUR -9,776 thousand. The aforesaid decline is a result of exchange differences occurring during translation of individual items in financial statements of foreign operations into the local currency, i.e. reporting currency.

Retained earnings

Retained earnings have increased based on the profit for the period recorded by the majority stockholder in the amount of EUR 173,766 thousand. The decrease, on the other hand, is a result of allocation of accumulated profit to dividend payout (EUR 35,489 thousand) as confirmed by the 14th Annual Meeting held on 2 July 2009, of an additional formation of statutory reserves (EUR 5,000 thousand). Furthemore retained earnings are decreased by changes in profits of previous periods (EUR 68 thousand) and the deferred tax effect (EUR 37 thousand).

The amount of the dividend payout, shown in the statement of cash flows, differs from the figure, confirmed by the Annual Meeting and included in the statement of changes in equity, by the amount of change between the opening and closing balance of liabilities for dividend payout in the amount of EUR 162 thousand (2008: EUR 88 thousand).

Dividends per share

As for the reporting period the gross dividend per share amounted to EUR 1.05 per share (2008: EUR 0.91).

Minority interest

Closing balance of minority interest as at the year-end shall include the interest of minority holders of the Golf Grad Otočec. Decrease in minoritiy interest relates to loss for the period in amount of EUR 81 thousand and transfer of not paid-in payments of the minority holder at Terme Krka in amount of EUR 58 thousand.

21. Earnings per share

Basic earnings per share amounted to EUR 5.14 and showed an increase of 11.5% compared to the previous year's result (2008: EUR 4.61). The calculation of earnings per share took account of the net profit for the period attributable to the majority stockholders in the amount of EUR 173,766 thousand (2008: EUR 155,955 thousand). The weighted average number of shares was accounted for in the calculation for both years, i.e. 33,799,500 for shares for 2008 (as in 2008), while 1,626,620 of own shares held by the controlling company were eliminated from the calculation. All shares issued by the controlling company are ordinary shares, hence the diluted earnings per share ratio equalled the basic earnings per share.

22. Borrowings

in EUR thousand	31 Dec 2009	31 Dec 2008
Long-term borrowings	105,113	83,734
– borrowings from domestic banks	104,828	83,306
– borrowings from foreign banks	285	428
Short-term borrowings	51,084	100,111
– current portion of long term borrowings	38,622	29,542
– borrowings from domestic banks	10,000	57,000
– borrowings from foreign banks	415	10,007
– borrowings from other entities	378	372
– interest payable	1,669	3,190
Total borrowings	156,197	183,845

Long-term borrowings

in EUR thousand	Currency	Maturity	31 Dec 2009		31 Dec 2008	
			Par value	Carrying amount	Par value	Carrying amount
Borrowing from domestic bank	EUR	2011	40,000	10,909	40,000	18,182
Borrowing from domestic bank	EUR	2012	25,000	15,000	25,000	20,000
Borrowing from domestic bank	EUR	2012	79,000	55,300	79,000	71,100
Borrowing from domestic bank	EUR	2012	8,025	2,097	8,025	3,411
Borrowing from domestic bank	EUR	2012	1,000	429	1,000	583
Borrowing from domestic bank	EUR	2014	30,000	30,000	0	0
Borrowing from foreign bank	EUR	2014	30,000	30,000	0	0
Total long-term borrowings			213,025	143,735	153,025	113,276

In 2009 the Group was extended two new borrowings by two local banks in the amount EUR 30,000 thousand each; the repayment period for both borrowings is five years.

Long-term borrowings obtained from banks are neither secured by mortgages nor by bank guarantees.

Short-term borrowings are denominated in euro and were extended for the period of one year. The borrowings are not secured.

23. Provisions

in EUR thousand	Balance at 31 Dec 2008	Formation	Utilisation	Reversal	Balance at 31 Dec 2009
Provisions for retirement benefits and anniversary bonuses	49,271	8,373	–2,539	–1,147	53,958
Other provisions	100,392	47,866	–2,882	–91,798	53,578
– provisions for lawsuits	95,747	47,500	–2,804	–91,443	49,000
– other provisions	4,645	366	–78	–355	4,578
Total provisions	149,663	56,239	–5,421	–92,945	107,536

The amounts of provisions for lawsuits referring to intellectual property are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated amount, if the indemnification claim is not yet disclosed. External advisors for litigations referring to intellectual property are engaged for defining the anticipated amounts. Furthermore, the management verifies the justification of the formed provisions with a view to the prospects for a favourable or unfavourable lawsuit outcome every year.

In 2009, the Group eliminated provisions formed for litigations in the total amount of EUR 91,443 thousand. In addition new provisions were formed in the amount of EUR 47,500 thousand for possible liabilities relating to the European Commission procedure which was initiated as a result of alleged infringement of the competition law rules at the sale of perindopril on the European Union markets.

Provisions for retirement benefits and anniversary bonuses are based on a calculation performed by a certified actuary and they were accounted for under following assumptions:

- discount rate of 4.25% in the reporting period (2008: 4.70%) referring to the harmonised long-term government bond yield within the euro area (Source: ECB);
- valid amounts of retirement benefits and anniversary bonuses as defined by internal acts of individual companies or local regulations;
- employee turnover depending in particular upon the employees' age;
- mortality level calculated on the basis of last mortality tables available;
- increase in wages and salaries attributable to an inflation rate of 1.6% (2008: 2%) and career promotion, i.e. 2% (2008: 2%).

The estimates and the assumptions that have been applied are based on the actual state of affairs during the preparation of the calculation of the actuary. The projected unit method was applied in the calculation. Actuarial deficits or surpluses that have occurred in connection with retirement benefits and anniversary bonuses are recognised in the income statement either as expense or income.

24. Government grants and grants by the European Union

in EUR thousand	Balance at 31 Dec 2008	Grants received	Reversals	Balance at 31 Dec 2009
Grants received for the Beta plant in Šentjernej	214	0	−45	169
Grants received for the health resorts Dolenjske and Šmarješke Toplice and Golf Grad Otočec	4.500	1.318	−234	5.584
Grants by the European Regional Development Fund	34	0	−4	30
Grants by the European Fund – development of new technologies (FBD project)	0	395	−10	385
Properties, plant and equipment received for free	605	1	−11	595
Total grants received	**5.353**	**1.714**	**−304**	**6.763**

Operation (project) FBD is partially co-financed by European Union, European Regional Development Fund. Operation is executed within framework of Operative Programme for the strengthening of the regional development potentials for the period 2007 - 2013, 1st development priority: Competitiveness of the companies and research excellence, priority aim 1.1. Improvement of the competitive capabilities of the companies and research excellence.

The recorded amounts of grants received from the government and the European Union are decreased by the proportionate share of depreciation of assets to which the grants refer to.

25. Trade payables

in EUR thousand	31 Dec 2009	31 Dec 2008
Payables to domestic suppliers	31,900	37,863
Payables to foreign suppliers	40,078	31,739
Payables from advances	522	394
Total trade payables	72,500	69,996

26. Other current liabilities

in EUR thousand	31 Dec 2009	31 Dec 2008
Accrued contractual discounts on products sold to customers outside the Group	20,643	18,517
Payables to employees – gross wages, other charges	24,428	18,555
Other	12,479	12,502
Total other current liabilities	57,550	49,574

27. Contingent liabilities

in EUR thousand	31 Dec 2009	31 Dec 2008
Guarantees issued	2,303	2,019
Other	1,749	2,017
Total contingent liabilities	4,052	4,036

28. Financial instruments

Long-term stability of the Group's performance is managed by means of active risk management policies as presented in detail in the Business Report under 'Risk management'. Due to the high amount of international import and export business, the Group is primarily exposed to foreign exchange and interest rate risks, as well as to credit risks. No derivative financial instruments were used in 2009 for hedging the Group's exposure against foreign exchange and interest rate risks.

Credit risk

Credit risk is hedged by the assessment of the customers' credit rating as well as by debt collection procedures.

Credit risk exposure

The carrying amount of financial assets represents the biggest exposure to credit risk. Following status was shown as at the reporting date:

in EUR thousand	Notes	31 Dec 2009	31 Dec 2008
Financial assets available for sale	15	5,658	6,343
Financial assets at fair value through profit or loss		834	553
Loans	14	6,277	5,285
Receivables	18	334,906	240,875
– thereof trade receivables		305,572	218,448
Cash and cash equivalents	19	13,411	7,604
Foreign currency derivatives (assets)	15	0	190
Total		**361,086**	**260,850**

As for the financial assets exposed to credit risk, the loans and receivables are presented separately. Their maximum exposure to credit risk is shown in terms of geographic regions:

in EUR thousand	31 Dec 2009	31 Dec 2008
Slovenia	35,046	27,905
South-East Europe	65,957	69,684
East Europe	126,150	85,550
Central Europe	51,699	31,575
West Europe and Overseas Markets	62,331	31,446
Total	**341,183**	**246,160**

18% of trade receivables are secured.

Ageing structure of loans and receivables as at the reporting date

in EUR thousand	Gross value 2009	Allowance 2009	Gross value 2008	Allowance 2008
Not past due receivables	314,115	2,255	210,580	507
Past due 20 days	7,173	85	8,207	133
Past due 21 to 50 days	6,596	219	7,052	806
Past due 51 to 180 days	10,288	688	21,462	2,929
More than 180 days	14,184	7,926	9,379	6,145
Total	**352,356**	**11,173**	**256,680**	**10,520**

Movement of allowances for receivables

in EUR thousand	2009	2008
Balance at 01 January	10,520	3,883
Formation of allowance	1,511	8,174
Write-off of receivables charged against allowance	–304	–2,028
Reversal of impairment	–185	–452
Collection of bad debts	–157	–32
Exchange differences	–212	975
Balance at 31 December	**11,173**	**10,520**

Liquidity risk

Due to an accurate planning of cash flows and short-term credit lines that were agreed with the banks in advance, the liquidity risk was low in 2009 despite the financial market turbulence.

Maturity of financial liabilities

Financial liabilities in terms of maturity are outlined in the schedule below.

Maturity of financial liabilities as at 31 December 2009

in EUR thousand	Carrying amount	Contractual cash flows				
		Total	Up to 6 months	Between 6 and 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Long-term borrowings from banks	145,296	152,628	19,609	22,477	40,386	70,156
Short-term borrowings from banks	10,477	10,457	10,457	0	0	0
Other short-term borrowings	425	431	240	191	0	0
Trade and other payables	131,745	131,745	131,745	0	0	0
Total non-derivative financial liabilities	**287,942**	**295,261**	**162,051**	**22,668**	**40,386**	**70,156**
Total derivatives	**0**	**0**	**0**	**0**	**0**	**0**
Total	**287,942**	**295,261**	**162,051**	**22,668**	**40,386**	**70,156**

Maturity of financial liabilities as at 31 December 2008

in EUR thousand	Carrying amount	Contractual cash flows				
		Total	Up to 6 months	Between 6 and 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Long-term borrowings from banks	114,747	126,406	17,162	16,756	33,671	58,817
Short-term borrowings from banks	68,672	70,131	36,463	33,668	0	0
Other short-.term borrowings	426	432	176	256	0	0
Trade and other payables	130,103	130,103	130,103	0	0	0
Total non-derivative financial liabilities	**313,948**	**327,072**	**183,904**	**50,680**	**33,671**	**58,817**
Derivatives						
Other contracts futures for inflow hedging	–190	–190	–190	0	0	0
Total derivatives	**–190**	**–190**	**–190**	**0**	**0**	**0**
Total	**313,758**	**326,882**	**183,714**	**50,680**	**33,671**	**58,817**

Foreign currency risk

Exposure to foreign currency risk

in EUR thousand	31 December 2009				
	EUR	USD	PLN	HRK	RUB
Trade receivables	89,629	26,175	32,196	31,740	101,315
Borrowings from banks	−156,197	0	0	0	0
Trade payables	−57,483	−10,848	−1,726	−171	−162
Gross financial position exposure	**−124,051**	**15,327**	**30,470**	**31,569**	**101,153**
Estimated sales	566,776	47,223	115,505	44,480	167,003
Estimated purchases	−418,400	−122,500	−23,400	−10,500	−22,900
Gross exposure	**148,376**	**−75,277**	**92,105**	**33,980**	**144,103**
Derivatives	**0**	**0**	**0**	**0**	**0**
Net exposure	**24,325**	**−59,950**	**122,575**	**65,549**	**245,256**

in EUR thousand	31 December 2008				
	EUR	USD	PLN	HRK	RUB
Trade receivables	105,639	40,570	18,227	42,527	7,267
Borrowings from banks	−183,845	0	0	0	0
Trade payables	−56,860	−8,009	−920	−178	−26
Gross financial position exposure	**−135,066**	**32,561**	**17,307**	**42,349**	**7,241**
Sales	535,108	42,906	111,797	39,915	166,089
Purchases	−394,689	−115,597	−22,108	−9,890	−21,650
Gross exposure	**140,419**	**−72,691**	**89,689**	**30,025**	**144,439**
Derivatives	**0**	**−22,698**	**0**	**0**	**0**
Net exposure	**5,353**	**−62,828**	**106,996**	**72,374**	**151,680**

Estimated sales and purchases stated in the 2009 schedule ground on the Company's business plan for 2010, whereas sales and purchases stated in the 2008 schedule take account of the Company's actual sales and purchases made in 2009.

Significant foreign exchange rates

	Average exchange rate*		Final exchange rate*	
	2009	2008	2009	2008
USD	1.39	1.47	1.43	1.41
PLN	4.33	3.51	4.12	4.15
HRK	7.34	7.22	7.31	7.33
RUB	44.13	36.40	43.50	41.40

* number of local currency's units for 1 euro

Final exchange rates are rates that were used for the calculation of items in the financial statement as at 31 December and equal the exchange rate of the Bank of Slovenia of 30 December.

Sensitivity analysis

A 1% percent increase of the euro value in respect of currencies stated as at 31 December 2009 or 31 December 2008 would increase or decrease the net profit referring to values stated below. The analysis assumes that all other remaining elements, interest rates in particular remain unchanged. The 2008 analysis was prepared on the same basis.

	Impact on the profit or loss	
in EUR thousand	2009	2008
USD	594	622
PLN	−1,214	−1,059
HRK	−649	−717
RUB	−2,428	−1,502

A 1% decrease of the euro value in respect of currencies stated as at 31 December 2009 or 31 December 2008 would have the same effect – but in reverse direction - provided that all other elements remain unchanged.

Interest rate risk

Exposure to interest rate risk

in EUR thousand	2009	2008
Financial instruments at fixed interest rate	**11,233**	**−174**
Financial assets	12,603	5,198
Financial liabilities	−1,370	−5,372
Financial instruments at variable interest rate	**−153,124**	**−175,196**
Financial assets	34	87
Financial liabilities	−153,158	−175,283

Analysis of sensitivity of the financial instrument's fair value by applying the fixed interest rate

The Group holds no derivatives with reference to fixed interest rate, recognised at fair value through profit or loss, and no derivatives designated as a fair value hedge. Thus, a change of the interest rate as at the reporting date would have no impact on the profit or loss.

Analysis of the cash flow's sensitivity by applying the variable interest rate

Change of the interest rate by 100 basis points would increase/decrease the net profit or loss for 2009 by EUR 1,531 thousand (2008: EUR 1,752 thousand). The analysis assumes that all elements, foreign exchange rate in particular remain unchanged, and has been prepared the same way as for the financial year 2008.

