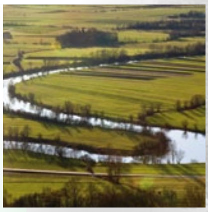
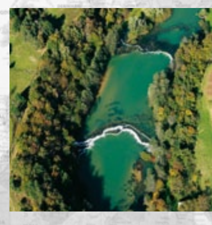


ANNUAL REPORT

fast and flexible on a global scale

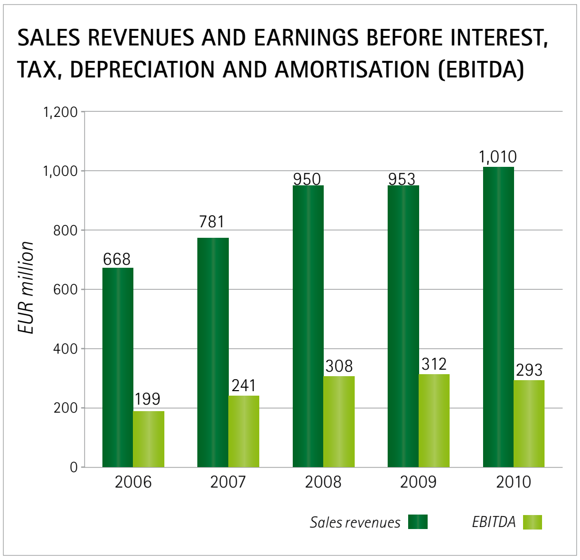
2010

KRKA

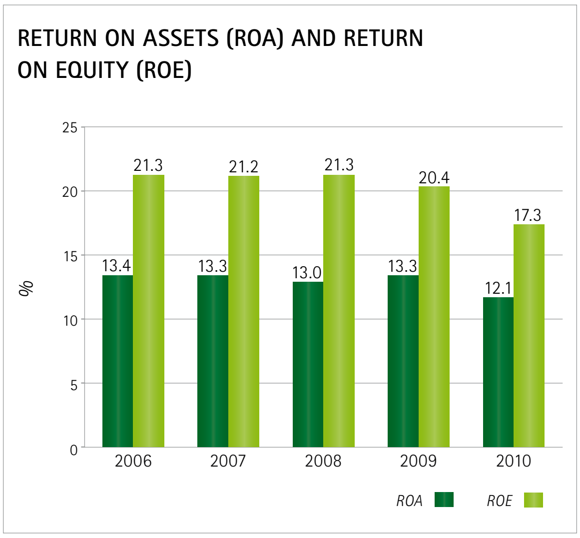
Krka Group highlights

Sales revenues grew by 6% in 2010.

EBITDA was EUR 293 million, a decrease of 6%.

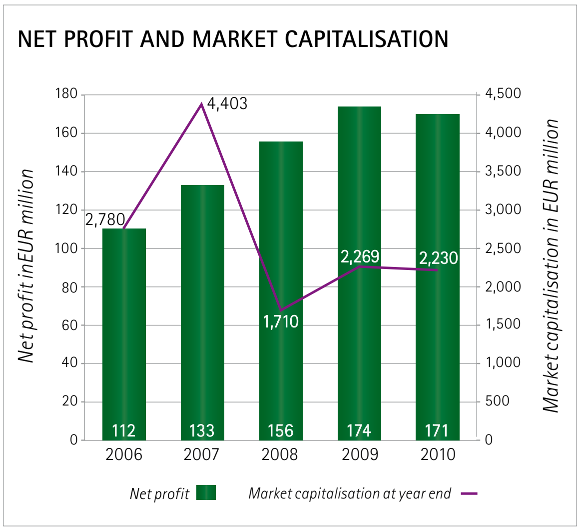


ROE was 17.3% and ROA 12.1%.



The net profit and market capitalisation were both down compared to 2009 by just under 2%.

Comparisons of these results with the 2009 figures must take into account the fact that the 2009 result was significantly affected by the surplus of released provisions for intellectual property rights cases (EUR 91.4 million) over new provisions relating to a European Commission procedure (EUR 47.5 million).



Krka Group financial highlights

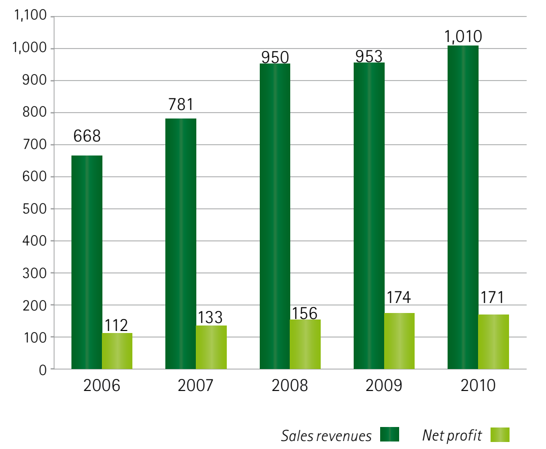
EUR thousand	2010	2009	2008	2007	2006
Sales revenues	1,010,021	953,038	949,920	780,918	667,955
EBIT	211,471	234,992	236,781	183,642	151,079
EBITDA	293,192	311,667	308,390	240,586	198,783
Net profit	170,918	173,685	155,891	132,853	112,086
Non-current assets	846,506	808,022	809,074	745,735	568,810
Current assets	641,698	533,010	461,962	375,683	310,318
Equity	1,053,327	920,369	783,296	680,913	570,905
Non-current liabilities	202,709	237,834	257,526	252,379	163,941
Current liabilities	232,168	182,829	230,214	188,126	144,282
R&D costs	90,924	88,283	84,746	59,071	52,650
Investments	115,172	91,488	147,061	112,977	107,200
RATIOS	**2010**	**2009**	**2008**	**2007**	**2006**
EBIT margin	20.9%	24.7%	24.9%	23.5%	22.6%
EBITDA margin	29.0%	32.7%	32.5%	30.8%	29.8%
Net profit margin (ROS)	16.9%	18.2%	16.4%	17.0%	16.8%
ROE[1]	17.3%	20.4%	21.3%	21.2%	21.3%
ROA[2]	12.1%	13.3%	13.0%	13.3%	13.4%
Liabilities/Equity	0.413	0.457	0.623	0.647	0.540
R&D costs/Sales revenues	9.0%	9.3%	8.9%	7.6%	7.9%
NUMBER OF EMPLOYEES	**2010**	**2009**	**2008**	**2007**	**2006**
Year-end	8,569	7,975	7,602	6,777	5,759
Average	8,328	7,816	7,294	6,209	5,494
SHARE INFORMATION[3]	**2010**	**2009**	**2008**	**2007**	**2006**
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]	5.06	5.14	4.61	3.92	3.30
Dividend per share in EUR	1.10	1.05	0.91	0.80	0.69
Share price at year-end in EUR	62.95	64.04	48.27	124.29	78.48
Price/earnings ratio (P/E)	12.44	12.46	10.46	31.71	23.75
Book value of share in EUR[5]	29.73	25.98	22.11	19.22	16.12
Share price/book value (P/B)	2.12	2.46	2.18	6.47	4.87
Market capitalisation in EUR thousand (31 December)	2,230,074	2,268,689	1,710,019	4,403,112	2,780,058
EXCHANGE RATES	**2010**	**2009**	**2008**	**2007**	**2006**
USD (average)	1.326	1.395	1.471	1.370	1.255
USD (31 December)	1.328	1.434	1.392	1.472	1.317

[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 that followed the September 2007 1:10 share split is used in calculated data per share
[4] Net profit of Krka Group majority shareholders/average number of shares issued in the period (no own shares)
[5] Share capital on 31 December/Total number of shares issued

Krka Group business model

Krka is one of the world's leading generic pharmaceutical companies. It is headquartered in Slovenia, and has over 55 years of experience in the industry.

SALES REVENUES AND NET PROFIT



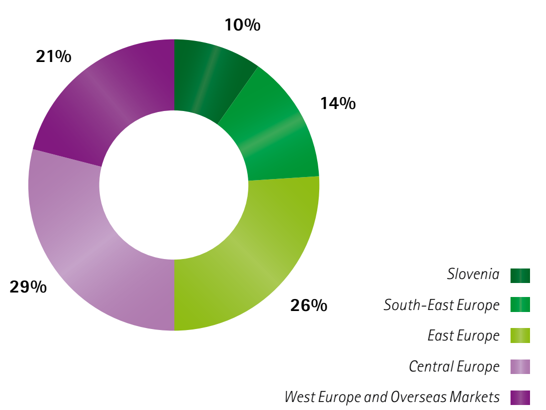
Krka has a leading position on its domestic market and a strong presence on generic pharmaceutical markets in:

- 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 Germany, the UK, France, Italy, Portugal, the Nordic countries and Benelux.

Production and distribution capacity is located in Slovenia, Poland, Croatia, the Russian Federation, and Germany.

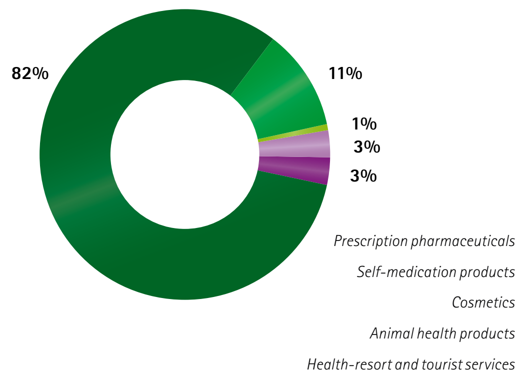
SALES BY REGION IN 2010



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 forms. The company's activities are supplemented by the health-resort and tourist services of the Terme Krka Group.