A detailed schedule of long-term and short-term borrowings is presented below.

Long-term borrowings

in EUR thousand	31 Dec 2009	31 Dec 2008
Long-term borrowings	143,735	113,276
– short-term portion of long-term borrowings	38,622	29,542
Average balance of long-term borrowings	128,506	125,277
Interest paid (financial year)	3,528	6,744
Other cost of raising long-term borrowings	68	67
Average interest rate of long-term borrowings (financial year)	2.80%	5.44%
Maturity in three years or less	82%	67%
Maturity in more than three years	18%	33%
Currency structure of long-term borrowings:		
– Euro	100%	100%
Structure of long-term borrowings in terms of interest rates:		
– variable	100%	100%

Short-term borrowings

in EUR thousand	31 Dec 2009	31 Dec 2008
Short-term borrowings including short-term portion of long-term borrowings	49,416	96,921
– from banks	49,037	96,549
– from other entities	379	372
Short-term borrowings exclusive of short-term portion of long-term borrowings	10,794	67,379
Average balance of short-term borrowings (financial year)	39,087	39,262
Interest paid (financial year)	1,505	2,386
Other cost of raising short-term borrowings	34	35
Average cost of short-term borrowings (financial year)	3.94%	6.17%
Currency structure of short-term borrowings		
– Euro	100%	100%
Structure of short-term borrowings in terms of interest rates:		
– variable	93%	92%
– fixed	7%	8%

Fair value

in EUR thousand	2009 Carrying amount	2009 Fair value	2008 Carrying amount	2008 Fair value
Long-term loans	4,064	4,064	3,892	3,892
Financial assets available for sale	5,658	5,658	6,343	6,343
Short-term loans	2,213	2,213	1,393	1,393
Current investments	834	834	553	553
– instruments held for trading	145	145	128	128
– other current investments	689	689	425	425
Trade and other receivables	334,906	334,906	240,875	240,875
Cash and cash equivalents	13,411	13,411	7,604	7,604
Interest bearing derivatives	0	0	190	190
– assets	0	0	190	190
Borrowings	–156,197	–161,578	–183,845	–194,622
Trade and other payables	–131,745	–131,745	–130,103	–130,103
Total	**73,144**	**67,763**	**–53,098**	**–63,875**

The manners of the fair value measurement of the individual types of financial instruments are presented below.

Interest bearing loans and borrowings

The fair value of loans and borrowings is calculated by applying the discounted cash flow of the principal and interest. The discount interest rate was computed by considering the yield for Slovenia's government bonds in Europe with a 2-year maturity, based on the report about the market situation at 31 December 2009 published by Abanka. The yield-to-maturity of these papers was recorded at 1.360% (2008: 1.796%).

Financial instruments

The financial instruments are classified in three levels in terms of their fair value, namely:

- level 1: assets and liabilities at market value;
- level 2: assets and liabilities that are not classified within level 1 and their value is defined directly or indirectly based on comparable market data;
- level 3: assets and liabilities the value of which cannot be determined via market data.

in EUR thousand	31 Dec 2009 Level 1	31 Dec 2009 Level 2	31 Dec 2009 Level 3	31 Dec 2008 Level 1	31 Dec 2008 Level 2	31 Dec 2008 Level 3
Financial assets available for sale	4,067	0	1,591	4,740	0	1,603
Instruments held for trading	145	0	0	128	0	0
Other current investments	509	0	180	425	0	0
Derivatives	0	0	0	0	190	0
Total	**4,721**	**0**	**1,771**	**5,293**	**190**	**1,603**

Securities held for trading

The fair value is computed on the basis of the stock exchange quotation of the respective securities as at the reporting date, and it is not decreased by any costs that may arise upon the sale or purchase of securities.

Receivables and liabilities

Short-term receivables and liabilities are recorded at carrying amount which is accounted for as fair value.

Options, futures contracts and interest rate swaps

Fair values of purchased and sold options, futures contracts and interest rate swaps are submitted on the last day of each Quarterly of the financial year by the bank in which the individual instrument was purchased or sold, or by another bank with which an umbrella contract on derivatives was signed.

29. Transactions with related entities

Data on groups of persons

As at the year-end, the members of the Management Board of the Company held 58,990 of shares in the Company, representing a 0.167% of the total equity (i.e. 0.175 of voting rights), and the Managing Directors of subsidiaries held 5,635 of shares or 0.016% of the total equity (i.e. 0.017 of voting rights).

A questionnaire on related entities is completed by the Management Board members and other management staff on a yearly basis, which is afterwards used by the Group to check the existence of any other business relations between the individual company and the employees. No such business relations were recorded in 2009.

EMOLUMENTS OF GROUPS OF PERSONS

in EUR thousand	2009	2008
Management Board members in the controlling company and managers of subsidiaries	3,471	3,360
Members of the Supervisory Board/Boards of Directors	110	165
Persons employed under individual employment contracts	23,037	22,783
Total emoluments of groups of persons	**26,618**	**26,308**

Emoluments of the Management Board members in the controlling company and of managers in subsidiaries, as well as emoluments of employees include salaries and wages, fringe benefits and any other receipts. Emoluments of the Management Board members in the controlling company are disclosed in Note 30 of the Company's financial statements.

Emoluments of members of the Supervisory Board in the controlling company represent remuneration for the tasks performed within the Supervisory Board. Emoluments of the Supervisory Board members in subsidiaries, who simultaneously act as Management Board members in the controlling company or are employed under individual employment contracts, also include solely remuneration for the tasks performed within the Supervisory Boards.

LOANS GRANTED TO GROUPS OF PERSONS

	Balance		Repayments	
in EUR thousand	31 Dec 2009	31 Dec 2008	2009	2008
Members of the Management Board	21	10	5	4
Members of the Supervisory Board / Boards of Directors (employee representatives)	0	0	0	1
Persons employed under individual employment contracts	253	307	69	70
Total loans to groups of persons	**274**	**317**	**74**	**75**

The loans granted to the above-mentioned persons were used for housing purposes.

30. Group profile

Transactions between Group companies and the groups of persons were implemented on the basis of sale and purchase contracts. Market prices for products and services have been applied in transactions between related entities.

	Ownership share 31 Dec 2009	Share capital	Currency	Number of employees at 31 Dec 2009	Number of employees at 31 Dec 2008
Controlling company					
KRKA, d. d., Novo mesto		59,126,194	EUR	5260	5250
Subsidiaries					
Terme Krka, d.o.o., Novo mesto	100%	14,753,239	EUR	679	679
KRKA-FARMA d. o. o., Zagreb, Croatia	100%	143,027,200	HRK	168	145
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	37,000	RON	180	0
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	111,080	RSD	58	13
KRKA-FARMA DOOEL, Skopje, Macedonia	100%	49,060,618	MKD	24	25
KRKA FARMA, d. o. o., Sarajevo, Bosnia and Herzegovina	100%	20,000	BAM	1	0
OOO KRKA-RUS, Istra, Russian Federation	100%	1,111,374,765	RUB	154	130
OOO KRKA FARMA, Sergiev Posad, Russian Federation	100%	3,874,800	RUB	49	33
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	100%	17,490,000	PLN	764	759
KRKA ČR, s. r. o., Prague, Czech Republic	100%	100,000	CZK	187	175
KRKA Magyarország Kft, Budapest, Hungary	100%	44,880,000	HUF	148	115
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10,000	EUR	100	87
UAB KRKA LIETUVA, Vilnius, Lithuania	100%	34,000	LTL	0	0
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650,000	EUR	168	163
KRKA Sverige AB, Stockholm, Sweden	100%	150,000	SEK	3	3
KRKA Pharma GmbH, Vienna, Austria	100%	36,500	EUR	16	16
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10,000	EUR	16	9
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1,000	EUR	0	0
KRKA USA, LLC, Wilmington, USA	100%	10,000	USD	0	0

As at 31 December 2009 the subsidiary Terme Krka held a share of 63.10% in the company Golf Grad Otočec, d. o. o.

Educational structure of employees in the Group

	2009		2008	
	Headcount	Share (in %)	Headcount	Share (in %)
PhD	80	1.0	70	1.0
MSc	193	2.5	177	2.4
University education	3723	47.6	3351	45.9
Higher professional education	630	8.1	590	8.1
Vocational college education	233	3.0	231	3.2
Secondary school education	1543	19.7	1421	19.5
Skilled workers	1241	15.9	1260	17.3
Unskilled workers	173	2.2	194	2.6
Total (average for the period)	**7816**	**100.0**	**7294**	**100.0**

31. Transactions with audit firms

The annual fee for auditing the Group amounted to EUR 396 thousand EUR. Audit firms that rendered audit services for the Krka Group companies provided also additional advisory services which amounted to EUR 83 thousand.

32. Events after the reporting date

Events that occurred after the reporting period, i.e. 15 March 2010 are illustrated below.

On 20 January 2010 the Supervisory Board met at a meeting and appointed a Nomination Committee and a commission of the Supervisory Board. The Nomination Committee met for a session on 27 January 2010 and endorsed a resolution on starting with the procedure of appointing members of the Company's Supervisory Board which must be completed by April 2010. The meeting was chaired by the chairman of the committee Tomaž Kuntarič, MSc.

On 24 February 2010 an out-of-court settlement was reached at the District Court in Oslo between Krka d.d. and its subsidiary Krka Sverige AB as defendant, and Eisai Co., Ltd. and Pfizer AS as the plaintiff, in the dispute on alleged infringement of the patent referring to donepezil. Accordingly, Krka shall receive EUR 1.55 million from Eisai Co., Ltd. and continue with its sale of donepezil in Norway. The notice on the interim injunction enforced against Krka Sverige AB due to alleged infringement of the patent that refers to the production of the donepezil ingredient in Norway was published by Krka on 19 November 2008, and the notice on its annulment on 13 March 2009.

The stated events have no impact on the 2009 financial statements of the Krka Group.

Auditor's report

KPMG

Independent Auditor's Report

To the Supervisory Board of KRKA, d.d., Novo mesto

We have audited the accompanying consolidated financial statements of the company KRKA, d.d. and its subsidiaries (the Krka Group) which comprise the consolidated statement of financial position as at 31 December 2009, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Krka Group as at 31 December 2009, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying consolidated financial statements.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

KPMG Slovenija, d.o.o.
2

Borut Šterbenc, B.Sc.Ec.
Certified Auditor

Andrej Korinšek, B.Sc.Ec.
Certified Auditor
Managing Director

Ljubljana, 15 March 2010

Financial statements of Krka, d. d., Novo mesto

Statement of financial position (balance sheet)

in EUR thousand	Notes	31 Dec 2009	31 Dec 2008
Assets			
Property, plant and equipment	12	485,653	472,875
Intangible assets	13	29,683	28,137
Investments in subsidiaries	14	227,585	225,054
Deferred tax assets	17	18,977	28,732
Long-term loans	15	17,080	4,633
Non-current investments	16	5,449	6,134
Other non-current assets		167	308
Total non-current assets		**784,594**	**765,873**
Inventories	18	138,612	169,939
Trade and other receivables	19	346,881	255,711
Short-term loans	15	34,711	31,832
Current investments, including derivatives	16	654	743
Cash and cash equivalents	20	7,487	294
Total current assets		**528,345**	**458,519**
Total assets		**1,312,939**	**1,224,392**
Equity			
Share capital	21	59,126	59,126
Own shares	21	-19,489	-19,489
Reserves	21	160,270	155,786
Retained earnings	21	732,103	601,780
Total equity		**932,010**	**797,203**
Liabilities			
Long-term borrowings	23	103,836	81,209
Provisions	24	100,244	139,309
Government grants and grants by the European Union	25	1,179	853
Deferred tax liabilities	17	526	696
Total non-current liabilities		**205,785**	**222,067**
Trade payables	26	88,534	73,237
Short-term borrowings	23	49,458	88,752
Income tax liabilities		0	9,105
Other current liabilities	27	37,152	34,028
Total current liabilities		**175,144**	**205,122**
Total liabilities		**380,929**	**427,189**
Total equity and liabilities		**1,312,939**	**1,224,392**

Income statement

in EUR thousand	Notes	2009	2008
Revenues	5	850,119	826,160
Production cost of goods sold		–339,090	–272,200
Gross profit		**511,029**	**553,960**
Other operating income	6	96,656	2,551
Distribution expenses		–260,831	–205,133
R&D costs		–82,999	–76,551
Administrative expenses		–52,220	–51,185
Operating profit		**211,635**	**223,642**
Financial income	10	12,160	4,856
Financial expenses	10	–10,139	–22,780
Net financial income/expenses		**2,021**	**–17,924**
Profit before tax		**213,656**	**205,718**
Income tax expense	11	–42,844	–44,588
Profit for the period		**170,812**	**161,130**
Basic earnings per share (in EUR)	**22**	**5,05**	**4,77**
Diluted earnings per share (in EUR)	**22**	**5,05**	**4,77**

Statement of comprehensive income

in EUR thousand	Notes	2009	2008
Net profit for the period	**21**	**170,812**	**161,130**
Other comprehensive income for the period:			
Changes in fair value of financial assets available for sale	21	–686	–5,432
Deferred tax effect – change in fair value of financial assets available for sale	21	170	1,228
Deferred tax effect and tax effect of transition to IFRS	21	0	–905
Total other comprehensive income for the period		**–516**	**–5,109**
Total comprehensive income for the period		**170,296**	**156,021**

Statement of changes in equity

in EUR thousand	Share capital	Own shares	Reserves				Retained earnings			Total equity
			Share premium	Legal reserves	Statutory reserves	Fair value reserves	Other revenue reserves	Net profit for the period	Net profit carried forward	
Balance at 01 Jan 2009	59,126	−19,489	120,992	14,990	17,184	2,620	450,417	108,130	43,233	797,203
Net profit for the period	0	0	0	0	0	0	0	170,812	0	170,812
Other comprehensive income for the period										
Changes in fair value of financial assets available for sale	0	0	0	0	0	−686	0	0	0	−686
Deferred tax effects – changes in fair value of financial assets available for sale	0	0	0	0	0	170	0	0	0	170
Total other comprehensive income for the period	0	0	0	0	0	−516	0	0	0	−516
Total comprehensive income for the period	0	0	0	0	0	−516	0	170,812	0	170,296
Transactions with owners recorded in equity										
Formation of statutory reserves	0	0	0	0	5,000	0	0	−5,000	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board	0	0	0	0	0	0	62,000	−62,000	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	0	−108,130	108,130	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	0	57,937	0	−57,937	0
Dividends paid	0	0	0	0	0	0	0	0	−35,489	−35,489
Total transactions with owners recorded in equity	0	0	0	0	5,000	0	119,937	−175,130	14,704	−35,489
Balance at 31 Dec 2009	59,126	−19,489	120,992	14,990	22,184	2,104	570,354	103,812	57,937	932,010

in EUR thousand	Share capital	Own shares	Reserves				Retained earnings			Total equity
			Share premium	Legal reserves	Statutory reserves	Fair value reserves	Other revenue reserves	Net profit for the period	Net profit carried forward	
Balance at 01 Jan 2008	59,126	−19,489	120,992	14,990	14,184	6,824	356,945	81,021	37,417	672,010
Net profit for the period	0	0	0	0	0	0	0	161,130	0	161,130
Other comprehensive income for the period										
Changes in fair value of financial assets available for sale	0	0	0	0	0	−5,432	0	0	0	−5,432
Deferred tax effects – changes in fair value of financial assets available for sale	0	0	0	0	0	1,228	0	0	0	1,228
Deferred tax effect and tax effect of transition to IFRS	0	0	0	0	0	0	0	0	−905	−905
Total other comprehensive income for the period	0	0	0	0	0	−4,204	0	0	−905	−5,109
Total comprehensive income for the period	0	0	0	0	0	−4,204	0	161,130	−905	156,021
Transactions with owners recorded in equity										
Formation of statutory reserves	0	0	0	0	3,000	0	0	−3,000	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board	0	0	0	0	0	0	50,000	−50,000	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	0	−81,021	81,021	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	0	43,472	0	−43,472	0
Dividends paid	0	0	0	0	0	0	0	0	−30,828	−30,828
Total transactions with owners recorded in equity	0	0	0	0	3,000	0	93,472	−134,021	6,721	−30,828
Balance at 31 Dec 2008	59,126	−19,489	120,992	14,990	17,184	2,620	450,417	108,130	43,233	797,203

Statement of cash flows

in EUR thousand	Notes	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		170,812	161,130
Adjustments for:		94,995	106,603
– amortisation/depreciation	12, 13	58,795	51,729
– exchange differences		–2,144	2,409
– investment income		–12,532	–6,361
– investment expense		3,001	5,364
– interest expense and other financial expense		5,032	8,874
– income tax		42,843	44,588
Operating profit before changes in net operating current assets and provisions		**265,807**	**267,733**
Change in trade receivables		–79,500	–65,686
Change in inventories		31,328	–42,729
Change in operating debts (liabilities)		13,920	6,504
Change in provisions		–39,065	7,315
Change in grants received from the government and the European Union		326	–60
Change in other current liabilities		2,962	3,537
Income taxes paid		–50,229	–39,993
Cash generated from operations		**145,549**	**136,621**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		2,605	2,271
Proceeds from sale of current investments		0	14
Dividends received	10	13	21
Proportionate profit of subsidiaries	10	9,436	682
Proceeds from sale of property, plant and equipment		7,800	4,917
Purchase of intangible assets	13	–7,417	–8,858
Purchase of property, plant and equipment	12	–74,906	–105,549
Acquisition of subsidiaries and a share of minority interest without obtained assets		–2,533	–6,876
Long-term loans		–17,966	–1,120
Proceeds from repayment of long-term loans		5,720	3,575
Acquisition of non-current investments		–65	–1,098
Proceeds from sale of non-current investments		204	346
Acquisition of current investments and loans		–16,830	–41,402
Proceeds from sale of current investments and repayment of short-term loans		13,738	32,421
Payments in connection with derivative financial instruments	10	–1,034	–1,099
Proceeds from derivative financial instruments	10	0	1,886
Net cash used in investing activities		**–81,235**	**–119,869**
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		–6,544	–6,984
Repayment of long-term borrowings		–28,072	–22,533
Acquisition of long-term borrowings		60,000	0
Repayment of short-term borrowings		–313,165	–319,833
Acquisition of short-term borrowings		266,082	361,508
Dividends paid		–35,327	–30,739
Net cash used in financing activities		**–57,026**	**–18,581**
Net increase in cash and cash equivalents		**7,288**	**–1,829**
Cash and cash equivalents at beginning of period		294	2,340
Effect of exchange rate fluctuations on cash held		–95	–217
Net cash and cash equivalents at end of period		**7,487**	**294**

Notes to the financial statements

Krka, d. d., Novo mesto (hereinafter 'Company') is the controlling company in the Krka Group with its registered seat at Šmarješka cesta 6, 8501 Novo mesto, Slovenia.

The Company is engaged in development, production, marketing and sale of human health products (prescription pharmaceuticals, self-treatment products and cosmetics) and veterinary products.

1. Basis for the preparation of the financial statements

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter 'IFRS') as adopted by the EU and in compliance with the Companies Act.

The financial statements of the Company were approved by the Management Board on 15 February 2010.

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 assets available for sale, where the fair value has been taken into account. Methods applied in the measurement of fair value are presented in Note 3.

Functional and reporting currency

The financial statements are presented in euro, which is the Company's functional currency. All financial information presented in euro has been rounded to the nearest thousand. As a result of rounding-off, insignificant deviations occur in figures presented.

The use of estimates and judgements

The preparation of financial statements pursuant to IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information on significant estimates about uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is presented in the following notes:

- Note 24 Measurement of defined benefit obligations,
- Note 24 Provisions for lawsuits and contingent liabilities,
- Note 29 Valuation of financial instruments.

Changes in accounting policies

Accounting for borrowing costs
Since 1 January 2009, borrowing costs of property, plant and equipment that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of that asset. In previous periods, all borrowing costs were recognised as cost.

This change in accounting policy was due to the adoption of IAS 23 Borrowing Costs (2007) in accordance with the transitional provisions of this standard and had no significant impact upon earnings per share.

Determination and presentation of operating segments
In accordance with IFRS 8 Operating Segments, the Company since 1 January 2009 applies the management approach in operating segment reporting, which is based on internal reporting system used by the management in the decision-making process. Segment results and disclosures are reviewed regularly by the Company's Management Board to make decisions about resources to be allocated to the segment and assess its performance.

Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

Presentation of financial statements
The Company applies the revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, the Company presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard.

Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

2. Significant accounting policies

The Company applies the same accounting policies in all periods, presented in the accompanying consolidated financial statements, except in connection with the change of the accounting policies as explained in Note 1.

The comparable data are in accordance with the information referring to the current financial year. Where necessary, they were adjusted so as to comply with the information referring to the current financial year.

Foreign currency

Foreign currency transactions
Transactions and balances in foreign currencies are translated to euro (i.e. the Company's functional currency) at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to euro at the exchange rate at that date. Non-monetary assets and liabilities initially denominated in foreign currencies are retranslated to euro at the exchange rate effective at the reporting 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 that the fair value was determined. Foreign currency differences are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, a financial liability designated as a hedge, or qualifying cash flow hedges, which are recognised directly in comprehensive income. Non-cash items measured at historical cost in foreign currency are translated into the functional currency by applying the exchange rate valid at the date of transaction.

Financial instruments

Non-derivative financial instruments
Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value. With instruments not recognised at fair value through profit or loss, fair value is increased by any directly attributable transaction costs associated with the instrument's purchase or issue. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included in the statement of cash flows as a component of cash and cash equivalents.

Accounting of financial income and expenses is discussed in Note 'Financial income and financial expenses'.

Available-for-sale financial assets
The Company's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. 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 transferred to profit or loss. Impairment losses and foreign exchange gains and losses on available-for-sale monetary items are recognised directly in profit or loss.

Financial assets at fair value through profit or loss
An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value and in accordance with the Company's investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Receivables and loans
Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Derivative financial instruments
Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value. Attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Economic hedges
The Company does not account for cash flow hedges (hedge accounting).

Economic hedges are applied if the hedging instrument no longer meets the criteria for hedge accounting. These derivative instruments are applied for hedging monetary assets and liabilities denominated in foreign currencies, as well as for hedging the assets exposed to interest rate risk. Changes in the fair value of such derivatives are recognised in profit or loss as part of financial income and expenses.

Investments in subsidiaries
Investments made in equity of subsidiaries included in consolidated financial statements are valued at cost. Participation in the profit of subsidiary is recognised in the income statement 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 and the present value of expected future cash flows.

Share capital
Repurchase of share capital
When share capital recognised as equity is 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 as a liability in the period in which they are declared by the Annual Meeting.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (see accounting policy 'Impairment'). The cost of property, plant and equipment as at 1 January 2004, the date of transition to IFRS, is determined by reference to its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other directly attributable cost of preparing the asset 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 in accordance with the relevant policies. 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 by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within 'other operating income' or 'other operating expenses' in profit or loss.

Subsequent costs
The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow 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 the income statement as an expense as incurred.

Depreciation
Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. 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 other costs referring to the research and development work within the Company are recognised in the income statement as expense upon their accrual.

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 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 when 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 available for use.

The estimated useful lives for software, licences and other similar rights range from 2 to 10 years.

Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price at the reporting date less selling expenses and other possible administrative expenses.

An inventory unit of raw materials and materials, as well as supporting 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 cost of material includes also cost of production, such as: direct labour cost, direct cost of depreciation, direct cost of services, energy, maintenance and quality management. Inventories of work in progress and finished products are carried at standard cost. An inventory unit of merchandise is valued at cost including cost of purchase, import duties and all costs directly attributable to the acquisition, decreased by discounts. Inventories of merchandise are carried at moving average prices.

Impairments

Financial assets
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in other comprehensive income is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in comprehensive income.

Non-financial assets
The carrying amounts of the Company's non-financial assets (except for inventories and deferred tax liabilities) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to the 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.

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. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in the previous periods.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Long-term employee benefits

Provisions for retirement benefits and anniversary bonuses
Pursuant to the local legislation, the Company is liable to pay to its employees anniversary bonuses and retirement benefits. For these obligations, long-term provisions are formed. There is no other obligation in respect of pension.

Provisions are determined by discounting, at the reporting date, the estimated future benefits in respect of retirement benefits and anniversary bonuses paid to employees in those countries, where this legal obligation exists. The obligation is calculated by estimating the costs of retirement benefits upon retirement and the costs of all expected anniversary bonuses until retirement.

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 referring to alleged patent infringements. The eligibility of provisions formed in terms of the lawsuit's favourable or unfavourable outcome 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.

Revenues

Revenues from sale of goods are recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For sales of goods, transfer usually occurs when the product is received at the customer's warehouse.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, also continuing managerial involvement with the goods. Revenues from the sale of goods and services rendered are measured at selling prices stated in invoices or other documents, reduced by rebates approved either when the sale is made or subsequently, including those granted for early payment.

Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Company will comply with the conditions associated with the grant. Grants that compensate the Company for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Company for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

Financial income and expenses

Financial income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, 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 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, exchange losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method, except those that are attributable to property, plant and equipment under construction.

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. The amount of deferred tax bases on the expected way of settling the carrying amount of assets and liabilities, using tax rates enacted at the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Earnings per share

The Company presents basic and diluted earnings per share (EPS) data. Basic 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 registered shares.

Segment reporting

A segment is a distinguishable component of the Company that is engaged in providing products or services within a particular geographically defined economic environment. Segments are different in terms of risks and returns. The Company's segment reporting is based on the Company's internal reporting system applied by the management in the decision-making process.

Inter-segment pricing is determined on an arm's length basis.

The segments include following: the European Union (all countries of the European Union), South-East Europe (Croatia, Macedonia, Serbia, Bosnia and Herzegovina, Montenegro, Kosovo, Albania) and East Europe (Russian Federation and other former Soviet Union countries excluding the Baltic countries).

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets.

New standards and interpretations not yet adopted

Numerous new standards, amendments to standards and interpretations that are not yet effective for the year ended 31 December 2009, and have thus not been applied in preparing the financial statements are presented below:

1. Revised IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 July 2009)

   The scope of the revised Standard has been amended and the definition of a business has been expanded. The revised Standard also includes a number of significant changes including:
   - all items of consideration transferred by the acquirer are recognised and measured at fair value as of the acquisition date including the consideration the payment of which depends on future events (contingent consideration).
   - subsequent change in contingent consideration will be recognized in profit or loss.
   - transaction costs, other than share and debt issuance costs, will be expensed as incurred.
   - the acquirer can elect to measure any minority interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

   As the revised Standard should not be applied to business combinations prior to the date of adoption, the revised Standard is expected to have no impact on the financial statements with respect to business combinations that occur before the date of adoption of the revised Standard.

   Revised IFRS 3 is not relevant to the Company's financial statements as the Company does not have any interests in subsidiaries that will be affected by the revisions to the Standard.

2. Revised IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009)

   In the revised Standard the term "minority interest" has been replaced by "non-controlling interest", and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest.

   Revised IAS 27 is not relevant to the Company's financial statements as the Company does not have any interests in subsidiaries that will be affected by the revisions to the Standard.

3. Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual period beginning on or after 1 February 2010)

   The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency, are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

   The amendments to IAS 32 are not relevant to the Company's financial statements as the Company has not issued such instruments at any time in the past.

4. Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for annual periods beginning on or after 1 July 2009)

   The amended Standard clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however inflation cannot be designated, except in limited circumstances.

   The amendments to IAS 39 are not relevant to the Company's financial statements as the Company does not apply hedge accounting.

5. IFRIC 12 Service Concession Arrangements (effective for first annual reporting period beginning on or after 1 April 2009)

   The Interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements.
   IFRIC 12 is not relevant to the Company's operations as the Company did not enter into any service concession arrangements.

6. IFRIC 15 Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2010)

   IFRIC 15 clarifies that revenue arising from agreements for the construction of real estate is recognised by reference to the stage of completion of the contract activity in the following cases:
   - the agreement meets the definition of a construction contract in accordance with IAS 11.3;
   - the agreement is only for the rendering of services in accordance with IAS 18 (e.g., the entity is not required to supply construction materials); and
   - the agreement is for the sale of goods but the revenue recognition criteria of IAS 18.14 are met continuously as construction progresses.

   In all other cases, revenue is recognised when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g., upon completion of construction or upon delivery).

   IFRIC 15 is not relevant to the Company's financial statements as the Company does not provide real estate construction services or develop real estate for sale.

7. IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 July 2009)

   The Interpretation explains the type of exposure that may be hedged, where in the group the hedged investment may be held, whether the method of consolidation affects hedge effectiveness, the form the hedged instrument may take and which amounts are reclassified from equity to profit or loss on disposal of the foreign operation.

   IFRIC 16 is not relevant to the Company's financial statements as the Company has not designated any hedges of a net investment in a foreign operation.

8. IFRIC 17 Distributions of Non-cash Assets to Owners (effective prospectively for annual periods beginning on or after 1 November 2009)

   The Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled, the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in profit or loss.

   No non-cash assets are paid out to owners.

9. IFRIC 18 Transfers of Assets from Customers (effective prospectively for annual period beginning on or after 1 November 2009)

   The Interpretation requires an entity that receives a contribution in the scope of the Interpretation to recognize the item as an asset at its fair value if the transferred item meets the criteria for property, plant, and equipment in IAS 16, Property, Plant and Equipment. The Interpretation also requires the entity to recognize the amount as revenue; the timing of revenue recognition depends on the facts and circumstances of the particular arrangement.

IFRIC 18 is not relevant to the Company's financial statements as the Company does normally not receive contributions from customers.

3. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods presented below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Investments in equity and debt securities
The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price as regards foreign securities, whereas with investments made in Slovenia the uniform price per share at the reporting date is considered. The fair value of held-to-maturity investments is determined for reporting purposes only.

Trade and other receivables
The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Derivatives
The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps equals the market price recorded as at the reporting date.

Non-derivative financial liabilities
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

4. Financial risk management

A brief summary of financial risk management policies is given below. Detailed comments, data and ratios are given within the Business Report under 'Risk Management', as well as in Note 29 (Financial instruments) of the financial statements.