SALES BY PRODUCT GROUP IN 2010



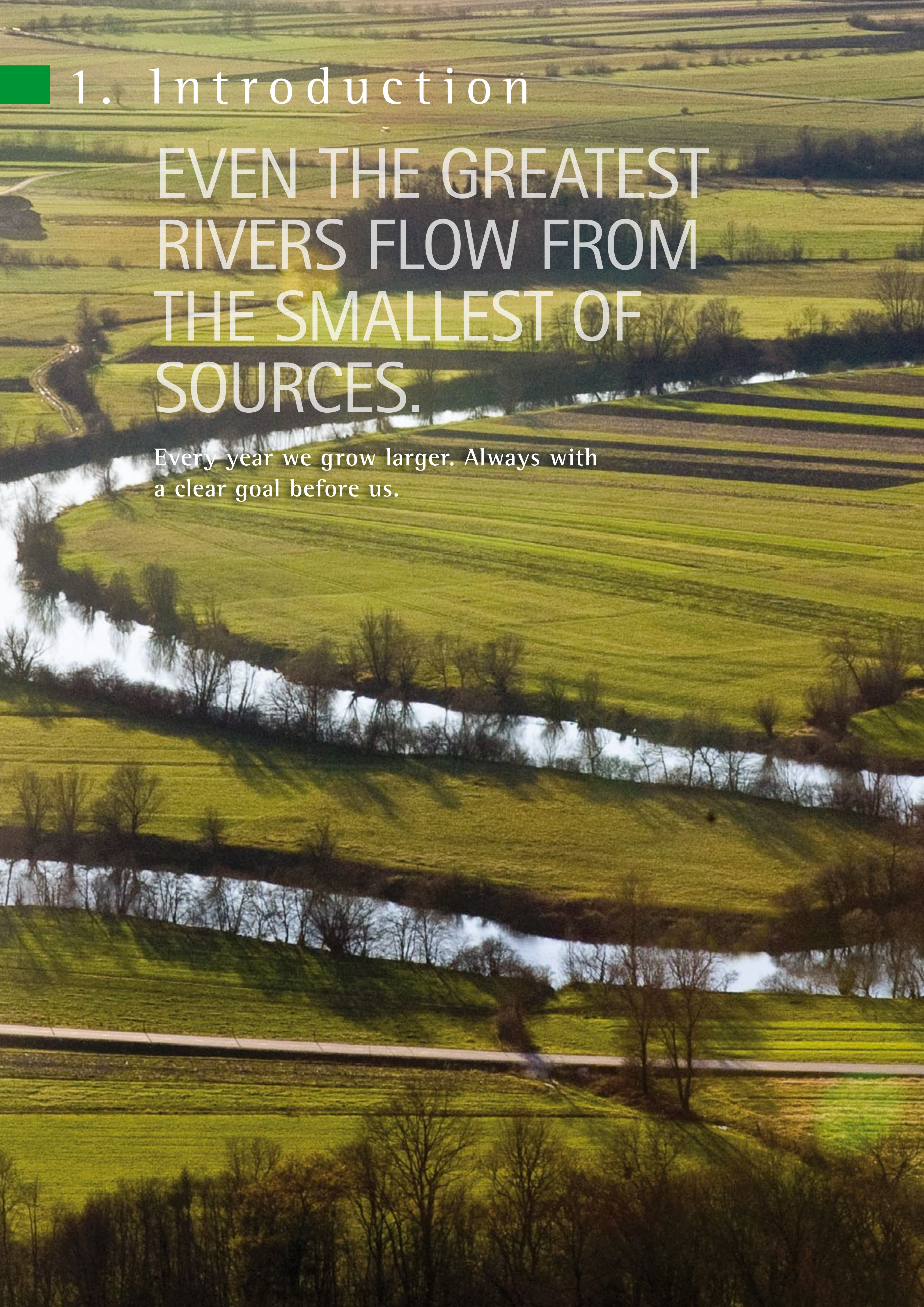
Our main focus is on a product range of generic prescription pharmaceuticals marketed under Krka's own brands. In future we will continue to focus on marketing and developing our own marketing and sales network through founding companies or purchasing local pharmaceutical companies in selected markets. Our objective is to strengthen the Krka Group's market position on the markets of Europe and central Asia.

Nine per cent of sales revenues was allocated to research and development in order to increase the competitive advantage of the product portfolio and retain a high proportion of vertically integrated products. Forty-seven per cent of 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 research and development, and we currently have over 100 new products in development.

ANNUAL REPORT

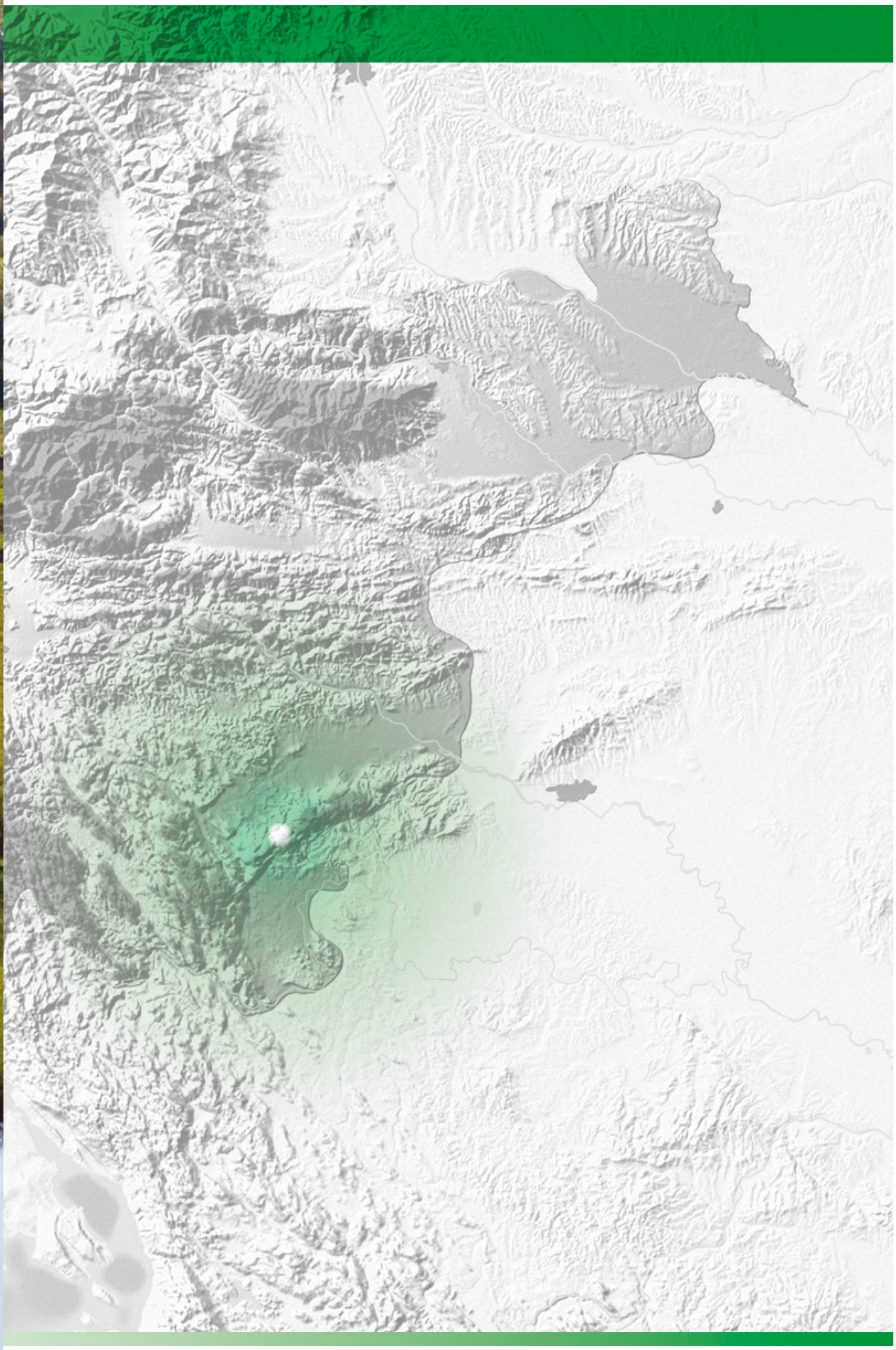
2010

1. Introduction



EVEN THE GREATEST RIVERS FLOW FROM THE SMALLEST OF SOURCES.

Every year we grow larger. Always with a clear goal before us.



In an ever more competitive field, it is only by making carefully weighed business decisions that can we achieve our planned development strategy and remain one of the world's leading generic pharmaceutical companies. And we know this so well.

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 the Krka Company).

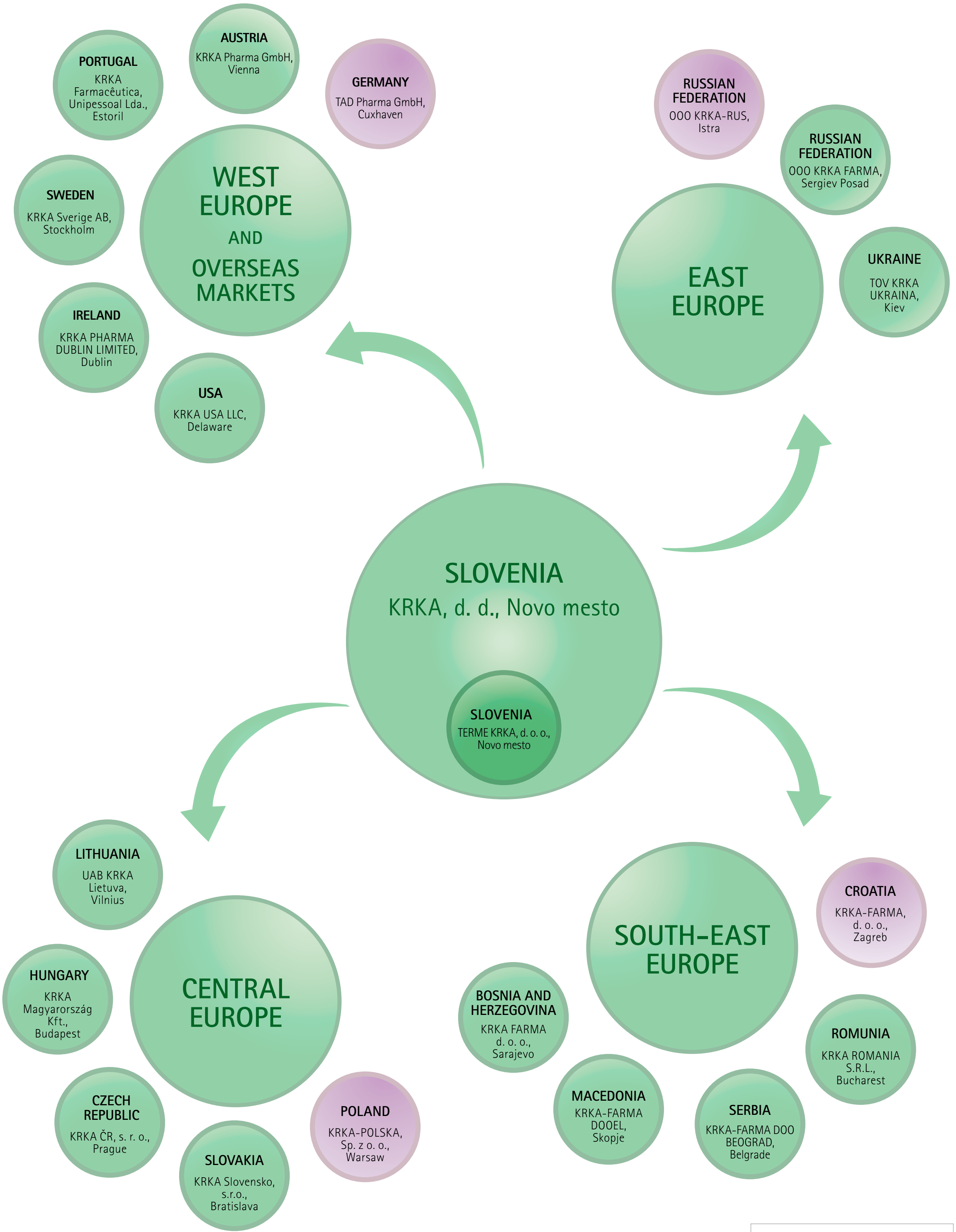
Registered office	Šmarješka cesta 6, 8501 Novo mesto, Slovenia
Telephone	+386 7 331 21 11
Fax	+386 7 332 15 37
E-mail	info@krka.biz
Website	www.krka.si
Basic activity	Production of pharmaceutical preparations
Activity code	21.200
Year established	1954
Registration entry	1/00097/00, Novo mesto District 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 pharmaceuticals, self-medication products 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 in the marketing and/or sale of Krka products and do not have production capacity.