Credit risk

The credit control procedure includes the credit rating of customers who on an annual basis purchase from the Company products worth EUR 100,000 and more; the control procedure includes also active monitoring of payments by customers. More than 400 customers of the Company are jointly included in the credit control system.

The results of the credit control are positive. Considering the market situation the Company keeps its credit risk exposure under control by regular monitoring due trade receivables, the aging structure of receivables and the average payment deadlines. Extension of payment deadlines in several individual markets was reflected in a gradual increase in total trade receivables. Due to the worsened market situation, the credit exposure ratios of the Company deteriorated in comparison to the previous financial year. Detailed information on credit risk exposure is presented in Note 29 (Financial instruments).

No significant receivable write-offs due to default were recorded in 2009. Allowances for receivables were increased due to an increase in total receivables as well as due to the generally lower credit ratings of trade receivables arising from the fierce market and liquidity situation in Krka's key markets.

The credit control is centralised and conducted by the Risk Management Department.

Liquidity risk

Despite the adverse business conditions in money markets, the Company managed to maintain the liquidity risk in 2009 at a low level.

The liquidity risk is managed by applying various mechanisms. Supported by a central business information system, future cash requirements are monitored on a weekly basis. Possible cash deficits are secured in advance by banks based on agreed-upon credit lines, while possible cash surplus is allocated to short-term bank deposits. As regards the accessibility of Krka to short-term bank borrowings, no changes incurred.

By keeping low indebtedness and high credit standing, the Company managed to maintain a low liquidity risk associated with debt servicing. Values of contractual cash flows arising from financial liabilities in terms of maturity are presented in Note Financial instruments (Liquidity risk).

Due to increased cash inflows from operations in the last quarter 2009, the requirements for short-term financing were minimized, thus providing the Company with an additional liquidity reserve in the form of unutilized short-term bank loans.

Currency risk

The Company is exposed to currency risks due to its extensive international operations. The emphasis lies on the exchange rates of the Russian rouble, the Croatian kuna, the Romanian leu, the Polish zloty, the Czech koruna, the Hungarian forint, the Ukrainian hryvnia and the Serbian dinar.

The open foreign currency position represents the Company's gross financial position exposure to the individual foreign currency. As for all above stated foreign currencies the Company records excess of assets over liabilities. Detailed information on currency risk exposure is presented in Note 29 (Financial instruments).

No derivatives were used for hedging against currency risk in 2009. Due to high interest rate differentials between the aforementioned individual currencies and the euro, the financial markets lack appropriate derivatives which could be used for effective hedging against currency risk. For this reason, open foreign currency positions were not hedged in 2009.

The Company recorded foreign exchange losses in 2009, resulting from a drop in the foreign currency exchange rates in the Company's key markets in the first quarter 2009. Due to appreciation of the individual currencies, exchange gains were generated later in the financial year; these partly neutralised the foreign exchange losses recorded in the first three months of 2009.

Interest rate risk

By the end of 2009, five long-term borrowings were recorded by the Company with the 6-month EURIBOR reference rate. Two additional long-term loans were raised by the Company in 2009 to be used for refinancing the existing short-term borrowings. The Company's exposure to interest rate risk has thus increased in comparison to the total borrowings in 2009. Additional information relating to the interest rate risk is provided within the financial statements under the note Financial instruments.

As the reference rates were extremely low in 2009 and due to a sharp financial situation, there was no indication of the reference rate to increase. Accordingly, no interest rate hedge instruments were applied in 2009.

Capital management

The Company's management decided to maintain a large amount of equity in order to keep the confidence and to secure further development of the Company. The Company defined return on equity as one of the key ratios, namely as a relation between the generated net profit of the majority stockholders and the average value of the majority stockholder's equity. For the past five years, the average return on equity (ROE) was recorded at 21.0%.

The Company implements the method of moderately increasing the dividend amount, paid out on an annual basis. The Management Board and the Supervisory Board of the Company define the amount of the dividend. Dividends are paid from the Company's accumulated profit which is formed pursuant to regulations applicable in Slovenia and allocated pursuant to the resolution adopted by the Annual Meeting.

In compliance with the resolution of the Annual Meeting, the Company is allowed to form a fund of own shares up to 10% of the share capital. As at the reporting date own shares were recorded in the amount of 1,626,620, i.e. 4.6% of the share capital.

The Company has no specific goals as regards the ownership share held by employees, as well as no programme of share options. There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

5. Segment reporting

Segment information is presented in respect of the Company's geographical segments. Geographical segments are presented by location of customers.

Segment reporting

	European Union		South–East Europe		East Europe		Other markets		Unallocated	
in EUR thousand	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Revenues	558,640	504,705	80,179	80,362	198,378	225,289	12,922	15,804	850,119	826,160
Revenues from reversal of long-term provisions and other revenues	93,103	2,551	0	0	0	0	3,552	0	96,655	2,551
Operating profit	178,044	170,704	16,627	26,985	12,964	25,479	4,000	474	211,635	223,642
Interest income	2,479	1,732	0	0	131	82	0	0	2,610	1,814
Interest expense	4,858	8,698	0	0	0	1	0	0	4,858	8,699
Net financial income/ expenses									2,021	−17,924
Income tax expense									−42,844	−44,588
Profit for the period									170,812	161,130
Total assets	1,046,955	944,523	68,156	83,507	187,780	185,760	10,048	10,601	1,312,939	1,224,392
Total liabilities	250,321	260,972	35,927	41,553	88,891	116,492	5,790	8,172	380,929	427,189
Capital expenditure	82,324	114,421	0	0	0	0	0	0	82,324	114,421
Depreciation of property, plant and equipment	42,390	36,099	2,697	3,145	7,462	6,935	396	392	52,945	46,571
Amortisation of intangible assets	3,844	3,151	552	502	1,365	1,406	89	99	5,850	5,158

Segments presented within the financial statements differ from segments or sales regions of the Krka Group which are illustrated in its Business Report. The respective segments are used in connection with reporting to the Management Board and support also the bookkeeping method applied within the Krka Group. As for the Business Report, sales are presented in terms of regions and groups of products, taking account of bookkeeping within the sales and marketing.

As for the Company's structure of revenue, none of the customers generated 10% or more among total revenue.

6. Other operating income

in EUR thousand	2009	2008
Reversal of non-current provisions, government and European Union grants	90,080	244
Profit from the sale of property, plant and equipment and intangible assets	373	1,509
Other operating income	6,203	798
Total other operating income	**96,656**	**2,551**

In 2009, non-current provisions associated with lawsuits referring to intellectual property in the amount of EUR 89,989 thousand were reversed. The major item recorded within other operating income was a compensation (EUR 3,552 thousand) received for damage arising from the temporary injunction of sales of products that contain losartan in Norway.

7. Costs by nature

in EUR thousand	2009	2008
Cost of goods and material	–208,535	–203,287
Cost of services	–205,882	–190,951
Employee benefits cost	–175,321	–164,640
Amortisation/Depreciation	–58,795	–51,729
Formation of provisions	–47,500	–5,500
Other operating expenses	–20,436	–17,506
Total costs	**–716,469**	**–633,613**
Change in the value of inventories	–18,671	28,544
Total	**–735,140**	**–605,069**

8. Employee benefits cost

in EUR thousand	2009	2008
Gross wages and salaries and continued pay	136,565	130,236
Social security contributions and payroll tax	22,673	23,497
Retirement benefits and anniversary bonuses	8,333	4,396
Other employee benefits cost	7,750	6,511
Total employee benefits cost	**175,321**	**164,640**

Other employee benefits cost primarily includes the vacation bonus and travel allowances.

Compulsory pension and disability insurance (comprising both the employee's and the employer's contribution) payable in 2009 amounted to EUR 27,254 thousand. Additional pension insurance amounted to EUR 4,225 thousand.

9. Other operating expenses

in EUR thousand	2009	2008
Grants and assistance for humanitarian and other purposes	1,973	1,884
Environmental levies	1,326	1,422
Other levies	3,771	3,079
Loss in the sale of property, plant and equipment and intangible assets	1,776	1,944
Write-offs and allowances for inventories	7,464	6,350
Other costs	4,126	2,827
Total other operating expenses	**20,436**	**17,506**

10. Financial income and financial expenses

in EUR thousand	2009	2008
Interest income	2,610	1,814
Change in fair value of investments through profit or loss	101	0
Gain on the sale of securities	0	260
Income from derivative financial instruments, thereof:	0	2,076
– inflows	0	1,886
– changes in fair value	0	190
Dividend income	9,449	703
Reversal of allowances for receivables	0	3
Total financial income	**12,160**	**4,856**
Exchange differences	–2,984	–6,781
Interest expense	–4,857	–8,700
Change in fair value of investments through profit or loss	0	–736
Income from derivative financial instruments, thereof:	–1,225	–2,682
– outflows	–1,035	–1,099
– changes in fair value	–190	–1,583
Other financial expenses	–175	–176
Write-offs and allowances for receivables	–898	–3,705
Total financial expenses	**–10,139**	**–22,780**
Net financial income/expenses	**2,021**	**–17,924**

11. Income tax

ADJUSTMENT TO EFFECTIVE TAX RATE

in EUR thousand	2009	2008
Income tax	33,088	45,572
Deferred tax	9,756	–984
Total income tax	**42,844**	**44,588**
Profit before tax	213,656	205,718
Income tax calculated using the 21-percent tax rate (22-percent for 2008)	44,869	45,258
Tax exempt expenses	22,714	4,449
Tax incentives	–3,993	–4,964
Tax exempt revenues	–20,746	–155
Total income tax expense	**42,844**	**44,588**
Effective tax rate	**20.1%**	**21.7%**

Investments in research and development account for the major portion of tax incentives; other tax incentives include additional pension insurance, donations, part of the salaries and wages paid out to the disabled, etc.

12. Property, plant and equipment

in EUR thousand	31 Dec 2009	31 Dec 2008
Property	17,228	17,108
Plant	198,409	193,405
Equipment	222,710	220,872
Property, plant and equipment under construction	47,306	41,490
Total property, plant and equipment	**485,653**	**472,875**

In 2009 advances for property, plant and equipment as well as inventories were included among the items of receivables. Accordingly also comparable data for 2008 have been prepared in all further schedules which included these advances.

As for the reporting period the Company's biggest investment (EUR 16,265 thousand) relates to the reconstruction of the Bršljin plant. EUR 9,540 thousand were invested into the production plant for solid pharmaceutical forms (tablets), EUR 5,846 thousand were invested into increasing the production capacities for capsules and EUR 4,694 thousand were invested into extending the warehouse capacities on the location Gotna vas in Novo mesto.

Movements of property, plant and equipment (PPE)

in EUR thousand	Property	Plant	Equipment	PPE under construction	Total
Cost of purchase					
Balance at 01 Jan 2008	13,662	300,579	402,060	67,447	783,748
Additions	0	0	0	105,562	105,562
Capitalisation – transfer from PPE under construction	3,509	37,550	90,460	−131,519	0
Disposals, deficits, surpluses	−77	−5,224	−13,376	0	−18,677
Transfers within property, plant and equipment	14	−17	3	0	0
Balance at 31 Dec 2008	17,108	332,888	479,147	41,490	870,633
Balance at 01 Jan 2009	17,108	332,888	479,147	41,490	870,633
Additions	0	0	0	74,909	74,909
Capitalisation – transfer from PPE under construction	371	20,980	47,742	−69,093	0
Disposals, deficits, surpluses	−251	−460	−20,282	0	−20,993
Transfers to intangible assets	0	0	−2	0	−2
Balance at 31 Dec 2009	17,228	353,408	506,605	47,306	924,547
Accumulated depreciation					
Balance at 01 Jan 2008	0	−128,217	−236,310	0	−364,403
Depreciation	0	−14,613	−31,958	0	−46,571
Disposals, deficits, surpluses	0	3,347	9,993	0	13,340
Balance at 31 Dec 2008	0	−139,483	−258,275	0	−397,758
Balance at 01 Jan 2009	0	−139,483	−258,275	0	−397,758
Depreciation	0	−15,696	−37,249	0	−52,945
Disposals, deficits, surpluses	0	180	11,629	0	11,809
Balance at 31 Dec 2009	0	−154,999	−283,895	0	−438,894
Carrying amount					
Balance at 01 Jan 2008	13,662	172,362	165,750	67,447	419,345
Balance at 31 Dec 2008	17,108	193,405	220,872	41,490	472,875
Balance at 01 Jan 2009	17,108	193,405	220,872	41,490	472,875
Balance at 31 Dec 2009	17,228	198,409	222,710	47,306	485,653

Based on the contracts that had been signed in connection with the ongoing investments, the Company accounted for EUR 23,710 thousand of future liabilities resulting from acquisition of property, plant and equipment as at the reporting date.

In 2009 no borrowing costs refer to the item of property, plant and equipment.

13. Intangible assets

in EUR thousand	31 Dec 2009	31 Dec 2008
Concessions, patents, licences, trademarks and similar rights	25,871	25,019
Intangible assets under construction	3,812	3,118
Total intangible assets	29,683	28,137

Intangible assets refer to software and registration documentation for new drugs.

Movements of intangible assets (IA)

in EUR thousand	Concessions, patents, licences, trademarks and similar rights	IA under construction	Total
Cost of purchase			
Balance at 01 Jan 2008	37,828	4,208	42,036
Additions	0	8,859	8,859
Transfer from IA under construction	9,949	−9,949	0
Disposals	−31	0	−31
Balance at 31 Dec 2008	47,746	3,118	50,864
Balance at 01 Jan 2009	47,746	3,118	50,864
Additions	0	7,415	7,415
Transfer from IA under construction	6,721	−6,721	0
Disposals	−22	0	−22
Transfers from property, plant and equipment	2	0	2
Balance at 31 Dec 2009	54,447	3,812	58,259
Accumulated amortisation			
Balance at 01 Jan 2008	−17,570	0	−17,570
Amortisation	−5,158	0	−5,158
Disposals	1	0	1
Balance at 31 Dec 2008	−22,727	0	−22,727
Balance at 01 Jan 2009	−22,727	0	−22,727
Amortisation	−5,850	0	−5,850
Disposals	−1	0	−1
Transfers within IA under construction	2	0	2
Balance at 31 Dec 2009	−28,576	0	−28,576
Carrying amount			
Balance at 01 Jan 2008	20,258	4,208	24,466
Balance at 31 Dec 2008	25,019	3,118	28,137
Balance at 01 Jan 2009	25,019	3,118	28,137
Balance at 31 Dec 2009	25,871	3,812	29,683

14. Investments in subsidiaries

Movements of investments in subsidiaries in 2009

in EUR thousand	Investments in subsidiaries
Cost at 01 Jan 2009	225,054
Establishment of new companies	20
Subsequent payments	2,511
Balance at 31 Dec 2009	227,585
Carrying amount at 01 Jan 2009	225,054
Carrying amount at 31 Dec 2009	227,585

Movements of investments in subsidiaries in 2008

in EUR thousand	Investments in subsidiaries
Cost at 01 Jan 2008	218,178
Investment in the acquisition of a company	1,294
Establishment of new companies	20
Subsequent payments	5,562
Balance at 31 Dec 2008	225,054
Carrying amount at 01 Jan 2008	218,178
Carrying amount at 31 Dec 2008	225,054

Interests in subsidiaries

	Share in equity	Share capital	Value of share — carrying amount	
in EUR thousand	31 Dec 2009	31 Dec 2009	31 Dec 2009	31 Dec 2008
Terme Krka, d. o. o., Novo mesto	100%	14,753	45,407	45,407
KRKA-FARMA d. o. o., Zagreb, Croatia	100%	19,575	19,738	19,738
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	9	10	10
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	1	1,279	42
KRKA-FARMA DOOEL, Skopje, Macedonia	100%	790	802	802
KRKA FARMA, d. o. o., Sarajevo, Bosnia and Herzegovina	100%	10	10	0
OOO KRKA-RUS, Istra, Russian Federation	100%	25,549	33,019	33,019
OOO KRKA FARMA, Sergiev Posad, Russian Federation	100%	89	492	492
KRKA-POLSKA, Sp. z o. o., Warsaw, Poland	100%	4,240	18,697	18,697
KRKA ČR, s. r. o., Prague, Czech Republic	100%	4	3,403	3,403
KRKA Magyarország Kft, Budapest, Hungary	100%	165	1,473	1,658
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10	1,610	1,610
UAB KRKA LIETUVA, Vilnius, Lithuania	100%	10	10	0
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650	97,000	97,000
KRKA Sverige AB, Stockholm, Sweden	100%	15	16	18
KRKA Pharma GmbH, Vienna, Austria	100%	37	2,344	1,294
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10	2,266	1,855
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1	1	1
KRKA USA, LLC, Wilmington, USA	100%	7	8	8
Total			227,585	225,054

In 2009, the representative office Vilnius in Lithuania was transformed to a subsidiary UAB KRKA LIETUVA, Vilnius, Lithuania, whose sole owner is Krka d.d.

A new company was founded in mid January 2009 in Bosnia and Herzegovina, i.e. KRKA FARMA, d. o. o., Sarajevo, whose sole owner is Krka d.d. In addition to the newly founded subsidiary in Bosnia and Herzegovina, the representative office of the controlling company remains in operation.

The corporate name of the company ALTERNOVA Arzneimittel GmbH, was changed to KRKA Pharma GmbH, Vienna, Austria.

15. Loans

in EUR thousand	31 Dec 2009	31 Dec 2008
Long-term loans:	17,080	4,633
– long-term loans to subsidiaries	13,272	1,069
– long-term loans to other entities	3,808	3,564
Short-term loans:	34,711	31,832
– short-term loans to subsidiaries	33,678	30,581
– short-term loans to other entities	778	1,002
– short-term interest receivables	255	249
Total loans	51,791	36,465

Long-term loans include housing loans which are extended by the Company to its employees in accordance with the Company's internal acts. 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. In 2009 the interest rate ranged between 2.016% and 3.805%. The repayment period must not exceed 15 years.

Loans granted to subsidiaries including related short-term interest receivables

in EUR thousand	31 Dec 2009	31 Dec 2008
Long-term loans to subsidiaries	13,416	1,154
KRKA ROMANIA S.R.L., Bucharest, Romania	2,506	160
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	0	938
OOO KRKA FARMA, Sergiev Posad, Russian Federation	2,612	0
UAB KRKA LIETUVA, Vilnius, Lithuania	50	0
TAD Pharma GmbH, Cuxhaven, Germany	8,248	0
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	0	56
Short-term loans to subsidiaries	33,785	30,743
Terme Krka, d. o. o., Novo mesto, Slovenia	33,785	30,743
Total loans to subsidiaries	47,201	31,897

16. Investments

in EUR thousand	31 Dec 2009	31 Dec 2008
Non-current investments	5,449	6,134
– financial assets available for sale	5,449	6,134
Current investments, including derivatives	654	743
– instruments held for trading	145	128
– derivatives	0	190
– other current investments	509	425
Total investments	6,103	6,877

EUR 761 thousand of financial assets available for sale refer to investments made in Slovenia, whereas EUR 4,688 thousand to investments made abroad.

Other current investments refer to Slovenian mutual funds in the amount of EUR 241 thousand (2008: EUR 192 thousand) and assets under management in the amount of EUR 268 thousand (2008: EUR 233 thousand). The change of fair value is recognised through profit or loss.

Movement of non-current investments – financial assets available for sale

in EUR thousand	Financial assets available for sale
Balance at 01 Jan 2008	10,513
Increase	1,085
Decrease	–30
Change to fair value	–5,434
Balance at 31 Dec 2008	6,134
Balance at 01 Jan 2009	6,134
Increase	1
Decrease	0
Change to market value	–686
Balance at 31 Dec 2009	5,449

Adjustments of non-current investments - financial assets available for sale to the market value or fair value are disclosed in its full amount among comprehensive income (Fair value reserve) as the amounts are not lower from the initial cost.

17. Deferred tax assets and deferred tax liabilities

in EUR thousand	Assets		Liabilities		Assets - liabilities	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Financial assets available for sale	0	0	526	696	-526	-696
Receivables	0	0	0	0	0	0
Inventories	557	597	0	0	557	597
Provisions for lawsuits	9,800	19,460	0	0	9,800	19,460
Provisions for retirement benefits	8,620	8,675	0	0	8,620	8,675
Total	**18,977**	**28,732**	**526**	**696**	**18,451**	**28,036**

in EUR thousand	Balance at 01 Jan 2008	Recognised in profit or loss	Recognised in compre-hensive income	Balance at 31 Dec 2008	Recognised in profit or loss	Recognised in compre-hensive income	Balance at 31 Dec 2009
Financial assets available for sale	–1,925	0	1,229	–696	0	170	–526
Inventories	135	–135	0	0	0	0	0
Receivables	168	429	0	597	–40	0	557
Provisions for lawsuits	19,177	283	0	19,460	–9,660	0	9,800
Provisions for retirement benefits	9,173	407	–905	8,675	–55	0	8,620
Total	**26,728**	**984**	**324**	**28,036**	**–9,755**	**170**	**18,451**

18. Inventories

in EUR thousand	31 Dec 2009	31 Dec 2008
Material	47,744	57,476
Work in progress	41,677	49,867
Products	42,399	56,731
Merchandise	6,792	5,865
Total inventories	**138,612**	**169,939**

The write down of inventories to net realisable value amounted to EUR 1,163 thousand (2008: EUR 1,821 thousand), whereas the write-off of inventories amounted to EUR 6,301 thousand (2008: EUR 4,529 thousand). The allowances and write-off of inventories were recorded within other operating expenses.

19. Trade and other receivables

in EUR thousand	31 Dec 2009	31 Dec 2008
Short-term receivables due from subsidiaries	171,298	128,650
Trade receivables	155,310	112,821
Receivables due from other entities	20,273	14,240
Total trade and other receivables	**346,881**	**255,711**

Short-term receivables due from subsidiaries

in EUR thousand	31 Dec 2009	31 Dec 2008
KRKA-FARMA d. o. o., Zagreb, Croatia	31,586	44,566
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	6,062	7,531
KRKA-FARMA DOOEL, Skopje, Macedonia	4,672	3,373
OOO KRKA-RUS, Istra, Russian Federation	24,601	11,273
OOO KRKA FARMA, Sergiev Posad, Russian Federation	64,688	46,183
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	31,980	12,432
TAD Pharma Gmbh, Cuxhaven, Germany	3,004	2,299
KRKA Sverige AB, Stockholm, Sweden	3,443	328
KRKA Pharma GmbH, Vienna, Austria	492	445
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	716	111
Receivables due from other Group companies	54	109
Total short-term receivables due from subsidiaries	**171,298**	**128,650**

Trade receivables

in EUR thousand	Gross value	Allowances for doubtful and disputable receivables	Net value at 31 Dec 2009	Net value at 31 Dec 2008
Domestic customers	9,651	132	9,519	10,003
Foreign customers	150,959	5,168	145,791	102,818
Total trade receivables	**160,610**	**5,300**	**155,310**	**112,821**

The receivable write-offs and allowances for receivables that are disclosed among financial expense amounted to EUR 898 thousand in 2009 and EUR 3,705 thousand in 2008.

14% of trade receivables from customers outside the Group are secured.

Receivables due from other entities

Receivables due from other entities in the amount of EUR 20,273 thousand refer mostly to receivables arising from corporate income tax and VAT refund.

As at 31 December 2009, the Company recorded EUR 1,666 thousand of advances for property, plant and equipment (2008: EUR 2,949 thousand), EUR 637 thousand of advances for services (2008: EUR 1,397 thousand), and EUR 116 thousand of advances for inventories (2008: EUR 267 thousand).

20. Cash and cash equivalents

in EUR thousand	31 Dec 2009	31 Dec 2008
Cash in hand	10	10
Bank balances	7,477	284
Total cash and cash equivalents	7,487	294

21. Equity

Share capital

Share capital of the Company consists of 35,426,120 ordinary registered no-par value shares and there is solely one class of shares. The first and only issue of shares was carried out in 1995.

Own shares

As at 31 December 2009 the Company recorded 1,626,620 own shares, i.e. 4.6% of the share capital value. Their number in this reporting period remained unchanged if compared to 31 December 2008.

At the 14th Annual General Meeting held on 2 July 2009, the shareholders adopted a resolution authorising the Management Board to acquire own shares, with the proviso that the combined share of all own shares acquired and already held, could not exceed 10% of share capital or 3,542,612 of shares. The Company may acquire own shares on the regulated market at respective market prices. The Company may acquire own shares also outside the regulated market. When purchasing own shares on the regulated market or non-regulated market, the purchase price must not be lower than the book value based on the last published audited financial statements for the Krka Group. Furthermore, the purchase price must not exceed 30-fold the earnings per share held by the majority stakeholders as stated in the last available audited financial statements of the Krka Group. The authorisation is valid for 36 months from the date on which the Annual General Meeting took place.

Reserves

The Company's reserves comprise the share premium, legal and statutory reserves and fair value reserves.

As at the reporting date *the share premium* is recorded at EUR 120,992 thousand; it has not changed compared to 2008. The share premium consists of the general equity revaluation adjustment (EUR 90,659 thousand) which was during the transfer to IFRS included among share premium, reserves for own shares (EUR 19,489 thousand) and share premium (EUR 10,844 thousand) formed pursuant to the special regulation applicable in the ownership transformation.

Legal reserves amounted to EUR 14,990 thousand as at 31 December 2009 and remained unchanged.

Statutory reserves amounted to EUR 22,184 thousand EUR as at the reporting date and show an increase of EUR 5,000 over the previous period. The increase of reserves was approved by the Company's management based on statutory provisions.

Compared to 2008 the fair *value reserve* decreased by EUR 516 thousand and as at 31 December 2009 amounts to EUR 2,104 thousand. The total change results from the decrease of fair value of available-for-sale investments (by EUR 686 thousand) and the increase of EUR 170 thousand referring to the related deferred tax effect.

Retained earnings

Retained earnings have increased based on the profit for the period recorded in the amount of EUR 170,812 thousand. The decrease, on the other hand, is a result of allocation of accumulated profit to dividend payout (EUR 35,489 thousand) as confirmed by the 14th Annual Meeting held on 2 July 2009, of an additional formation of statutory reserves (EUR 5,000 thousand).

The amount of the dividend payout, shown in the statement of cash flows, differs from the figure, confirmed by the Annual Meeting and included in the statement of changes in equity, by the amount of change between the opening and closing balance of liabilities for dividend payout in the amount of EUR 162 thousand (2008: EUR 88 thousand).

Dividends per share

As for the reporting period the gross dividend per share amounted to EUR 1.05 per share (2008: EUR 0.91).

Accumulated profit

in EUR thousand	2009	2008
Compulsory appropriation of net profit		
Net profit for the period	170,812	161,130
– to cover the loss from previous periods	0	0
– allocation to legal reserves	0	0
– allocation to reserves for own shares	0	0
– allocation to statutory reserves	−5,000	−3,000
Net profit after compulsory appropriation	165,812	158,130
– formation of other income reserves pursuant to a decision adopted by the Management Board and Supervisory Board	−62,000	−50,000
Surplus of net profit	103,812	108,130
Identification of accumulated profit		
– surplus of net profit	103,812	108,130
– retained earnings from previous periods	57,937	43,233
Accumulated profit	161,749	151,363

22. Earnings per share

Basic earnings per share amounted to EUR 5.05 and showed an increase of 5.9% compared to the previous year's result (2008: EUR 4.77). The calculation of earnings per share took account of the net profit for the period attributable to the majority stockholders in the amount of EUR 170,812 thousand (2008: EUR 161,130 thousand). The weighted average number of shares was accounted for in the calculation for both years, i.e. 33,799,500 for shares for 2009, while 1,626,620 of own shares were eliminated from the calculation. The same number of shares was recorded in 2008 and 2009. All shares issued by the Company are ordinary shares, hence the diluted earnings per share ratio equalled the basic earnings per share.

23. Borrowings

in EUR thousand	31 Dec 2009	31 Dec 2008
Long-term borrowings	103,836	81,209
– borrowings from domestic banks	103,836	81,209
Short-term borrowings	49,458	88,752
– current portion of long-term borrowings	37,373	28,073
– borrowings from Group companies	42	131
– borrowings from domestic banks	10,000	57,000
– borrowings from other entities	379	372
– interest payable	1,664	3,176
Total borrowings	153,294	169,961

Long-term borrowings

in EUR thousand	Currency	Maturity	31 Dec 2009		31 Dec 2008	
			Par value	Carrying amount	Par value	Carrying amount
Borrowing from domestic bank	EUR	2011	40,000	10,909	40,000	18,182
Borrowing from domestic bank	EUR	2012	25,000	15,000	25,000	20,000
Borrowing from domestic bank	EUR	2012	79,000	55,300	79,000	71,100
Borrowing from domestic bank	EUR	2014	30,000	30,000	0	0
Borrowing from domestic bank	EUR	2014	30,000	30,000	0	0
Total long-term borrowings			**204,000**	**141,209**	**144,000**	**109,282**

Two new long-term borrowings were extended by two domestic banks in 2009, each at par value of EUR 30,000 thousand; the repayment of both borrowings is due in five years.

Long-term borrowings obtained from banks are neither secured by mortgages nor by bank guarantees.

Short-term borrowings are denominated in euro and were extended for the period of one year. The borrowings are not secured.

24. Provisions

in EUR thousand	Balance at 31 Dec 2008	Formation	Utilisation	Reversal	Balance at 31 Dec 2009
Provisions for retirement benefits and anniversary bonuses	45,120	8,333	−2,374	0	51,079
Other provisions	94,011	47,521	−2,500	−90,010	49,022
– provisions for lawsuits	93,989	47,500	−2,500	−89,989	49,000
– other provisions	22	21	0	−21	22
Long-term deferred revenue	178	0	−35	0	143
Total provisions	**139,309**	**55,854**	**−4,909**	**−90,010**	**100,244**

The amounts of provisions for lawsuits referring to intellectual property are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated amount, if the indemnification claim is not yet disclosed. External advisors for litigations referring to intellectual property are engaged for defining the anticipated amounts. Furthermore, the management verifies the justification of the formed provisions with a view to the prospects for a favourable or unfavourable lawsuit outcome every year.

In 2009, the Company eliminated provisions formed for litigations referring to intellectual property in the total amount of EUR 89,989 thousand. In addition, new provisions were formed after the reversal in the amount of EUR 47,500 thousand for possible liabilities relating to the European Commission procedure which was initiated as a result of alleged infringement of the competition law rules at the sale of perindopril on the European Union markets.