The only subsidiary in Slovenia, Terme Krka d. o. o., Novo mesto provides health-resort and tourist services and 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 outside Slovenia

The chart only includes companies active on 1 January 2011.

OVERVIEW OF SIGNIFICANT EVENTS AND AWARDS IN 2010

JANUARY

- The Management Board, including new member Vinko Zupančič, begins its new term-in-office.
- In line with the Krka Supervisory Board decision of 29 July 2009, Vinko Zupančič, begins his six-year term-in-office as a new management board member. At the same time he takes charge of a key area of Krka operations – product supply.
- Krka appears on the Austrian market with an own brand product for the first time, with the launch of Zyllt (clopidogrel).
- Slovenian pharmaceutical inspectors issue Krka-Rus with a good manufacturing practice (GMP) certificate, clearing the way to export its products to any EU country.
- Krka receives prestigious Slovenian employer-of-the-year award for second year running. This important award is based on a survey on employers with the best reputation carried out at the end of 2009 on the jobs portal MojeDelo.com.

MARCH

- As part of a media research project and the Dnevnik newspaper's Golden Thread awards, Krka receives recognition as a finalist for 2009 Slovenian employer of the year.

APRIL

- A modern new syrup production plant and biocide production facilities are opened.
- At the 2010 Kapital Financial Fair, organised by the Kapital journal, Krka receives prestigious best company award.
- Krka again receives Polish Golden Otis award. Septolete again wins in the sore throat product category, while Pikovit complex wins an award in the children's vitamins category.
- In the Russian Federation Krka receives a silver EFFIE 2009 award for its effective marketing strategy for Pikovit, one of the most popular brands of children's vitamins.
- At the No Limit advertising festival in Bosnia and Herzegovina, Septolete wins a silver award in the interactive, virus and mobile advertising campaign category.
- Krka acquires an IPPC environment permit, based on the requirements of the EU directive on integrated pollution prevention and control (IPPC-Directive 96/61/EC), the Slovenian Environment Protection Act, Environment Protection Act and Decree on activities and installations causing large-scale environmental pollution.

MAY

- As in 2009, Krka is once more named the best reputed company in Slovenia in research by the Kline & Partner agency.
- The director of Krka-Polska, David Bratož, accepts the top manager award at the Polish Pharmacy Day conference, organised by the professional journal Gazeta Farmaceutyczna, for effective improvement of the company's market position and achieving Krka's business objectives for the Polish market.

JUNE

- The 15th Krka AGM approves the proposed new shareholder representatives on the Supervisory Board. On 21 June 2010 Prof. Julijana Kristl, Jože Lenič, Vincenc Manček, Mojca Videmšek Osolnik, Matjaž Rakovec and Assoc. Prof. Sergeja Slapničar start their five-year term-in-office.
- Krka wins three 2009 gold awards for innovation from the Dolenjska and Bela Krajina Chamber of Commerce and Industry, for new procedures to synthesise pramipexole and its salts and to prepare ezetimibe and its derivatives, and for the development of technology to produce the active substance clopidogrel in a new pharmaceutical form.
- In Warsaw Krka receives the prestigious Forbes Diamond 2010 award, a major prize awarded by the Forbes financial magazine. The award is presented to companies that have increased their value the fastest.
- Krka's internal magazine, Utrip, wins third place for content and design in the Papyrus awards.

SEPTEMBER

- The Chamber of Commerce and Industry of Slovenia presents its eighth awards for the most innovative companies, innovators within companies and independent innovators in Slovenia. Gold awards go to two Krka innovations, a procedure for preparation of ezetimibe and its derivatives and the development of technology for the production of the active pharmaceutical substance clopidogrel in new pharmaceutical forms.
- At the 2010 Panacea awards ceremony in Kiev, Krka's cardio products are selected as best in their category.

OCTOBER

- President of Slovenia, Danilo Türk, attends the 40th Krka Prizes ceremony for junior researchers and research achievement and also presents Krka with a Gold Order of Merit.
- Krka receives prize for the fastest growing company in the region at the 2010 Dolenjska-Posavska regional Gazelle awards.
- The Slovenian Chamber of Commerce and Industry puts Krka's name forward for the European Patent Office's in the 2011 European Inventor of the Year award for its orodispersible tablets.
- After winning the 2010 regional Gazelle award for Dolenjska and Posavska, Krka also wins the Gold Gazelle at the national Slovenian final, as an exceptional example of entrepreneurial development.
- The Fitoval brand of anti hair-loss and anti-dandruff products and products for dry and damaged hair receives the notable Polish 2010 discovery-of-the-year award.

NOVEMBER

- Krka opens new and expanded high-bay packaging warehouse and starts up solar power plant, which will contribute to reducing CO_2 emission and offer an additional power source.
- At the 11th annual report of the year award organised by Finance, the Slovenian business newspaper, Krka wins the 2009 Annual Report of the Year award and fourth prize for best financial report.
- For the 17th year, the Naša žena magazine, together with the Ministry of Labour, Family and Social Affairs, presents awards and commendations to People with Open Arms – benefactors, donors and exceptional personalities whose philanthropic acts have been the most notable over the last year. Those recognised for their charity, nobility and philanthropy include Krka and Zvezdana Bajc.
- Krka receives the national TOP 10 Management Training award for the sixth time at the 10th Management Training conference in Otočec.
- The Slovenian Human Resources Association awards a gold plaque to Dr Boris Dular, Krka's director of Human Resources, Slovenia's highest professional award in this field.

DECEMBER

- Krka's orodispersible tablets win first prize at the Fifth Slovenian Innovation Forum organised by Public Agency of the Republic of Slovenia for Entrepreneurship and Foreign Investments, in the innovative products category.
- The Ljubljana Stock Exchange grants Krka its Portal award for the most transparent public company in Slovenia for the fourth consecutive year.

EVENTS AFTER THE ACCOUNTING PERIOD

- In February 2011 Krka started work on the construction of a new solid dosage pharmaceutical production plant in the Russian Federation, which will support the flexible and modular development of production capacity in several phases. The investment is worth EUR 135 million, and consolidates Krka's status as a domestic pharmaceutical producer in the Russian Federation. Production is set to begin at the end of 2013.

- Krka and its partners Metronik, Iskra Pio and the Dolenjska and Bela Krajina Chamber of Commerce and Industry successfully applied for EU grants for research and development investments. A new research and development and production plant will be built at the Ločna location, which will function within the Krka Group as the subsidiary, Farma GRS d. o. o. The value of the entire project is EUR 45 million, for which Krka will receive a grant of EUR 10.3 million, while the three partners will together receive EUR 0.3 million.

- On 2 March 2011 Krka received a decision from Helsinki District Court in the patent dispute between Merck Frosst Canada Limited, Merck Sharp & Dohme B.V. and MSD Finland OY (MSD) and Krka, d. d., Novo mesto and its subsidiary Krka Sverige AB due to alleged infringement of two MSD patents protecting manufacturing processes in Finland for the active pharmaceutical ingredient montelukast. In the proceedings which began in 2009, the Helsinki District Court found that the procedure used by Krka to produce the active ingredient montelukast does not violate MSD's patented procedures.

STATEMENT BY THE PRESIDENT OF THE MANAGEMENT BOARD

Dear shareholders, business partners and employees,

Jože Colarič

An important milestone in Krka's business was achieved in 2010, as we exceeded the one-billion euro mark for product and service sales for the first time. Despite price reductions and growing competitions, we increased sales by 6% and achieved double-digit growth on many individual markets. We have gained marketing authorisations for the largest number of new products so far and continued to invest in research and development and production infrastructure. As we pass into the next business year I believe that we have operated successfully and generated a sound basis for future business.

Krka Group sales in 2010 reached EUR 1.01 billion, with a net profit of EUR 171 million. Krka's growth over the past five years has demonstrated our focus on results: we have doubled sales, more than doubled the net profit, more than doubled investment in research and development and maintained a high level of investment in new production and marketing and sales capacity.

Marketing and sales activities are extremely important in any company, and at Krka they are also a success. Region Central Europe has been the Krka Group's largest sales region for a number of years, and in 2010 we increased sales there by 10%. In Poland, the largest market in the region with sales of EUR 130 million and the Group's second largest individual market, we achieved a 16% growth in sales compared to 2009, while we also achieved double-digit growth in Hungary and Estonia.

The second largest sales region is Region East Europe, where growth was 17%. On the Russian market, which was worth EUR 192 million making it Krka's largest individual market, the Group achieved 13% growth. Double-digit growth was achieved on the important Ukrainian market, and good results were also recorded in Uzbekistan and Kazakhstan.

Third by sales comes Region West European and Overseas Markets, where sales value was down by 7% due to price reductions that were more pronounced than on other markets. Despite this, growth was achieved on many markets in the Region, such as Germany, the Nordic countries, Portugal and Benelux. We were also successful in the Arabian Peninsula and Iran.

In Region South-East Europe, the fourth largest, we increased our sales by 7%. Double-digit growth was achieved in Romania and Macedonia. In Slovenia the Krka Group's sales fell by 1%, with pharmaceutical sales increasing, while sales of health-resort and tourist services were down.

We cover most therapeutic fields with quality, effective and safe products and compete successfully with our competitors. Prescription pharmaceuticals remain Krka's most important product group, with an 82% share of total sales. In 2010 we increased their sales by 5%, achieving double-digit growth on many individual markets. Sales of self-medication products, the second-largest product group, were up by 25% and exceeded 100 million euros. Double-digit growth was also achieved for animal health products.

One of Krka's key strengths in achieving organic growth is our own research and development work, which enables us to be among the first generic producers to launch new products. In 2010 we acquired first marketing authorisations for 24 new products in 49 dosage forms. Successful research and development work is carried out based on sustainable work that focuses on results on the market.

The generics market is one with the highest price pressures. In order to strengthen market position and sales growth we must produce and sell increasing quantities of products. The Group's current production capacity stands at over nine billion solid forms per year, and is fully utilised, so we will be increasing capacity by about half in the next few years.