Provisions for retirement benefits and anniversary bonuses are based on a calculation performed by a certified actuary and they were accounted for under following assumptions:

- discount rate of 4.25% in the reporting period (2008: 4.70%) referring to the harmonised long-term government bond yield within the euro area (Source: ECB);
- valid amounts of retirement benefits and anniversary bonuses as defined by internal acts of the company;
- employee turnover depending in particular upon the employees' age;
- mortality level calculated on the basis of last mor-

tality tables available for the local population;
- increase in wages and salaries attributable to inflation rate by 1.6% (2008: 2%) and to career promotion by 2% (2008: 2%).

The estimates and the assumptions that have been applied are based on the actual state of affairs during the preparation of the calculation of the actuary. The projected unit method was applied in the calculation. Actuarial deficits that have occurred in connection with retirement benefits and anniversary bonuses are recognised in the income statement as expense.

25. Government grants and grants by the European Union

in EUR thousand	Balance at 31 Dec 2008	Grants received	Reversals	Balance at 31 Dec 2009
Grants received for the Beta plant in Šentjernej	214	0	–45	169
Grants by the European Regional Development Fund	34	0	–4	30
Grants by the European Fund – development of new technologies (FBD project)	0	395	–10	385
Property, plant and equipment received free-of-charge	605	1	–11	595
Total grants received	**853**	**396**	**–70**	**1,179**

Operation (project) FBD is partially co-financed by European Union, European Regional Development Fund. Operation is executed within framework of Operative Programme for the strengthening of the regional development potentials for the period 2007 - 2013, 1st development priority: Competitiveness of the companies and research excellence, priority aim 1.1. Improvement of the competitive capabilities of the companies and research excellence.

The recorded amounts of grants received from the government and the European Union are decreased by the proportionate share of depreciation of assets to which the grants refer.

26. Trade payables

in EUR thousand	31 Dec 2009	31 Dec 2008
Payables to subsidiaries	24,679	14,074
Payables to domestic suppliers	29,781	33,066
Payables to foreign suppliers	33,805	25,970
Payables from advances	269	127
Total trade payables	**88,534**	**73,237**

Trade payables to subsidiaries

in EUR thousand	31 Dec 2009	31 Dec 2008
Terme Krka, d.o.o., Novo mesto, Slovenia	91	86
KRKA-FARMA d. o. o., Zagreb, Croatia	2,617	508
KRKA ROMANIA S.R.L., Bucharest, Romania	1,080	0
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	204	0
KRKA-FARMA DOOEL, Skopje, Macedonia	409	457
KRKA FARMA, d. o. o., Sarajevo, Bosnia and Herzegovina	34	0
OOO KRKA FARMA, Sergiev Posad, Russian Federation	62	0
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	10,264	7,502
KRKA Magyarország Kft, Budapest, Hungary	2,127	1,100
KRKA ČR, s. r. o., Prague, Czech Republic	3,258	2,889
KRKA Slovensko, s.r.o., Bratislava, Slovakia	1,514	1,002
TAD Pharma Gmbh, Cuxhaven, Germany	1,691	14
KRKA Sverige AB, Stockholm, Sweden	883	0
KRKA Pharma GmbH, Vienna, Austria	137	0
KRKA USA, LLC, Wilmington, USA	3	4
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	305	512
Total trade payables to subsidiaries	**24,679**	**14,074**

27. Other current liabilities

in EUR thousand	31 Dec 2009	31 Dec 2008
Accrued contractual discounts on products sold to customers outside the Group	12,910	14,897
Payables to employees – gross wages, other charges	20,970	16,783
Other	3,272	2,348
Total current liabilities	**37,152**	**34,028**

28. Contingent liabilities

in EUR thousand	31 Dec 2009	31 Dec 2008
Guarantees issued	5,086	4,666
Other	620	620
Total contingent liabilities	**5,706**	**5,286**

As for the guarantees issued the highest value refers to the guarantee issued for the receivables TAD Farma (EUR 3,000 thousand) and the Customs Administration of the Republic of Slovenia (EUR 865 thousand). The item 'Other' refers to the affected property in Serbia.

29. Financial instruments

Long-term stability of the Company's performance is managed by means of active risk management policies as presented in detail in the Business Report under 'Risk Management'. Due to the high amount of international import and export business, the Company is primarily exposed to foreign exchange and interest rate risks, as well as to credit risks. No derivative financial instruments were used in 2009 for hedging the Company's exposure against foreign exchange and interest rate risks.

Credit risk

Credit risk is hedged by the assessment of the customer's credit rating as well as by debt collection procedures.

Credit risk exposure

The carrying amount of financial assets represents the biggest exposure to credit risk. The following status was shown as at the reporting date:

in EUR thousand	Notes	31 Dec 2009	31 Dec 2008
Financial assets available for sale	16	5,449	6,134
Financial assets at fair value through profit or loss	16	654	553
Loans	15	51,791	36,465
Receivables	19	346,881	255,711
– thereof trade receivables (including subsidiaries)		326,608	241,471
Cash and cash equivalents	20	7,487	294
Foreign currency derivatives (assets)	16	0	190
Total		**412,262**	**299,347**

Loans and receivables are mostly exposed to credit risk if considering the value. Their maximum exposure to credit risk is shown in terms of geographic regions:

in EUR thousand	31 Dec 2009	31 Dec 2008
Slovenia	65,066	54,269
South-East Europe	71,721	76,520
East Europe	142,080	110,949
Central Europe	50,164	23,484
West Europe and Overseas Markets	69,641	26,954
Total	**398,672**	**292,176**

14% of trade receivables outside the Krka Group are secured.

AGEING STRUCTURE OF LOANS AND RECEIVABLES AS AT THE REPORTING DATE

in EUR thousand	Gross value 2009	Allowance 2009	Gross value 2008	Allowance 2008
Not past due receivables	346,351	1,916	245,182	306
Past due 20 days	13,066	8	2,219	11
Past due 21 to 50 days	11,097	7	7,048	692
Past due 51 to 180 days	21,355	89	24,693	2,493
More than 180 days	12,175	3,352	17,866	1,330
Total	**404,044**	**5,372**	**297,008**	**4,832**

Movement of allowances for loans and receivables

in EUR thousand	2009	2008
Balance at 1 Jan	4,832	1,608
Formation of allowance	876	3,307
Write-off of receivables charged against allowance	−177	−56
Reversal of impairment	0	−3
Collection of bad debts	−157	−32
Exchange differences	−2	8
Balance at 31 December	5,372	4,832

Liquidity risk

Despite problems encountered in the financial markets, the liquidity risk was low in 2009 due to an accurate planning of cash flows, low debt and short-term credit lines that had been agreed with the banks in advance.

Maturity of financial liabilities

Financial liabilities in terms of maturity are outlined in the schedule below.

Maturity of financial liabilities as at 31 December 2009

	Carrying amount	Contractual cash flows				
in EUR thousand		Total	Up to 6 months	Between 6 and 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Long-term borrowings from banks	142,807	150,116	18,952	21,909	39,514	69,741
Short-term borrowings from banks	10,062	10,042	10,042	0	0	0
Other short-term borrowings	425	431	240	191	0	0
Trade and other payables	125,686	125,686	125,686	0	0	0
Total non-derivative financial liabilities	278,980	286,275	154,920	22,100	39,514	69,741
Total derivatives	0	0	0	0	0	0
Total	278,980	286,275	154,920	22,100	39,514	69,741

Maturity of financial liabilities as at 31 December 2008

	Carrying amount	Contractual cash flows				
in EUR thousand		Total	Up to 6 months	Between 6 and 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Long-term borrowings from banks	112,254	123,745	17,162	16,756	32,334	57,493
Short-term borrowings from banks	57,196	58,490	25,624	32,866	0	0
Other short-term borrowings	511	513	284	229	0	0
Trade and other payables	116,370	116,370	116,370	0	0	0
Total non-derivative financial liabilities	286,331	299,118	159,440	49,851	32,334	57,493
Derivatives						
Other contracts futures for inflow hedging	−190	−190	−190	0	0	0
Total derivatives	−190	−190	−190	0	0	0
Total	286,141	298,928	159,250	49,851	32,334	57,493

Foreign currency risk

Exposure to foreign currency risk

in EUR thousand	31 Dec 2009			
	EUR	USD	PLN	RUB
Trade and other receivables	136,759	25,914	32,441	112,860
Borrowings from banks	–153,294	0	0	0
Trade payables	–64,943	–10,914	–10,248	0
Gross financial position exposure	**–81,478**	**15,000**	**22,193**	**112,860**
Estimated sales	567,856	46,608	103,412	138,569
Estimated purchases	–426,800	–122,100	–42,900	–12,800
Gross exposure	**141,056**	**–75,492**	**60,512**	**125,769**
Derivatives	**0**	**0**	**0**	**0**
Net exposure	**59,578**	**–60,492**	**82,705**	**238,629**

in EUR thousand	31 Dec 2008			
	EUR	USD	PLN	RUB
Trade and other receivables	183,848	43,375	13,072	0
Borrowings from banks	–169,961	0	0	0
Trade payables	–55,207	–7,911	–7,490	0
Gross financial position exposure	**–41,320**	**35,464**	**5,582**	**0**
Sales	543,008	42,435	104,993	129,108
Purchases	–402,649	–115,256	–40,518	–12,100
Gross exposure	**140,359**	**–72,821**	**64,475**	**117,008**
Derivatives	**0**	**–22,698**	**0**	**0**
Net exposure	**99,039**	**–60,055**	**70,057**	**117,008**

Estimated sales and purchases stated in the 2009 schedule are based on the Company's business plan for 2010, whereas estimated sales and purchases stated in the 2008 schedule take account of the Company's actual sales and purchases made in 2009.

Significant foreign exchange rates

	Average exchange rate *		Final exchange rate *	
	2009	2008	2009	2008
USD	1.39	1.47	1.43	1.41
PLN	4.33	3.51	4.12	4.15
RUB	44.13	36.45	43.50	41.28

* number of local currency's units for 1 euro

Final exchange rates are rates that were used for the calculation of items in the financial statements as at 31 December and equal the exchange rate of the Bank of Slovenia effective on 30 December.

Sensitivity analysis

A 1% increase of the euro value in respect of currencies stated as at 31 December would increase (decrease) the net profit referring to values stated below. The 2008 analysis was prepared on the same basis considering that other remaining elements, interest rates in particular remain unchanged.

	Impact on the profit or loss	
in EUR thousand	2009	2008
USD	599	595
PLN	−819	−694
RUB	−2,363	−1,158

A 1% decrease of the euro value in respect of currencies stated as at 31 December would have the same effect – but in reverse direction – provided that all other elements remain unchanged.

Interest rate risk

Exposure to interest rate risk

in EUR thousand	2009	2008
Financial instruments at fixed interest rate	**55,040**	**29,563**
Financial assets	55,419	35,066
Financial liabilities	−379	−5,503
Financial instruments at variable interest rate	**−148,770**	**−160,126**
Financial assets	2,481	1,156
Financial liabilities	−151,251	−161,282

Analysis of sensitivity of the financial instrument's fair value by applying the fixed interest rate
The Company holds no financial instruments with reference to fixed interest rate, recognised at fair value through profit or loss, and no derivatives designated as a fair value hedge. Thus, a change of the interest rate as at the reporting date would have no impact on the profit or loss.

Analysis of the cash flow's sensitivity by applying the variable interest rate
Change of the interest rate by 100 basis points would increase (decrease) the net profit or loss for 2009 by EUR 1,488 thousand (2008: by EUR 1,601 thousand). The 2008 analysis was prepared on the same basis considering that all elements, foreign exchange rate in particular remain unchanged.

A detailed schedule of long-term and short-term borrowings is presented below.

Long-term borrowings

in EUR thousand	31 Dec 2009	31 Dec 2008
Long-term borrowings	141,209	109,282
- short-term portion of long-term borrowings	37,373	28,073
Average balance of long-term borrowings	125,246	120,560
Interest paid (financial year)	3,403	6,440
Other cost of raising long-term borrowings	68	67
Average interest rate of long-term borrowings (financial year)	2.77%	5.40%
Maturity in three years or less	82%	65%
Maturity in more than three years	18%	35%
Currency structure of long-term borrowings:		
– euro	100%	100%
Structure of long-term borrowings in terms of interest rates		
– variable	100%	100%

Short-term borrowings

in EUR thousand	31 Dec 2009	31 Dec 2008
Short-term borrowings including short-term portion of long-term borrowings	47,794	85,576
- from banks	47,373	85,073
- from other entities	421	503
Short-term borrowings excluding short-term portion of long-term borrowings	10,421	57,503
Average balance of short-term borrowings (financial year)	33,962	36,664
Interest paid (financial year)	1,355	2,244
Other costs of raising short-term borrowings	34	35
Average cost of short-term borrowings (financial year)	4.09%	6.22%
Currency structure of short-term borrowings		
– euro	100%	100%
Structure of short-term borrowings in terms of interest rates:		
– variable	96%	90%
– fixed	4%	10%

Fair value

in EUR thousand	2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term loans	17,080	17,874	4,633	4,712
Financial assets available for sale	5,449	5,449	6,134	6,134
Short-term loans	34,711	34,711	31,832	31,832
Current investments	654	654	553	553
– instruments held for trading	145	145	128	128
– other current investments	509	509	425	425
Trade and other receivables	346,881	346,881	255,711	255,711
Cash and cash equivalents	7,487	7,487	294	294
Foreign currency derivatives	0	0	190	190
– assets	0	0	190	190
Borrowings	–153,294	–158,521	–169,961	–180,517
Trade and other payables	–125,686	–125,686	–116,370	–116,370
Total	**133,282**	**128,849**	**13,016**	**2,539**

The manner of the fair value measurement of the individual types of financial instruments is presented below.

Interest bearing loans and borrowings

The fair value of loans and borrowings is calculated by applying the discounted cash flow of the principal and interest. The discount interest rate was computed by considering the yield for Slovenia's government bonds in Europe with a 2-year maturity, based on the report about the market situation at 31 December 2009 published by Abanka. The yield-to-maturity of these papers was recorded at 1.360% (2008: 1.796%).

Financial instruments

The financial instruments are classified in three levels in terms of their fair value, namely:

- level 1 - assets and liabilities at market value;
- level 2 - assets and liabilities that are not classified within level 1 and their value is defined directly or indirectly based on comparable market data;
- level 3 - assets and liabilities the value of which cannot be determined via market data.

in EUR thousand	31 Dec 2009			31 Dec 2008		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets available for sale	4,067	0	1,382	4,740	0	1,394
Instruments held for trading	145	0	0	128	0	0
Other current investments (points of mutual funds and assets under management)	509	0	0	425	0	0
Derivatives	0	0	0	0	190	0
Total	**4,721**	**0**	**1,382**	**5,293**	**190**	**1,394**

Securities held for trading

The fair value is computed on the basis of the stock exchange quotation of the respective securities as at the reporting date, and it is not decreased by any costs that may arise upon the sale or purchase of securities.

Receivables and liabilities

Short-term receivables and liabilities are recorded at carrying amount which is accounted for as fair value.