At the beginning of 2011 we started construction of the modern Krka-Rus 2 plant in the Russian Federation, which is worth EUR 135 million and will significantly strengthen Krka's position on the Russian market. The largest current projects in Slovenia are two investment projects together worth 91 million euros, a solid dosage form production plant that will increase tablet and capsule production, and a new development and control centre. These will provide the conditions we need to expand research and development work, including the installation of state-of-the-art laboratory equipment, and the introduction of new analytical methods that will increase our competitive advantage. In 2010 we dedicated EUR 115 million to investments, which is one-quarter more than in 2009.

The growth in the Krka share price in the past five years has significantly outstripped the growth of the SBITOP, the Slovenian blue-chip index and the global index for the sector, S&P Global Healthcare. During 2010 the Krka share price fell by 2% due to changing financial conditions on the capital market. The SBITOP fell more than 13% over the same period. Many investors see Krka as a secure and promising investment, and it is also the most liquid and most transparent security on the Ljubljana Stock Exchange. Krka's attention to investors is confirmed by the fact that last year we received the Ljubljana Stock Exchange award for the most transparent public company for the fourth consecutive time.

With our business growing, during 2010 the number of employees increased by almost 600, nearly two-thirds of them in companies and representative offices abroad. At the end of 2010 the Krka Group had 8,569 employees, 48% of whom outside Slovenia. The proportion of employees with at least a university education exceeded 50%. Due to its good reputation as an employer, Krka remains the first choice for many educated and accomplished professionals.

We are well aware that Krka's social role means more than just generating positive business results. In 2010 our work in this field was recognised with a major national honour, the Gold Order of Merit, for our great contribution to the successful development of Slovenian society, particularly in the field of science. We also increased recognition of Krka through sponsorship and donations and achieved numerous objectives in sport, health care, culture and art.

Our plans for 2011 are optimistic. Trends indicate that the generics industry will strengthen against a backdrop of even greater price pressures than to date. We are planning for Krka Group sales worth EUR 1,069 million and a profit of EUR 162 million. The value of planned investments is EUR 159 million. We will strengthen our presence on existing markets, prioritising Europe and Central Asia.

Our many new products and investments and the knowledge of the 8,500-strong Krka team around the world form the basis for generating added value in future. Our strong equity structure and low indebtedness provide a platform for more secure growth. In 2011 we will be investing in development, expanding and modernising production capacity, enhancing marketing and hence consolidating our position as a fast-moving and flexible large company.

I would like to thank all our employees and the members of the Supervisory Board for their contribution to our results, the buyers of our products and services, and our shareholders for the trust they have placed in us. I am convinced that 2011 will be another successful year for us.

Jože Colarič
President of the Management Board and Chief Executive

2010 REPORT OF THE SUPERVISORY BOARD

Dear shareholders,


Jože Lenič MSc

The composition of the Supervisory Board from the start of 2010 to the Annual General Meeting on 17 June 2010, was as follows: Gregor Gomišček PhD, Draško Veselinovič PhD, Mateja Božič MSc, Mojca Osolnik Videmšek, Anton Rous and Alojz Zupančič as shareholder representatives, and Tomaž Sever MSc, Franc Šašek and Mateja Vrečer PhD as employee representatives. It met four times during that period.

The new Supervisory Board was elected by the AGM, which started its five-year term-in-office on 21 June 2010 with a different composition. The shareholder representatives elected were Jože Lenič MSc, as president of the Supervisory Board, Matjaž Rakovec, as deputy president, Prof. Julijana Kristl PhD, Vincenc Manček, Mojca Osolnik Videmšek and Assoc. Prof. Sergeja Slapničar PhD. The new employee representatives were Franc Šašek, deputy president of the Supervisory Board, Mateja Vrečer PhD and Tomaž Sever MSc. This composition of the Board met three times in 2010. Management Board members informed the new Supervisory Board of the plans and strategy for Krka's future development.

THE WORK OF THE SUPERVISORY BOARD

At its seven meetings of 2010 the Supervisory Board diligently and responsibly monitored the company's operations throughout the business year, actively participating in the formation of the corporate governance policy, evaluating the work of Management Board and carrying out all other duties in compliance with law, company acts and good practice.

Sound cooperation between the members of the Supervisory Board ensures they make competent decisions in line with their legal powers. They were provided with all the requisite data, reports and information, and received material in sufficient time to prepare and discuss individual agenda items. Krka's specialist services assisted in the organisation of meetings, implementing any improvements required on an ongoing basis, and effectively organised any support the Board required.

Members of the Supervisory Board take into account the Company objectives in their work and decisions, and subordinate any personal interests or the interests of individual shareholders to those objectives. They offer their opinions and critiques at meetings, but always reconcile different views through constructive dialogue.

The composition of the Supervisory Board allows the Board to engage in effective discussions and reach high quality decisions, based on the diverse experience of its members. The Board's expertise covers the fields of pharmacy, chemistry, economics, engineering, organisational science and management.

It is also suitably diverse in terms of age and sex, with five male and four female members, and age range from 39 to 67 years.

The majority of board members participated in all meetings. Three were absent once on justifiable grounds. A certified auditor from the auditing house KPMG Slovenija participated in two meetings.

The content to which the Supervisory Board dedicated most time in its first three meetings of 2010 was linked to the previous year's operations and the preparation of the 2009 annual report. It assessed operations as positive and approved the 2009 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 Board had no comments on the work of the auditing house and its report.

It discussed and adopted the report on its own work in 2009, 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 issues its approval (discharge of liability) to the Management and Supervisory Boards for 2009.

During the year the Board focused most attention on realising its adopted objectives, and was always kept informed of current events within Krka. Throughout 2010 it monitored and supervised the work and results of the Management Board and set the performance bonus for 2009 and the first half of 2010 in line with the applicable rules. It devoted considerable time and attention to future operations, and particularly the 2011 business plan for the Krka Company and Group.

The Board also addressed a range of other subjects during its meetings.

- In the first half of 2010 it introduced new features of the Corporate Governance Code, adopted at the end of 2009. It therefore adopted a corporate governance policy, in line with the provisions of the Code. Krka was the first public company in Slovenia to publish its corporate governance policy on the SEOnet portal and its own website.
- In line with the recommendations of the Corporate Governance Code, it also adopted a Management Board Remuneration Policy.
- Taking the Corporate Governance Code of Kapitalska Družba (KAD) and the Corporate Governance Code as a guide, Board members appointed a Nomination Committee, which was charged with proposing suitable candidates for the new Supervisory Board. The members carefully studied the proposals of the Nomination Committee and took them into account in preparing its proposal for the General Meeting.
- Pursuant to the Companies Act, the Supervisory Board proposed new candidates for shareholder representative members of the Supervisory Board, which were approved by the General Meeting on 17 June 2010.
- It was informed of the state of claims against Krka, d. d., Novo mesto and its subsidiaries by foreign pharmaceutical companies, and the related risks.
- At its meetings in April and May it discussed material connected to convening the Annual General Meeting and drew up draft resolutions for approval by the General Meeting. These included proposing that the General Meeting appoint KPMG Slovenija as the external auditor and amended the Articles of Association in accordance with changes in legislation.
- In line with established practice, each quarter the Board also studied a report on the acquisition and disposal of treasury shares, and at the final meeting of 2010 was informed that Krka would start to repurchase treasury shares on the basis of a resolution by the 14th Annual General Meeting.
- It reviewed the interim reports for the Krka Company and Group and studied the Group's operating results in comparison with select international pharmaceutical companies, for 2009 and the first half of 2010.
- It was informed of the Corporate Governance Report with the Krka Group and the Company's Code of Ethics.
- It adopted updated rules of procedure for the Supervisory Board, Audit Committee and Human Resource Committee. The updates were based on amended legislation and good practice recommendations.
- It studied the Krka Group's 2010-2014 Development Strategy.
- At its November meeting, the Board approved its schedule, and defined the planned agenda for Supervisory Board meetings and its committees in 2011.
- At its November meeting it studied a report on a preliminary audit, which KPMG Slovenija auditors carried out at the Company's Headquarters in the second half of September and Krka's inclusion in a pilot project on horizontal monitoring.

- At its November meeting it reviewed and approved the Company's 2011 business plan.

Supervisory Board members were also active in other areas, including participating in events organised by Krka. Three members took part in the AGM in June 2010, and five members took part in the commemorative academy to mark the 40th Krka Prizes. They also visited the Notol Plant, Krka's largest and most modern plant for the production of solid pharmaceutical forms.

THE WORK OF THE SUPERVISORY BOARD COMMITTEES

The Audit Committee and Human Resource Committee deliberated specific areas of accounting, financial and human resources and advised the Supervisory Board on decisions in the two areas that fall under the Board's auspices. They work in line with Slovenian good practice. During 2010 both committees addressed numerous subjects and made a positive contribution to the work of the Supervisory Board.

The Audit Committee sat five times during the year, four times in the former and once in the new composition. Mojca Osolnik Videmšek was elected president; the other members are Matjaž Rakovec, Tomaž Sever, Sergeja Slapničar and Franc Šašek.

The certified auditor from KPMG Slovenija, Andrej Korinšek, took part in the committee's April meeting. The presidents of the Management Board and Supervisory Board were also invited to each meeting, as were the Management Board member responsible for accounting and controlling, and the head of internal auditing.

- The committee proposed that the Supervisory Board approve the Krka Company and Group's 2009 Annual Report, and the 2009 report of the Supervisory Board.
- 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, and reappoint KPMG Slovenija as auditor for the 2010 business year.
- It studied the report on corporate governance within the Krka Group.
- It studied the report on the Krka Group's trade receivables management in 2009, which was prepared by the auditing house KPMG Slovenija.
- It studied the Management Board's report on the operations of the subsidiary TAD Pharma GmbH, Cuxhaven, Germany.
- It studied a report evaluating the quality of internal auditing within the Krka Company, which was prepared by Deloitte, d. o. o., Ljubljana.
- It proposed that the Supervisory Board approve the amended Krka Group Internal Auditing Charter and the Internal Auditing Rules for the Krka Group.
- It gave its consent to the 2009 Annual Internal Auditing Report, the Internal Auditing Report for January to June 2010 and the 2010 internal auditing work programme.

The Human Resource Committee sat three times in 2010. Mateja Vrečer was selected as president, and the other two members were Julijana Kristl and Vincenc Manček. The presidents of the Management and Supervisory Boards were invited to all meetings, as was Management Board member, Zvezdana Bajc.

- The committee proposed the level for the bonus element of Management Board remuneration for their work in 2009 and the first half of 2010.
- It studied a report by the presidents of the Supervisory and Management Board on contracts for work on the Management Board.
- Based on the Nomination Committee's proposal, it put forward new candidates for shareholder representative members of the Supervisory Board to the Supervisory Board itself.

NOMINATION COMMITTEE

In line with good practice, the Supervisory Board appointed a nomination committee as a sub-committee of the Human Resource Committee, which was tasked with ensuring a high quality selection procedure for Supervisory Board members. The committee members were Tomaž Kuntarič MSc, president, and Bachtiar Djalil, Andrej Slapar, Franc Jamšek MSc and Gregor Gomišček PhD. The Nomination Committee mandate lasted until 21 June 2010, the end of the then Supervisory Board's term-in-office.

The main task of the Nomination Committee was to put selection procedures in place and provide the Supervisory Board with a list of suitable candidates to function as the new shareholder representatives of the Board, once the previous term-in-office concluded on 21 June 2010. The Nomination Committee sat three times.

WORK OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The work of the Supervisory Board and its committees took place in line with legal provisions and good practice, particularly the Corporate Governance Code and other recommendations from the Ljubljana Stock Exchange, the Slovenian Directors' Association and the Managers' Association of Slovenia.

Throughout 2010 the Supervisory Board consistently and comprehensively verified and supervised the Company's operations. The full complement of the Management Board participated in all meetings of the Supervisory Board, particularly the President of the Management Board, reporting in depth on all significant aspects of each agenda item. Management Board members, most frequently the President, responded to questions from Supervisory Board members linked to important areas of Company's operations.

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 in which they set performance bonuses. Every Management Board member was fully committed to fulfilling the annual business plan and achieving the strategic objectives, and the operating results achieved were good.

Throughout the year information sharing and relations between the Management and Supervisory Boards was transparent and to the benefit of the company.

Communication between the board presidents took place on a regular basis, also between scheduled board meetings.

In March 2011 the Supervisory Board prepared a self-assessment of its work for 2010, after studying the report on its work. It found that it had acted appropriately and in line with legal provisions and good practice. The self-assessment followed the steps recommended by the Corporate Governance Code:
- It evaluated its work and gathered opinions at the meeting on any required improvements.
- It found that communication and cooperation between the Management and Supervisory Boards was appropriate.
- It found that its members had contributed equally to discussions and decision-making.
- It verified whether there were any conflicts of interest or cases of dependence within the board.
- It assessed that the composition of the Supervisory Board was appropriate to the business model, and found that it included the participation of both sexes, a broad age span and overall a high degree of diversity.

In line with the Corporate Governance Code recommendations defined in Annex C – Conflicts of Interest, the members found that the Board was independent, both shareholder representatives and employee representatives, since at least half of its members could not be in a dependent relationship.

The Rules of Procedure of the Supervisory Board set out the actions to be taken in the event of a conflict of interest in relation to an individual agenda item. The Board may rule in such a case that the member concerned cannot vote on that item. No conflicts of interest arose in 2010 in relation to any item of the agenda.

During the self-assessment process the Supervisory Board also found that in 2010 no board member had significant business links with Krka as a partner, shareholder or senior manager of another company. The president of the Board and his deputy are the Management Board presidents of Abanka and Zavarovalnica Triglav respectively, which work with Krka, however, not to an extent that could influence the Supervisory Board's independence in decision-making.

All Supervisory Board members are well qualified and carry out their work conscientiously. They required the Management Board to provide additional reports in areas they assessed as representing a risk to the Company's successful operation.

In line with good practice, the Board members work on their own professional development, which Krka also encourages. In 2010 individual members participated in one-day training sessions organised by the Slovenian Directors' Association, where they studied the latest developments in the field of supervisory board work.

Of the EUR 64,539 anticipated for the work of the Supervisory Board and its committees in the annual plan, EUR 59,593 was used. In the supervisory field, Krka paid the 2010 membership fees of EUR 7,000 in the Slovenian Directors' Association, but no other expenses, such as external services, were incurred.

APPROVAL OF THE ANNUAL REPORT AND SUBMISSION OF THE PROPOSAL FOR APPROPRIATION OF THE 2010 ACCUMULATED PROFIT

The Supervisory Board examined the 2010 Annual Report of the Krka Company and Krka Group in great detail and within the legal deadline. 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 also interviewed the auditor, and did not make any comment on the auditor's report.

The Supervisory Board found that the Management Board's annual report offered a true reflection of events and comprehensive information on operations in 2010, and supplemented and further developed the information it had regularly submitted during the business year. Since it had no comments or reservations, it unanimously approved the Annual Report at its meeting of 6 April 2011. 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 2010 the Krka Company achieved a net profit of EUR 165,920,015.69, of which EUR 2,259,897.64 was appropriated to reserves for treasury shares, EUR 5,000,000.00 to statutory reserves and EUR 52,000,000.00 to other revenue reserves. The remaining net profit of EUR 106,660,118.05, and the retained net profit of EUR 62,284,849.13 together comprise the accumulated profit, which stood at EUR 168,944,967.18 on 31 December 2010. The Management Board and Supervisory Board propose that the General Meeting appropriates the accumulated profit as follows:

- EUR 1.40 gross per share, in total EUR 47.119.511,60 for dividends
- EUR 60,912,727.79 for other revenue reserves, and
- EUR 60,912,727.79 to be carried forward to next year.

The proposal has been drawn up by considering the number of treasury shares as at 6 April 2011 when Krka's Supervisory Board confirmed the 2010 Annual Report and prepared, together with the company's Management Board, a proposal for the appropriation of accumulated profit. Due to continued acquisition of the company's treasury shares, the number of dividend-yielding shares will be known on the day of the Annual General Meeting, and the total amount allocated for dividends, other revenue reserves and to be carried forward to the next year, will be changed accordingly.

CONCLUSION

I am pleased that through our supervision of operations, the Supervisory Board members have made our contribution to Krka's success and to the transparency for which it is well known among investors. At a time of growing price pressures and increased debt for many companies, Krka has continued to create a profit and grow on healthy financial foundations. The members of the Supervisory Board studied the 2010 report and unanimously approved it at our meeting on 6 April 2011.

Jože Lenič MSc
President of the Supervisory Board

2. Business report

GREAT IDEAS ARE UNSTOPPABLE.

In every obstacle we see a challenge. A rapid and flexible response allows us to overcome the obstacles we meet on our path. Made stronger by new forces, we move forward stronger and bolder.

We supply multi-million euro markets in over seventy countries with products offering quality, efficacy and safety. We focus all our efforts on the development of modern, own-brand pharmaceuticals that cover most major therapeutic groups.

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 good practice. It operates on a two-tier system, in which the company is managed by a management board, whose work is supervised by the Supervisory Board. In relation to its stakeholders, Krka responsibly exercises its rights and fulfils its obligations, which are defined in the published Corporate Governance Policy.

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

General Meeting

The General Meeting is the highest body, where the company's shareholders can participate directly and make key decisions. Each share represents one vote at the General Meeting, except the treasury shares. Krka has one share class only, ordinary no-par value shares.

The Management Board convenes the General Meeting once a year, issuing notice at least 30 days before it is to take place. The full material is available for viewing at the company's registered office, from the day the General Meeting notice is issued.

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 requires to assess the content of the agenda, taking into account any legal or other restrictions on the disclosure of information.

The Fifteenth Annual General Meeting of the Krka Company was held on 17 June 2010, where shareholders:
- Passed a resolution electing Supervisory Board members for a 5-year period
- Discussed information on the Annual Report and the Supervisory Board's Report for 2009, including notification of the remuneration of the Management and Supervisory Boards
- Decided on the appropriation of the accumulated profit
- Appointed the auditor for 2010.

The resolutions adopted by the 15th AGM were published in the Delo newspaper, on the SEOnet electronic information system, and the Krka website (http://www.krka.biz/en/finance/info/skupscine/).

The 2011 Annual General Meeting will take place on 7 July. The notice convening the 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.

From left: Vincenc Manček, Mateja Vrečer PhD, Prof. Julijana Kristl PhD, Franc Šašek, Jože Lenič MSc, Matjaž Rakovec, Assoc. Prof. Sergeja Slapničar PhD, Tomaž Sever MSc and Mojca Osolnik Videmšek.

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 Articles of Association. Supervisory Board members are appointed for a period of five years and can be re-appointed.

Since the term-in-office of the current Board was coming to a close, the **15th Annual General Meeting** elected **a new Supervisory Board** for a term-in-office of five years, starting on 21 June 2010.

In line with the Corporate Governance Code, a **Nomination Committee** was formed to advise on the selection of Supervisory Board members.

The new Supervisory Board was elected at the 15th AGM for a 5-year term.

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 company shares. Members of the Supervisory Board report any acquisition or disposal of company shares to the Company and competent institutions, and Krka publishes this information.

Members of the Supervisory Board pursue the Company's objectives in their operations, and must subordinate any personal interests or interests of any third parties to those objectives. Members 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 website (http://www.krka.biz/en/finance/druzba/dokumenti/). The Rules of Procedure for the Supervisory Board were amended in 2010, in accordance with the Corporate Governance Code.

The composition and function of the Supervisory Board and its committees in 2010 are presented in the Report of the Supervisory Board.

SHAREHOLDER REPRESENTATIVES

Jože Lenič MSc

President of the Supervisory Board

Born in 1965, from Domžale. A graduate in geography, holds a master's degree in international economics, and is a professor of geology. He started his professional career in the private firm Oikos d. o. o., before continuing as president of the executive council of the Municipality of Domžale. From December 1992 to January 2000 he was a deputy in the Slovenian parliament. He has also worked as a consultant for SKB Banka. He led Kapitalska Družba as president of the management board for many years. From December 2003 to June 2005 he was president of the management board at Zavarovalnica Triglav, before being employed as a consultant to the management board of Triglav Reinsurance. He continued his career in the insurance field at Aksum, where he led and collaborated on consultancy projects. Since January 2011 he has been the president of the management board of Abanka Vipa d. d.

In 2003 he acquired certification from the Slovenian Directors' Association (A and B licence).

He has been a member of the supervisory boards of Lek, Sava, NLB Banka, Intereuropa, Delo and the Slovenian Insurance Association and a number of Zavarovalnica Triglav subsidiaries.

Matjaž Rakovec

Deputy President of the Supervisory Board

Born in 1964, from Stanežiče pri Ljubljani. A graduate economist, he first worked for a year as an independent tradesman, before being employed as an independent salesman, first for Intertrade d. d. and then Angi, d. o. o., both in Ljubljana. In 1994 he started work for the Ljubljana regional unit of Zavarovalnica Triglav, d. d., as assistant to the director and head of marketing insurance to businesses. He was also in charge of IT. He has also worked for Studio Moderna d. o. o. and was a consultant to the Management Board of Mercator, d. d. In 2006 he became director of the Ljubljana regional unit of Zavarovalnica Triglav, and since 2009 has been president of the Zavarovalnica Triglav Management Board.

In 2007 he passed the standard certification for supervisory board members. Since 2010 he has been president of the board of directors for Lovćen osiguranje a.d., Podgorica, Montenegro and president of the Supervisory Board of Triglav BH Osiguranje, d. d. He is also a member of the Managers' Association, a member of the managing committee of the Slovenian Chamber of Commerce and Industry and president of the Supervisory Board of the GIZ Nuclear Insurance and Reinsurance Pool. He is also a member of a number of sports societies and social organisations.