Options, futures contracts and interest rate swaps

Fair values of purchased and sold options, futures contracts and interest rate swaps are submitted on the last day of each Quarterly of the financial year by the bank in which the individual instrument was purchased or sold, or by another bank with which an umbrella contract on derivatives was signed.

30. Transactions with related parties

Intragroup transactions

Transactions with Group companies in 2009 are presented below.

in EUR thousand	Sales	Expenses	Borrowings	Loans
Terme Krka, d. o. o., Novo mesto, Slovenia*	241	1,009	42	16,541
KRKA-FARMA d. o. o., Zagreb, Croatia	36,570	12,098	0	0
KRKA ROMANIA S.R.L., Bucharest, Romania	0	7,862	0	2,287
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	6,120	1,685	0	0
KRKA-FARMA DOOEL, Skopje, Macedonia	10,133	1,513	0	0
KRKA FARMA, d. o. o., Sarajevo, Bosnia and Herzegovina	4	117	0	0
OOO KRKA-RUS, Istra, Russian Federation	24,364	8	0	0
OOO KRKA FARMA, Sergiev Posad, Russian Federation	60,598	266	0	2,595
KRKA-POLSKA, Sp. z o. o., Warsaw, Poland	103,013	40,061	0	0
KRKA ČR, s. r. o., Prague, Czech Republic	71	15,969	0	0
KRKA Magyarország Kft, Budapest, Hungary	0	12,839	0	0
KRKA Slovensko, s.r.o., Bratislava, Slovakia	0	6,740	0	0
UAB KRKA LIETUVA, Vilnius, Lithuania	0	0	0	50
TAD Pharma GmbH, Cuxhaven, Germany	6,101	6,293	0	12,000
KRKA Sverige AB, Stockholm, Sweden	9,687	996	0	0
KRKA Pharma GmbH, Vienna, Austria	822	768	0	0
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	387	1	0	0
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	0	335	0	0
KRKA USA, LLC, Wilmington, USA	0	8	0	0
Total	**258,111**	**108,568**	**42**	**33,473**

* Including the subsidiary Golf Grad Otočec, d. o. o.

The transactions between the Company and the above-mentioned Group companies were based on sales contracts, which included the rendering of products and services at market prices.

The balance of loans to Group companies is presented in Note 15, the balance of borrowings from subsidiaries is presented in Note 23, the balance of receivables due from Group companies is presented in Note 19 and the balance of short-term operating liabilities to Group companies is presented in Note 26.

Data on groups of persons

As at the reporting date, the members of the Management Board of the Company held 58,990 shares in Krka d.d., representing 0.167% of the total equity and 0.175% of the voting rights.

As at the reporting date, the members of the Supervisory Board held 5,137 shares in the Company, representing 0.015% of the total equity and 0.015% of voting rights.

Shares of members of the Management Board and the Supervisory Board in the Company and their share in voting rights

	31 Dec 2009			31 Dec 2008		
	Number of shares	Share (in %)	Share in voting rights (in %)	Number of shares	Share (in %)	Share in voting rights (in %)
Management Board members						
Jože Colarič	22,500	0.0635	0.0666	22,500	0.0635	0.0666
Janez Poljanec	22,060	0.0623	0.0653	22,060	0.0623	0.0653
Aleš Rotar	12,770	0.0360	0.0378	12,770	0.036	0.0378
Zvezdana Bajc	1,660	0.0047	0.0049	1,660	0.0047	0.0049
Danica Novak Malnar	0	0.0000	0.0000	0	0.0000	0.0000
Total Management Board	**58,990**	**0.1665**	**0.1746**	**58,990**	**0.1665**	**0.1746**
Supervisory Board members						
Gregor Gomišček	320	0.0009	0.0009	320	0.0009	0.0009
Mateja Božič	0	0.0000	0.0000	0	0.0000	0.0000
Anton Rous	0	0.0000	0.0000	0	0.0000	0.0000
Draško Veselinović	60	0.0002	0.0002	60	0.0002	0.0002
Alojz Zupančič	3,265	0.0092	0.0097	3,490	0.0099	0.0103
Mojca Osolnik Videmšek	452	0.0013	0.0013	452	0.0013	0.0013
Franc Šašek	540	0.0015	0.0016	540	0.0015	0.0016
Tomaž Sever	500	0.0014	0.0015	500	0.0014	0.0015
Mateja Vrečer	0	0.0000	0.0000	0	0.0000	0.0000
Total Supervisory Board	**5,137**	**0.0145**	**0.0152**	**5,362**	**0.0151**	**0.0159**

A questionnaire on related entities is filled in by the members of the Management Board and other management staff on a yearly basis, which is afterwards used by the Company to check the occurrence of any other business relations between the Company and the employees. No such business relations were recorded in 2009.

Emoluments of groups of persons (gross amounts)

in EUR thousand	2009	2008
Members of the Management Board	2,235	2,032
Members of the Supervisory Board	38	115
Persons employed under individual employment contracts	19,463	19,094
Total emoluments of groups of persons (gross amounts)	**21,736**	**21,241**

Emoluments of the Management Board in 2009

in EUR thousand	Remuneration — fixed portion			Remuneration — variable portion		Total	
	Gross remuneration	Net remuneration	Net fringe benefits and other receipts*	Gross	Net	Gross	Net
Jože Colarič	337	165	9	295	136	632	310
Janez Poljanec	286	138	14	244	112	530	264
Aleš Rotar	271	129	14	230	106	501	249
Zvezdana Bajc	233	109	15	194	89	427	213
Danica Novak Malnar	137	63	7	8	4	145	74
Total emoluments of the Management Board	1,264	606	57	971	447	2,235	1,110

* Data on net fringe benefits and other receipts in amount of EUR 57 thousand are presented in net amounts (in thousand euros, i.e. three decimals) in next table.

in EUR thousand	Fringe benefits and other receipts (net) in 2009					
	Manager insurance	Additional pension insurance	Other benefits	Refund of expenses	Vacation bonus	Total
Jože Colarič	5.354	2.604	0.130	0.220	0.596	8.904
Janez Poljanec	4.276	2.604	5.241	0.677	0.599	13.397
Aleš Rotar	4.285	2.604	5.263	0.805	0.599	13.556
Zvezdana Bajc	4.316	2.604	6.404	0.805	0.601	14.730
Danica Novak Malnar	1.856	2.604	0.942	0.763	0.617	6.782
Total emoluments of the Management Board	20.087	13.020	17.980	3.270	3.013	57.370

Emoluments of the Management Board in 2008

in EUR thousand	Remuneration — fixed portion			Remuneration — variable portion		Total	
	Gross remuneration	Net remuneration	Net fringe benefits and other receipts*	Gross	Net	Gross	Net
Jože Colarič	322	144	9	253	117	575	270
Janez Poljanec	274	118	15	205	96	479	229
Aleš Rotar	262	112	15	197	91	459	218
Zvezdana Bajc	218	95	12	163	76	381	183
Danica Novak Malnar	129	60	6	9	4	138	70
Total emoluments of the Management Board	1,205	529	55	827	384	2,032	968

* Data on net fringe benefits and other receipts in amount of EUR 55 thousand are presented in net amounts (in thousand euros, i.e. three decimals) in next table.

in EUR thousand	Fringe benefits and other receipts (net) in 2008					
	Manager insurance	Additional pension insurance	Other benefits	Refund of expenses	Vacation bonus	Total
Jože Colarič	5.333	2.526	0.075	0.192	0.559	8.685
Janez Poljanec	4.263	2.526	6.321	0.628	0.561	14.299
Aleš Rotar	4.263	2.526	6.491	0.763	0.562	14.605
Zvezdana Bajc	4.316	2.526	3.591	0.782	0.564	11.779
Danica Novak Malnar	1.856	2.526	0.000	0.750	0.564	5.696
Total emoluments of the Management Board	20.031	12.630	16.478	3.115	2.810	55.064

Other fringe benefits include the bonus referring to the use of company car for private purposes and other possible benefits. Refund of travel expenses and meal allowance. Members of the Management Board do not receive attendance fees and other payments relating to the performance of tasks within the Supervisory and Management Boards.

Emoluments of the Supervisory Board members represent remuneration for the tasks performed within the Supervisory Board.

Attendance fees are paid to the members of the Supervisory Board for attending the supervisory board meetings and its committees.

Emoluments of the Supervisory Board in 2009

in EUR thousand	Attendance fees		Travel expenses, personal income tax		Total	
	Gross amount	Net amount	Gross amount	Net amount	Gross amount	Net amount
Gregor Gomišček, Chairman	7	5	0	0	7	5
Mateja Božič	1	1	0	0	1	1
Sonja Kermc	4	3	0	0	4	3
Anton Rous	5	4	1	1	6	5
Mojca Osolnik Videmšek	1	1	0	0	1	1
Franc Sašek	1	1	0	0	1	1
Tomaž Sever	4	3	0	0	4	3
Draško Veselinovič	4	3	0	0	4	3
Mateja Vrečer	4	3	0	0	4	3
Alojz Zupančič	5	4	1	0	6	4
Total emoluments of the Supervisory Board	36	28	2	1	38	29

Loans granted to groups of persons

	Balance		Repayments	
in EUR thousand	31 Dec 2009	31 Dec 2008	2009	2008
Members of the Management Board	4	7	3	3
Members of the Supervisory Board in the Company (employee representatives)	0	0	0	1
Persons employed under individual employment contracts	230	278	59	62
Total loans to groups of persons	234	285	62	66

The loans granted to the above-mentioned persons were used for housing purposes.

31. Educational structure of employees

	2009		2008	
	Headcount	Share (in %)	Headcount	Share (in %)
PhD	73	1.4	66	1.3
MSc	163	3.1	149	2.9
University education	2,299	44.2	2,236	43.9
Higher professional education	390	7.5	382	7.5
Vocational college education	168	3.2	161	3.2
Secondary school education	978	18.8	945	18.6
Skilled workers	1,031	19.8	1,033	20.3
Unskilled workers	103	2.0	120	2.3
Total (average for the period)	**5,205**	**100.0**	**5,092**	**100.0**

32. Transactions with the audit firm

The fee for the audit services performed in 2009 by the audit company KPMG Slovenija, podjetje za revidiranje, d.o.o. amounted to EUR 130 thousand. No other services were performed for the Company by the audit company in 2009.

33. Events after the reporting period

Events that occurred after the reporting period, i.e. 15 March 2010 are illustrated below.

On 20 January 2010 the Supervisory Board met at a meeting and appointed a Nomination Committee and a commission of the Supervisory Board. The Nomination Committee met for a session on 27 January 2010 and endorsed a resolution on starting with the procedure of appointing members of the Company's Supervisory Board which must be completed by April 2010. The meeting was chaired by the chairman of the committee Tomaž Kuntarič, MSc.

On 24 February 2010 an out-of-court settlement was reached at the District Court in Oslo between Krka d.d. and its subsidiary Krka Sverige AB as defendant, and Eisai Co., Ltd. and Pfizer AS as the plaintiff, in the dispute on alleged infringement of the patent referring to Donepezil. Accordingly, Krka shall receive EUR 1.55 million from Eisai Co., Ltd. and continue with its sale of donepezil in Norway. The notice on the interim injunction enforced against Krka Sverige AB due to alleged infringement of the patent that refers to the production of the donepezil ingredient in Norway was published by Krka on 19 November 2008, and the notice on its annulment on 13 March 2009.

The stated events have no impact on the 2009 financial statements of the Krka Group.

Auditor's report

KPMG

Independent Auditor's Report

To the Supervisory Board of KRKA, d.d., Novo mesto

We have audited the accompanying financial statements of the company KRKA, d.d., Novo mesto which comprise the statement of financial position as at 31 December 2009, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company KRKA, d.d., Novo mesto as at 31 December 2009, its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

KPMG Slovenija, d.o.o.
2

Borut Šterbenc, B.Sc.Ec.
Certified Auditor

Andrej Korinšek, B.Sc.Ec.
Certified Auditor
Managing Director

Ljubljana, 15 March 2010

Signing of the 2009 Annual Report and its constituent parts

The Chairman and Management Board members of Krka, d. d., Novo mesto hereby confirm to be acquainted with the content of constituent parts of the 2009 Annual Report for the Company and the Krka Group. It is herewith adopted and confirmed by respective signatures. The Annual Report is signed by the members of the Management Board in its 2009 composition.

Jože Colarič,
President of the Management Board and Chief Executive

Janez Poljanec,
Member of the Management Board

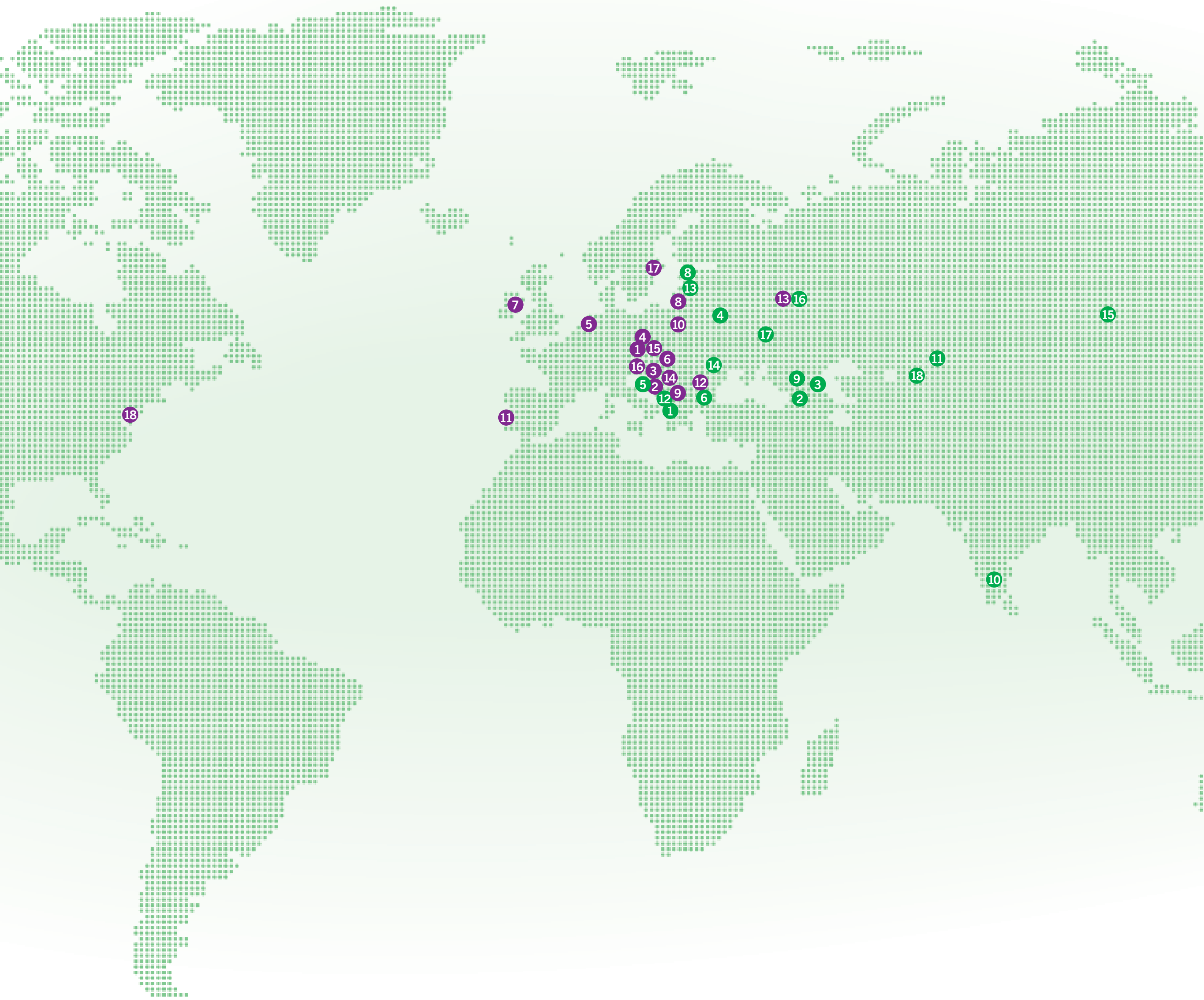
Dr. Aleš Rotar,
Member of the Management Board