Mojca Osolnik Videmšek

President of the Supervisory Board's Audit Committee

Born in 1966, from Ljubljana. A graduate economist she started her career as head of marketing in the metal manufacturing section of the company DEKOP in Novo mesto. In 1993 she was employed in the Prime Minister's Office, first as advisor to the Prime Minister and deputy head of office, before taking over as head of the Prime Minister's Office. She also worked briefly as secretary general of the Ministry of Foreign Affairs. She then spent a year and a half as director of the Prime Minister's Office.

In February 2003 she started working for Nova Ljubljanska Banka (NLB), as director of the office of the Management Board. In 2004 she became Secretary General of NLB, responsible for corporate governance, human resource management, public relations and corporate promotion. She is currently employed at NLB as assistant to the director of NLB Group corporate and business management and as director of capital investment and control.

She holds an A-licence from the Slovenian Directors' Association.

In 2008 she assumed the role of deputy president of the management committee of the Slovenian Directors' Association. She has been a supervisory board member for Kapitalska Družba for one term-in-office and a supervisory board member for Krka, as well as also spending a shorter period as member of the management committee of Euromarket Banka a.d., Podgorica, Montenegro. In 2010 she was appointed as a supervisory board member of both NLB Vita and NLB Skladi.

Assoc. Prof. Sergeja Slapničar PhD

Born in 1971, from Lesce. She holds a doctorate in management and organisation, and started her career as an intern at Deloitte & Touche Ljubljana in 1994. In 1995 she began working at the University of Ljubljana's Faculty of Economics as an assistant for accountancy and auditing, where she is currently associate professor, head of the accountancy and auditing chair and the supervisor for several subjects.

She is an independent member of the auditing committees of NLB Banka and Telekom and president of the report committee required by Art. 609 of the Companies

Act to examine the exchange rates used in ownership transformations of companies. She is a lecturer for the Slovenian Directors' Association on director training programmes and a member of the committee for extension of directors' licences. She is also a member of the European Accounting Association and the American Accounting Association (EAA and AAA). She has also published numerous scientific and academic works.

She has considerable practical experience and expert knowledge in the fields of finance, accountancy and manager performance management.

Vincenc Manček

Born in 1943, from Novo mesto. A graduate in chemical technology, after completing secondary education, he enrolled in the University of Ljubljana's Faculty of Natural Sciences and Engineering and graduated in 1967. He immediately started work in the INIS glass factory, moving to the IMV car factory in Novo mesto when INIS failed. In 1970 he was employed by Krka, where he worked in a range of fields, including 5 years in production, 7 years in investment, and 19 years in finance, before becoming the Deputy Chief Executive of Krka from 2001 until his retirement in March 2010.

He underwent training for supervisory board and management board members at the Slovenian Directors' Association in 2008.

He has been a Supervisory Board member of two Krka subsidiaries: Krka Farma, Zagreb (Croatia) and Krka Zdravilišča, Novo mesto. Outside the Krka system, he has been a supervisory board member in commercial banks, an insurance company, health institution and public companies in Slovenia and Croatia (Poštna Banka Slovenije, Univerzalna Banka Kemija, Komercialna Banka Triglav, Zavarovalnica Tilia, Novo mesto General Hospital, Medika Zagreb, Bramac Slovenija). He is currently a supervisory board member for TPV d. d., Novo mesto.

Prof. Julijana Kristl PhD

Born in 1953, from Ljubljana. Graduated in 1977, completed her master's degree in 1981 and doctorate in 1988 in pharmaceutical science at the University of Ljubljana, where she is employed. During her 33 years of service she has successfully carried out numerous scientific, teaching and management tasks. She was head of a chair before serving as dean of the Faculty of Pharmacy for two terms, and is now vice-rector of the University of Ljubljana for first and second cycle study programmes and enrolment.

Her research work is focused on modern active substance delivery systems, nanotechnology and biomaterials. Until 2005 she was a member of the Slovenian Science and Technology Council and the Health Council within the Slovenian Ministry of Health. She is a member of the Slovenian Pharmaceutical Society, president of the Society of Experts for Controlled Release of Bioactive Compounds and member of many notable international organisations – Controlled Release Society (USA), Academy of Pharmaceutical Sciences (UK), International Society of Drug Delivery Sciences and Technology (France), and member of the editorial boards of the Journal of Drug Delivery Science and Technology, Ars Pharmaceutica and Journal of Biomedical Nanotechnology. She is a peer reviewer for 20 internationals scientific journals with impact factor ranking.

In 1993 she received the Minařik award and 2004 the Minařik medal for her contributions to Slovenian pharmaceutical science and for her dedicated work for the Slovenian Pharmaceutical Society.

EMPLOYEE REPRESENTATIVES

Franc Šašek

Deputy President of the Supervisory Board

Born 1967. A graduate in organisational science he started working for Krka in 1984. Until 2000 he worked as a technologist, as head of the Technical and Technological Preparations Department and as head of Section. Since 2001 he has been a senior specialist staff member within the Technical Services and Energy Supply management, working on maintenance and project management.

As project group leader for maintenance, in 2004 he actively participated in the implementation of the business process management system (SAP) and was later appointed process owner for maintenance in Krka, responsible for system implementation, development and optimisation. He had the same role for implementation in Krka's subsidiaries.

Since 1999 he has also worked on quality assurance, as a certified quality officer, quality trainer and registered internal quality auditor. He is jointly responsible for the development and maintenance of the integrated quality system at sector and company level. He was elected as president of the Krka Works Council for the 2009-2013 term.

He underwent training for supervisory board and management board members at the Slovenian Directors' Association in 2009.

Mateja Vrečer PhD

President of the Supervisory Board's Human Resource Committee

Born in 1966. She has worked for Krka since 1990, starting as a pharmaceutical engineering graduate, before going on to pass her professional specialisation exam for pharmaceutical engineering, and a master's and doctorate in pharmaceutical science. She first worked in Research and Development, where she prepared technical documentation for proposed new products, and after approval led the whole project in Slovenia from marketing authorisation to launch. From 1997 she worked in quality management as deputy director of Quality Management, and since 2007 she has been head of International Quality Assurance. She is responsible for managing inspections by external pharmaceutical regulators, evaluation of Krka's contractual partners, quality assurance in contractual cooperation with contractual partners for production and pharmaceutical analysis, quality assurance of raw material and packaging suppliers, and handling complaints from purchasers of our pharmaceuticals.

She is an internal quality systems auditor within Krka, and collaborates on the implementation of quality systems in Krka's production and distribution centres abroad. She is a quality controller of contractual partners as well as a quality trainer.

She has been a member of the Krka Supervisory Board as employee representative since the 2005-2009 term, and on 21 June 2009 was re-elected for another 5-year term-in-office.

Tomaž Sever MSc

Born in 1967. After graduating as a mechanical engineer, he gained a master's degree in management and organisational science. He has been a Krka employee since 1995. He is now Deputy Director of Sales and Director of Region Central Europe, charged with the following tasks: market research, proposing and developing Krka's presence on individual markets, defining sales supply, proposing pricing strategies for individual markets, collaborating in planning sales actions, designing, developing and managing distribution channels, and collaboration in creating sales networks abroad. Before coming to Krka, he worked for IBM Slovenija from 1992 to 1995, where he was first the sales representative for information systems, and later led information system installation projects.

He has been a member of the Krka Supervisory Board as employee representative since the 2005-2009 term, and on 21 June 2009 was re-elected for another 5-year term-in-office.

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

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, who 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 management tasks.

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 experts from individual sectors 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 work contracts drawn up between the Supervisory Board and individual Management Board members. Rules defining the Bonus Element of Management Board Remuneration is adopted by the Supervisory Board, which also defines the remuneration for Management Board members. In line with the Corporate Governance Code, the Supervisory Board adopted a **Management Board Remuneration Policy** in 2010.

Krka Management Board members are **not remunerated** in the form of **options schemes, shares, or share-based derivatives**. All salaries, reimbursements and other benefits paid to Management Board members in 2010 are presented in the financial report, in the notes entitled Transactions with Related Persons.

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 act as members of the managing or supervisory bodies of unrelated companies during their term-in-office for Krka.

MEMBERS OF THE MANAGEMENT BOARD

Jože Colarič

President of the Management Board
and Chief Executive

Born in 1955 in Brežice. After completing secondary school in Novo mesto, he studied at the Faculty of Economics in Ljubljana, graduating in 1979. He has worked for Krka since 1982, starting in the Finance Sector, where he was first head of Foreign Currency Payments, and then assistant director. In 1989 he took charge of exports within the Import-Export Sector, and two years later became deputy director of Import-Export. In early 1993 he was appointed as Deputy Chief Executive for Marketing and Finance, and in September of the same year also became Director of Marketing and Sales. In 1997 he was appointed to the Management Board. The following year the Supervisory Board appointed him as Deputy President of the Management Board, and in 2002 acknowledged him as future president of the Management Board, placing him in charge of proposing candidates 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 Chief Executive, with a 5-year term-in-office beginning on 1 January 2005. At its meeting on 21 January 2009, the Supervisory Board appointed him for a further 6-year term-in-office, starting on 1 January 2010.

Vinko Zupančič PhD

Member of the Management Board
and Director of Product Supply

Born in 1971 in Novo mesto, where he completed his secondary education. He graduated from the Faculty of Pharmacy in 1996 with a master's degree in pharmacy, passing his professional specialisation in 1998, and gaining his doctorate from the same faculty in 2010. He joined Krka in 1997 as an intern in the warehousing and transport section of Product Supply. In 1998 he became a warehouse technologist and then a senior warehouse technologist. In 2000 he was made assistant to the head of Warehouse and Transport Services, and in 2002 became Deputy Head of the Product Supply Logistics Centre. On 1 February 2004 he was appointed director of the Krka representative office in Bangalore, India. He returned to Krka headquarters in Slovenia on 1 July 2005 and became head of the Product Supply Logistics Centre. He was appointed Deputy Director for Product Supply on 1 December 2008, and Director on 1 January 2010. On 29 July 2009 the Supervisory Board appointed him as a member of the Management Board for a 6-year term, starting on 1 January 2010.

Aleš Rotar PhD

Member of the Management Board
and Director of Research and Development

Born in 1960 in Zadar, Croatia. He graduated in pharmacy from the Ljubljana Faculty of Natural Sciences and Engineering in 1984, and gained his master's degree seven years later. In 1993 he gained an international MBA from IEDC, Brdo. He gained a doctorate from the Faculty of Pharmacy in 2000. He started work for Krka in the Stability Department in 1984. In 1991 he became Head of Pharmaceutical Technology in 1991, and two years later became Head of Pharmaceutical Development within Research and Development. In 1998 he was appointed deputy director of the Research and Development sector and in 1999 director of that sector. He was appointed as a member of the Management Board in 2001, and began his second term on 31 July 2002, before being reappointed for the period from 31 July 2007 to 31 December 2009. He has been the board-level Director of Research and Development since 2002. At its meeting of 29 July 2009, the Supervisory Board re-appointed him to the Management Board for a further 6-year term-in-office, starting on 1 January 2010.

Zvezdana Bajc

Member of the Management Board
and Director of Accounting and Controlling

Born 1953 in Novo mesto. After completing secondary school she went on to study foreign trade at the Faculty of Economics in Ljubljana, graduating in 1977. She started working for Krka that year in the Economics sector, before moving to Investment Services in 1979. At the end of 1980, she temporarily left Krka and for six years taught mathematics and organisational studies at the Secondary Technical and Health Care School in Novo mesto. In 1986 she returned to Krka, in the Economic Planning Service. Since 1999 she has been Director of Accounting and Controlling. She first became a member of the Management Board on 1 April 2005. At its meeting of 29 July 2009, the Supervisory Board re-appointed her to the Management Board for a further 6-year term-in-office, starting on 1 January 2010.

Danica Novak Malnar
Member of the Management Board – Worker Director and Head of Pharmaceutical Production
Born in 1957 in Kremen, near Krško. In 1982 she graduated from the Faculty of Natural Sciences and Engineering in Ljubljana. She started work for Krka in 1982 as an intern in pharmaceutical production, before becoming a technologist. In 1986 she was made Head of The Pharmaceutical Division in Ljutomer, and two years later on her return to Novo mesto, Head of the Division for Operative Production Planning. In 1994 she was placed in charge of the Production Planning Division. She has been Head of Pharmaceutical Production since 1999. She was first appointed to the Management Board in 1998 as worker director and was reappointed in 2003. She was elected as worker director for a third term in 2007, due to her positive personal qualities, the results she has produced and the great trust and respect she has earned from her colleagues. Her latest 5-year term-in-office began on 1 January 2008.

Governance of the Krka Group

Krka's development is based on carrying out business in Slovenia and abroad. All subsidiaries in Slovenia and abroad are organised as limited liability companies that are 100%-owned by Krka, d. d., Novo mesto. Krka expands its operations through organic growth and the acquisition of already operating companies.

Standard rules on governance, organisation and operation are applied equally to all companies in the Krka Group. The controlling company defines the strategies and operational objectives of all individual companies in the Krka Group and monitors the implementation of plans.

To ensure cohesive management across the Group, the Krka Management Board 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.

Applying the principles of functional leadership, where the business function in the controlling company manages the business function in the subsidiary company, ensures the realisation of objectives at the operative level. Supervision of the subsidiaries' everyday operations takes place via regular reporting, while the 'function covers function' principle means that specialist staff members from Krka are in daily contact with colleagues in subsidiaries.

Internal auditing

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 International Standards for the Professional Practice of Internal Auditing (the Standards), which has been certified by an independent external assessment.

Fourteen regular internal audits were carried out in line with the 2010 annual plan, 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.

Internal audits are conducted in line with the COSO ERM methodology.

This methodology is globally recognised and forms the basis for comprehensive risk management. The internal

We strive to achieve comprehensive risk management.

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, finished product production, warehousing, transport, purchasing, industrial property, new product development, investment and information technology. Regular internal audits were also carried out in four subsidiaries and three representative offices abroad. Consultancy work was also carried out in line with the Standards.

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 were 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 and the Supervisory Board's Audit Committee, to which they report directly.

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 the internal controls is to ensure the reliability of financial reporting, and compliance with applicable legislation and other internal and external regulations. Implementing standard information systems in subsidiaries and the development of business information increases the efficiency of accounting data exchange between subsidiaries and the controlling company, and hence also control of that information.

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 the 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 audit firms.

Corporate Governance Code Compliance Statement

The Management Board and Supervisory Board of Krka, tovarna zdravil, d. d., Novo mesto hereby state that in 2010 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 all the provisions of the Corporate Governance Code, which have been in force since 8 December 2009 and were drawn up and adopted unanimously by the Ljubljana Stock Exchange, Slovenian Directors' Association, and the Managers' Association of Slovenia, and are published on the website www.ljse.si.

Jože Colarič
President of the Management Board

Jože Lenič MSc
President of the Supervisory Board

Novo mesto, 14 April 2011

THE KRKA GROUP DEVELOPMENT STRATEGY

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

KEY STRATEGIES – 2014
Prioritising focus on European and central Asian markets.
Strengthening pharmaceutical and chemical activities.
Developing generic medicines and preparing market 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 purchasing market and achieving ongoing reduction in 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 2011
The product and service sales target is EUR 1,069 million, growth of 6%.
The largest sales region will remain Central Europe. The Russian Federation will remain the most important individual market.
The planned proportion of sales on markets outside Slovenia is 90%.
With growth anticipated at 6%, prescription pharmaceuticals will remain the most important product group, which is expected to represent over 82% of overall sales.
The planned net profit is EUR 162 million.
At the end of 2011 the Krka Group will have almost 8,900 employees (growth of 4%), 48% of them abroad.
Investments worth a planned EUR 159 million will primarily be aimed at increasing and modernising R&D, production capacity and infrastructure.

MACROECONOMIC FORECAST FOR 2011

In 2011 we anticipate continued economic growth, though the speeds of recovery will differ from country to country. While in 2010 some countries were still recording negative economic growth, in 2011 we expect the macroeconomic data to be positive for all the markets studied, which will have a positive impact on Krka Group sales.

MACROECONOMIC FORECASTS FOR 2011 IN FIGURES

Country	Growth in pharmaceuticals market (%)	Value of pharmaceuticals market (EUR million) – wholesale	FX-rate (currency/EUR)
Slovenia	2	550	Eurozone
Croatia	3–6	720	7.4
Romania	10	2,700	4.3
Russian Federation	10	11,500	40.5
Ukraine	10	1,600–1,700	10.1
Poland	3	5,050	3.8
Hungary	2	2,015	275
Czech Republic	2	1,950	24.6
West Europe	4	174,000	Eurozone

Sources for pharmaceutical market forecasts: IMS, internal forecasts.
Sources for FX-rates: bank reports.

Below are set out macro-economic forecasts summarised from European Commission reports.

SLOVENIA

Moderate growth is expected in 2011 alongside many economic reforms and the planned changes will have a positive long-term impact on the competitiveness of the Slovenian economy. Investment in construction and the construction sector itself are factors that were already having a negative impact on economic growth in the country in 2010, and a similar trend is expected in 2011. The growth in prices and fuel duties will somewhere reduce competitiveness of the manufacturing industry and generate inflationary pressures. Given the policy of running a budget deficit, government borrowing is expected to continue growing, but will remain within the Maastricht threshold.

Economic growth is forecast to continue on most markets in 2011.

In 2011 we expect a moderate, 2% growth in the value of the Slovenian pharmaceutical market, which will reach approximately EUR 550 million.

CROATIA

Like Slovenia, Croatia also faces numerous reforms to increase competitiveness and the stability of public finances. The financial system is capitally adequate, while for the general public and business reducing debt remains the main challenge. Unemployment remains in double figures, but a slight improvement is forecast in 2011. The budget deficit and public debt are expected to increase in the coming two years, due in part to coming parliamentary elections. Exports are increasing, and there are positive trends in consumer confidence and investment, which means we expect moderate, but positive economic growth in 2011.

The Croatian pharmaceuticals market is expected to grow between 3 and 6% in 2011, increasing its value to around EUR 720 million.

ROMANIA

Public borrowing before the crisis and increased public sector salaries and pensions led to Romania turning to the EU for assistance in the past two years, as well as the International Monetary Fund and other international organisations, which was conditioned on a number of austerity measures. Together with the increase in VAT, high and persistent inflation and falling salaries have had a negative impact on consumers. One positive for Romania is that it is implementing austerity reforms that will ensure the sustainability of public finances. The situation means that domestic demand will be weaker in 2011, an increase in entrepreneurial investment is expected on the basis of export growth, which was already strengthening in 2010. We expect the economy to grow again, after negative growth in 2010.

In 2011 the value of the Romanian pharmaceuticals market is expected to grow by 10% to around EUR 2.7 million.

RUSSIAN FEDERATION

Compared to EU countries and other countries in the region, the Russian Federation was already recording above-average economic growth in 2010. This is based on significant demand from domestic purchasers and investors and significantly less dependent on recovery abroad. The negative impact on the economy of a drought and subsequent higher food prices were only temporary. In 2011 we expect the rouble to strength and the exchange rate to be stable. The Russian central bank has twice to date defended the exchange rate against short-term speculation, which can also be expected in future, since currency reserves remain between USD 400 and 500 billion. The fact that the central bank will employ a policy of higher interest rates will have a positive impact on the rouble.

The highest pharmaceutical growth is forecast in the Russian Federation, Ukraine and Romania.

According to expectations, the Russian pharmaceuticals market is expected to grow by 10% in 2011 to a value forecast at around EUR 11.5 billion.

UKRAINE

The Ukrainian economy is strengthening again. The tax reform at the end of 2010 simplified procedures and reduced the burden on the economy and Ukraine expects increased foreign investment on the basis of the reform. The domestic currency's exchange rate is stable due to IMF credit lines, while the economy returned solid growth in 2010. The key challenge remains the pension reform, as the current system will be difficult to sustain, according to World Bank forecasts. Economic conditions will be favourable, inflation remains high, having been increased by fuel and food prices, and is expected to remain in double digits in 2011.

We expect that the Ukrainian pharmaceuticals market will grow by 10% growth in 2011 to a value between EUR 1.6 and 1.7 billion.

POLAND

The economic climate in Poland is promising. Industrial production and construction are undergoing strong growth, net capital inflows are arriving from the European Union; even faster growth is forecast in entrepreneurial investments, which have achieved positive values in the past two years, despite the crisis. International investors remain favourable to Poland, which is traditionally one of the most attractive growing economies. The budget deficit remains a challenge and in the coming year will reach around 7% of GDP. Current responses from financial markets indicate that international investors are sensitive about Polish public finances. Due to the repeated increases of the central bank's interest rates and economic growth, a slight increase in the zloty's value is forecast.

The Polish pharmaceuticals market is expected to grow by a moderate 3% in 2011, increasing in value to around EUR 5.1 billion.

HUNGARY

The economic conditions in the country offer numerous challenges, despite improvement. Hungary has passed a tax reform to reduce the burden on employees and businesses. Reduced taxation will contribute to increasing employment, increasing domestic investment and inflows of foreign capital. The term-in-office of the Hungarian central bank's management comes to an end in spring 2011. Predictions indicate that the bank's next management team will be advocates of a moderate monetary policy, which will have a positive impact on economic growth, but will also increase the already high inflation. We expect the forint exchange rate to remain stable.