Zvezdana Bajc,
Member of the Management Board

Danica Novak Malnar,
Member of the Management Board – Worker Director

Who's who in Krka

Title	Name and surname	Phone	E-mail
President of the Management Board and Chief Executive	**Jože Colarič**	+386 7 332 16 50	joze.colaric@krka.biz
Member of the Management Board and Director of Product Supply	**Vinko Zupančič**	+386 7 331 78 20	vinko.zupancic@krka.biz
Member of the Management Board and Director of Research and Development	**Aleš Rotar**	+386 7 331 25 07	ales.rotar@krka.biz
Member of the Management Board and Director of Accounting and Controlling	**Zvezdana Bajc**	+386 7 332 78 17	zvezdana.bajc@krka.biz
Member of the Management Board – Worker Director	**Danica Novak Malnar**	+386 7 331 25 70	danica.malnar@krka.biz
Deputy Chief Executive and Head of Legal Affairs	**Borut Lekše**	+386 1 475 15 06	borut.lekse@krka.biz
Deputy Chief Executive	**Janez Poljanec**	+386 1 475 15 05	janez.poljanec@krka.biz
Senior Professional Consultant	**Dušan Dular**	+386 7 331 21 86	dusan.dular@krka.biz
Technical Director and Director of Engineering and Technical Services	**Peter Miklavčič**	+386 7 331 25 00	peter.miklavcic@krka.biz
Director of Marketing and Director of Pharmaceuticals	**Elizabeta Suhadolc**	+386 1 475 13 81	elizabeta.suhadolc@krka.biz
Assistant Chief Executive	**Jožica Štamcar**	+386 7 331 25 60	jozica.stamcar@krka.biz
Deputy Director of Marketing and Deputy Director of Pharmaceuticals	**Alenka Jerman**	+386 1 475 13 37	alenka.jerman@krka.biz
Medical Director and Director of Strategic Marketing	**Breda Barbič Žagar**	+386 1 475 13 39	breda.zagar@krka.biz
Director of Marketing of Self-Medication and Cosmetics	**Samo Komel**	+386 1 475 13 77	samo.komel@krka.biz
Director of Marketing of Animal Health	**Jože Primc**	+386 7 331 23 71	joze.primc@krka.biz
Director of Sales and Director of the Region East Europe	**Damjan Možina**	+386 1 475 13 52	damjan.mozina@krka.biz
Deputy Director of Sales and Director of the Region Central Europe	**Tomaž Sever**	+386 1 475 13 56	tomaz.sever@krka.biz
Director of the Region Slovenia and Director of the Key Market Slovenia	**Stane Jarc**	+386 7 332 22 42	stane.jarc@krka.biz
Deputy Director of Sales for Russian Federation and Director of the Key Market Russian Federation	**Miran Bevec**	+386 1 475 11 85	miran.bevec@krka.biz
Director of the Region South-East Europe	**Zdravko Čuk**	+386 7 331 27 78	zdravko.cuk@krka.biz
Director of the Region West Europe and Overseas Markets and Director of the Key Market West Europe	**Boštjan Korošec**	+386 1 475 12 71	bostjan.korosec@krka.biz
Director of the Key Market Croatia	**Hrvoje Hudiček**	+385 1 631 21 00	hrvoje.hudicek@krka.biz
Director of the Key Market Poland	**David Bratož**	+48 22 573 75 00	david.bratoz@krka.biz
Director of New Products	**Suzana Kolenc**	+386 7 331 20 23	suzana.kolenc@krka.biz
Director of Pharmaceutical Production	**Vesna Voćanec**	+386 7 331 35 47	vesna.vocanec@krka.biz
Director of API production	**Andrej Bavdek**	+386 7 331 78 16	andrej.bavdek@krka.biz
Deputy Technical Director of Engineering and Technical Services and Director of Technical Services and Energy Supply	**Marko Lampret**	+386 7 331 26 20	marko.lampret@krka.biz
Director of Finance	**Brane Kastelec**	+386 7 331 29 14	brane.kastelec@krka.biz
Director of Quality Management	**Ljubica Mikša**	+386 7 331 26 77	ljubica.miksa@krka.biz
Director of Human Resources	**Boris Dular**	+386 7 331 26 95	boris.dular@krka.biz
Director of Information Technology and Telecommunications	**Miran Kapš**	+386 7 331 24 70	miran.kaps@krka.biz
Head of Public Relations	**Elvira Medved**	+386 7 332 10 02	elvira.medved@krka.biz
Head of Industrial Property	**Mihael Florjanič**	+386 7 331 27 87	miha.florjanic@krka.biz
Head of Safety and Health at Work	**Andrej Škulj**	+386 7 332 22 05	andrej.skulj@krka.biz
Head of Public Services	**Darja Colarič**	+386 7 331 25 82	darja.colaric@krka.biz
Head of Internal Audit	**Mira Rataj Siročić**	+386 7 331 27 22	mira.rataj-sirocic@krka.biz
Head of the Department for Companies and Representative Offices Abroad	**Mojca Vidmar Berus**	+386 7 331 24 02	mojca.vidmar-berus@krka.biz



Companies

Representative offices

Addresses of Krka Company subsidiaries

1 Austria
KRKA Pharma GmbH, Wien
A-1220 Vienna, Wagramerstraße 4, Bürohaus Top 7
T: + 43 1 622 43 00

2 Bosnia and Herzegovina
KRKA FARMA d. o. o., Sarajevo
71000 Sarajevo, Ul. Džemala Bijedića 125a
Director **Azra Tahirović**
T: + 387 33 720 550
E: azra.tahirovic@krka.biz

3 Croatia
KRKA-FARMA d. o. o., Zagreb
10002 Zagreb, Radnička cesta 48/2, p. p. 205
Director **Hrvoje Hudiček**
T: + 385 1 631 21 00
E: hrvoje.hudicek@krka.biz

4 Czech Republic
KRKA ČR, s. r. o., Prague
186 00 Prague 8, Sokolovská 79/192
Director **Miloslav Dvořák**
T: + 420 2 21 115 115
E: miloslav.dvorak@krka.biz

5 Germany
TAD Pharma GmbH, Cuxhaven
27472 Cuxhaven, Heinz-Lohmann-Straße 5
Director **Jure Kapetan**
T: + 49 4721 606 200
E: kapetan@tad.de

6 Hungary
KRKA Magyarország Kft., Budapest
1036 Budapest, Pacsirtamező u. 5, I/3
Director **Katalin Hubay**
T: + 36 1 355 84 90
E: katalin.hubay@krka.biz

7 Ireland
KRKA PHARMA DUBLIN LIMITED
Dublin 2, 1 Stokes Place, St. Stephen's Green
Director **Viktor Kozjan**
T: + 46 8 643 67 66
E: viktor.kozjan@krka.biz

8 Lithuania
UAB KRKA Lietuva, Vilnius
LT-14013 Vilnius, Senasis Ukmerges kelias 4
Vilniaus r., Užubalių Kaimas
Director **Liudvikas Lukošaitis**
T: + 370 52 36 27 40
E: liudvikas.lukosaitis@krka.biz

9 Macedonia
KRKA-FARMA DOOEL, Skopje
1000 Skopje, Servisna zona jug, reon 40,
Novoproektirana bb
Director **Svetlana Stanoevska**
T: + 389 2 27 20 310
E: svetlana.stanoevska@krka.biz

10 Poland
KRKA-POLSKA Sp. z o. o., Warsaw
02-235 Warsaw, Równoległa 5
Director **David Bratož**
T: + 48 22 573 75 00
E: david.bratoz@krka.biz

11 Portugal
KRKA Farmacêutica, Unipessoal Lda., Estoril
2765 - 272 Estoril, Avenida de Portugal, 154 - Piso 1
Director **Uroš Prebil**
T: + 351 21 464 36 50
E: uros.prebil@krka.biz

12 Romania
KRKA ROMANIA S.R.L., Bucharest
060032 Bucharest, Splaiul Independentei no 319
Sema Parc, etaj 10, Sector 6
Director **Amelia Tataru**
T: + 40 21 310 6605
E: amelia.tataru@krka.biz

13 Russian Federation
OOO KRKA-RUS, Istra
143500 Moskovskaya oblast, Istra, Ul. Moskovskaya, d. 50
Director **Valentina Petrochenko**
T: + 7 495 994 70 70
E: valentina.petrochenko@krka.biz

Office:
123056 Moscow, Gruzinsky pereulok, d. 3, kv. 41-42
T: + 7 495 254 23 76
E: valentina.petrochenko@krka.biz

OOO KRKA FARMA, Sergiev Posad
141 300 Moskovskaya oblast
Sergiev Posad, Moskovskoe Shosse 46a
Director **Natalya Radchenko**
T: + 7 495 739 66 11
E: natalja.radchenko@krka.biz

Office:
123022 Moscow, Ul. 2. Zvenigorodskaya, d. 13, str. 41
T: + 7 495 739 66 11
E: natalja.radchenko@krka.biz

14 Serbia
KRKA-FARMA DOO BEOGRAD
11070 Belgrade, Jurija Gagarina 26/V/II
Director **Radivoj Topalov**
T: + 381 11 22 88 722
E: radivoj.topalov@krka.biz

Office:
2100 Novi Sad, Kralja Petra I. br. 32
T: + 381 21 44 35 11
E: radivoj.topalov@krka.biz

15 Slovakia
KRKA Slovensko, s.r.o., Bratislava
811 05 Bratislava, Moyzesova 4
Director **Marjan Vrbnjak**
T: + 421 2 571 04 501
E: marjan.vrbnjak@krka.biz

16 Slovenia
Terme Krka, d. o. o., Novo mesto
8000 Novo mesto, Ljubljanska cesta 26
Director **Jože Berus**
T: + 386 7 373 19 15
E: joze.berus@terme-krka.si

17 Sweden
Krka Sverige AB, Stockholm
118 72 Stockholm, Göta Ark 175, Medborgarplatsen 25
Director **Viktor Kozjan**
T: + 46 8 643 67 66
E: viktor.kozjan@krka.biz

18 USA
KRKA USA LLC
NC 28409, Wilmington, 4216 Cravens Point Rd.
Director **Aleš Rotar**
T: + 386 7 331 25 07
E: ales.rotar@krka.biz

Addresses of Krka Company subsidiaries

Representative offices of Krka, d. d., Novo mesto abroad

1 **Albania**
1000 Tirana, Rr. S. Frashëri, P. Aviacionit, Sht. 1, Ap. 5
Director **Afrim Ibrahimi**
T: + 355 4 274 585
E: afrim.ibrahimi@krka.biz

2 **Armenia**
1010 Erevan, Ul. Hanrapetutyan, 22, of. 14
Director **Anush Khachatryan**
T: + 374 105 603 11
E: anush.khachatryan@krka.biz

3 **Azerbaijan**
AZ1102 Baku, 3001 Moscow Avenue
Director **Samira Mirzayeva**
T: + 994 12 530 21 15
E: samira.mirzayeva@krka.biz

4 **Belarus**
220012 Minsk, Ul. Surganova, d. 29, of. 28
Director **Tatsiana Buza**
T: + 375 17 290 05 11
E: tatiana.buza@krka.biz

5 **Bosnia and Herzegovina**
71000 Sarajevo, Ul. Džemala Bijedića 125a
Director **Azra Tahirović**
T: + 387 33 720 550
E: azra.tahirovic@krka.biz

Office:
78000 Banja Luka, Ul. Pave Radana 53
T: + 387 33 720 550
E: azra.tahirovic@krka.biz

6 **Bulgaria**
1164 Sofia, Jakubica 19
Director **Aleksandar Spasovski**
T: + 359 2 96 23 450
E: aleksandar.spasovski@krka.biz

7 **China**
201206 Shanghai, 2312-13 Founder Tower,
1122 Xin Jin Qiao Road, Pudong New Area
Director **Janez Zupančič**
T: + 86 21 6105 2070
E: janez.zupancic@krka.biz

8 **Estonia**
11314 Tallinn, Pärnu mnt. 141
Director **Merit Kiili**
T: + 372 6 671 658
E: merit.kiili@krka.biz

9 **Georgia**
0160 Tbilisi, 31, K. Gamsakhurdia ave., app. 18
Manager **Jernej Špiler**
T: + 386 1 475 12 42
E: jernej.spiler@krka.biz

10 **India**
560066 Bangalore, 2nd Floor, Evoma Business Incubation Facility, # 82/83 Borewell Road
Opposite Whitefield Post Office, Whitefield
Director **Mitja Posavec**
T: + 91 80 41 74 31 22
E: mitja.posavec@krka.biz

11 **Kazakhstan**
050059 Almaty, Business Centre Nurly Tau
Al-Farabi avenue 5/1, block 3A, 4 floor
T: + 7 727 311 08 09

12 **Kosovo**
10000 Prishtina, Rr. Pashko Vasa, Qytetza Pejton
kati i III, Nr. 18
Director **Hatixhe Haziri**
T: + 381 38 240 688
E: hatixhe.haziri@krka.biz

13 **Latvia**
1010 Riga, Mūkusalas street 101
Director **Elita Šukele**
T: + 371 733 86 10
E: elita.sukele@krka.biz

14 **Moldova**
2001 Chisinău, Str. Tighina 49/3
Director **Adrian Chiu**
T: + 373 22 500 561
E: adrian.chiu@krka.biz

15 **Mongolia**
14 253 Ulaanbaator, Sukhbaatar district, khoroo 3
Narnii zam - 71, Zolo star hotel, of. 201
Director **Tsoggerel Baatar**
T: + 976 70114868
E: tsoggerel.baatar@krka.biz

16 **Russian Federation**
123022 Moscow, Ul. 2. Zvenigorodskaya, d. 13, str. 41
Director **Aleš Zorko**
T: + 7 495 739 66 00
E: ales.zorko@krka.biz

17 **Ukraine**
01015 Kiev, Ul. Staronavodnitskaya 13, of. 125, PB 42
Director **Jordan Urh**
T: + 380 44 569 28 38
E: jordan.urh@krka.biz

18 **Uzbekistan**
10031 Tashkent, Mirabad distr., Afrosiab Avenue 14
Director **Iqbol Siddiqov**
T: + 998 71 144 65 63
E: iqbol.siddiqov@krka.biz

Krka, d. d., Novo mesto
Šmarješka cesta 6
8501 Novo mesto
Slovenia

Phone: +386 7 331 21 11
E-mail: info@krka.biz

www.krka.si

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