According to expectations, the Hungarian pharmaceuticals market is expected to grow by 1.8% in 2011 to a value forecast at around EUR 2 billion.

CZECH REPUBLIC

The economic strengthening of Germany and Slovakia, to which 40% of Czech exports are directed, growth in employment, and favourable consumer and investment demand already contributed to above average economic growth in 2010. Due to the planned austerity measures that will be aimed at stemming public spending without increasing the burden on business and the public, in 2011 we expect more moderate, yet still encouraging economic growth of over 2%. We expect the Czech krona's exchange rate to remain stable.

In 2011 the value of the Czech pharmaceuticals market is expected to grow by 1.5% to around EUR 2 billion.

WESTERN EUROPE

In western European countries we expect continued economic recovery, though at varying speeds. Germany and France in particular are forecast to grow at above the average rate for the eurozone, and countries facing increased public debt. The eurozone overall will grow at a rate between 1 and 2%, meaning its economic growth will lag behind that expected for the United States.

The estimated total value of western European pharmaceutical markets in 2011 is EUR 174 billion, which is 4% higher than in 2010.

RISK MANAGEMENT

In a rapidly changing environment, risk management is an important element of business success. Effective risk management reduces its impact on business results and enhances business security and returns.

The Krka Group regularly monitors its exposure to various forms of risk and the measures to manage those risks. Following good practice in Slovenia and abroad, in 2010 we created a risk register, which serves organisational units as a platform for continual improvement in this field.

In line with good practice, a risk register was created in 2010 at Group level to support continual improvement in risk management.

Effectively managing different forms of risk requires a range of approaches. Operational risk is therefore managed by organisational units whose work is linked to specific forms of risk, while financial risk is managed centrally by the controlling company.

Applying the principles of functional leadership, where the business function in the controlling company manages the business function in the subsidiary company, ensures the comprehensive management of risk throughout the entire Krka Group. The management and supervisory bodies of the subsidiaries also monitor risk management.

Effective risk management allowed us to efficiently reduce or neutralise the impact of risk on Krka's operations in 2010.

OPERATIONAL RISK

Risk area	Description of risk	Risk management method	Exposure
Research and development	Risks relating to the effectiveness of development processes, adequacy of regulatory procedures and supply of new products	Detailed planning of development projects and management of regulatory procedures	Moderate
Product supply	Risks relating to timely supply of finished products and effective utilisation of production capacity	Detailed planning of supply chain and provisions of adequate production capacity	Moderate
Sales and marketing	Risks linked to sales markets and adequacy of marketing processes	Responding to changing business conditions on sales markets and adapting sales and marketing activities on those markets	Moderate
Intellectual property protection	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 damages	Moderate
Quality assurance	Risks relating to adequacy of incoming materials for the production process, adequate quality of the production and development process and finished product quality	Precise implementation of systematically itemised quality control procedures at all development and production process milestones	Moderate
Environmental protection	Risk of emission of hazardous substances	Continual control of emissions and separation of non-compliant water and solvents	Moderate
Health and safety at work	Risk of accident or injury in the workplace and loss or destruction of property	Testing technological procedures, computer-supported risk assessment system	Moderate
Technical services	Risks relating to adequate supply of process utilities to processes and adequacy of technical maintenance	Back-up power supply plans, robust demand planning for utility supply, redundant capacity and planned maintenance processes	Moderate
Investment projects	Risks relating to decisions on investment in production capacity and to investment implementation procedures	Continual control of implementation of all project phases, plan monitoring, systematic selection of contractors	Moderate
Information technology	Risk of disruption in business processes due to disruption to information sources	Independent security checks and preventive measures to rectify disruption, threat assessment and security plan	Moderate
Human resources	Risk relating to provision of key and professionally qualified staff and social dialogue with employees	Systematic work with key staff, remuneration system, staff development, continual education, measuring organisational culture and climate	Moderate
Legal matters	Risks relating to providing appropriate legal basis for all operating processes	Inclusion of legal services in all the company's legal issues, cooperation with external experts	Moderate

FINANCIAL RISK			
Risk area	Description of risk	Risk management method	Exposure
Foreign exchange risk	Risk of losses due to unfavourable exchange rate movements	Tracking financial markets, managing open positions, 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 the 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

Operational risk

RESEARCH AND DEVELOPMENT RISK

Krka's finished products must offer quality, safety and efficacy and must have the requisite properties. We mitigate risks in this area, which are technological and technical in nature, by introducing new development processes and methods and through in-house and acquired knowledge and experience in the research and development field.

Processes applied during the early phases of development reduce these risks. An important factor is the vertically integrated development and production model, which is used to control the entire production process from raw materials to the finished product.

Regulatory risk management, which is related to changes in legislation and its interpretation, begins in the early stages of developing a new medicine 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. In this way we reduce 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.

PRODUCT SUPPLY RISK

In Product Supply we continually monitor the purchasing market, suppliers and raw material prices. We ensure permanent access to materials required in the production of finished products. We assess and select suppliers based on set criteria and periodically check them. The main guide when selecting contractual partners is competitive pricing, once quality standards have been met. We also carry out supplier audits and regular controls.

Raw material inventories are planned on the basis of sales forecasts. Inventory levels are regularly checked and contingency stocks are held for strategically important raw materials.

Good warehousing and manufacturing practice is followed in the warehousing of incoming materials, bulk products and finished products.

Good manufacturing practice is applied to production processes and a suitable production environment is ensured. We ensure the reliable and high quality operation of production equipment by means of regular and preventive maintenance. We plan optimal utilisation of production capacity and measure production efficiency. This includes carrying out continual process improvement measures. We increase production capacity through the purchase of fixed assets and new investments and track sales demand.

We ensure the timely supply of finished products within every phase of product supply. We regularly check finished product availability against planned dispatch dates.

SALES AND MARKETING RISK

Krka sells its products in 75 countries, operating in different geopolitical and macro-economic conditions and legal and competitive environments. It is therefore exposed to different and varied intense sales and marketing risks. Rapidly responding to changing business conditions and adapting sales and marketing activities to markets remain our key comparative advantages over the competition. We continually monitor market conditions, primarily the activities of competing generic producers and the local pharmaceutical industry, systematic pricing arrangements and public reimbursements for pharmaceutical purchases via our own internal services and via independent data sources.

In addition to risks linked to an individual market environment and economy, the greatest of which is linked to currency movements, in sales we pay close attention to risks associated with individual customers, especially the risk of their insolvency or bankruptcy, risks linked to payment terms, and other risks linked to respect for contractual provisions. We continually monitor market conditions and analyse and, if necessary, revise payment conditions, systematically checking and monitoring the satisfaction of direct and indirect customers. We monitor primary and secondary sales and ensure that inventories are optimised throughout the entire supply chain.

We evaluate the market potential of individual therapeutic groups – and products within those groups – on a regular basis and use a range of external sources of data to monitor global and regional trends and our own market research and analyses. The efficiency of the marketing strategies and tactics we use is regularly monitored via performance indicators, and the implementation of marketing activities is also overseen systematically. Cyclical planning and analysis of marketing activities and investment has been introduced with particular focus on organising and supervising the work of employees in the marketing network. We provide our employees with regular training, and continually check their knowledge and skills. We consistently respect legal requirements on the advertising of pharmaceutical products.

INTELLECTUAL PROPERTY RISK

One of the basic principles of Krka Group operations is respect for the property rights of third parties, particularly patent-based rights. We therefore start the development of a new product with an analysis of the property rights relating to the new product and determine what solutions are protected. We define and direct our development work on the basis of these findings, and assess whether the solutions produced by development infringe the applicable rights of third parties. The current situation and potential changes in the patent protection field are monitored throughout a product's development, right up to launch.

When we assess that patents have been granted without grounds, meaning that the subject of patent is not actually an invention (the solution does not include novelty or an inventive step), and that such patents do not therefore represent a potential obstacle to our work, we use legally defined measures to ensure such patents are cancelled. This prevents holders of such patents from filing actions against us for infringements of such patents.

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 in case of damages.

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

The same method of risk management applies to distinguishing marks and industrial designs and other relevant intellectual property rights.

Krka employs intellectual property experts in order to adequately manage risk relating to the field of intellectual property.

QUALITY ASSURANCE RISK

Within the Krka Group we evaluate quality assurance risk in all areas of production from three aspects: product quality, product safety risk, and risk to company operations. We use generally known methodological principles for risk evaluation, and implement them in line with the requirements of the EU GMP Annex 20.

Product quality is defined in the development phase and in the marketing authorisation documentation. Throughout the production process, from the purchase of incoming materials, production and quality control, we follow prescribed procedures and requirements to ensure that pharmaceutical production complies with quality standards and the marketing authorisation documentation.

Finished product quality assurance is a major task that unites various elements of quality assurance:

- Particular attention is paid to adequate quality of incoming materials, and with the aid of risk analysis we categorise material and supplier-related risks, producing plans and requirements for supplier and contractor approval.
- Procedures such as verifying equipment, production premises, the production environment, instrument, processes, and cleaning and maintenance procedures are used to determine the compliance of production control equipment and production premises and prevent undesirable influences on the production process and product quality.
- Documenting processes, procedures and controls is an exceptionally important part of product quality assurance, therefore we regularly verify their function, and annually overhaul and upgrade them and ensure that any necessary process changes are implemented correctly.
- Training employees is a key factor in quality assurance; regular training in quality and work processes ensures that pharmaceutical production and control comply with prescribed procedures.
- Controls of production processes, intermediate products, bulk products, finished products and the production environment ensure product compliance and conformity with prescribed requirements.
- In the event of any non-compliant products being found (defective items, complaints), we have in place control mechanisms, tests, and investigations of the cause, as well as implementing preventive and corrective measures to prevent future non-compliance.

Risk management in the field of quality includes assessing – for every element of quality assurance – the risks relating to retaining production licences and GMP certificates for Krka's production units.

We regularly and systematically review the quality system, by means of external (agency inspections and partner audits) and internal (internal auditing) verification, in every Krka Group production unit, and introduce any improvements required, which enables us to continually upgrade the quality system and effectively manage quality-related risk.

ENVIRONMENTAL PROTECTION RISK

Certain 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. At Krka we use modern technology and technical equipment to reduce environmental impact, and have procedures to detect emergency incidents. All potential incidents are identified and evaluated, and actions and measures defined in case they occur.

The probability of incidents occurring is also reduced by preventive measures. Training and drills are used to ensure we respond correctly and that any incident that does occur has a minimal impact on the environment. No incident that could have damaged the environment was recorded in 2010.

HEALTH AND SAFETY AT WORK RISK

We use our own methodology to assess the probability of specific incidents, potential consequences and probable health implications in individual work positions. 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 workplace.

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

TECHNICAL SERVICE RISK

Technical service risk includes risks relating to process utility supply, the reliability of technical system function, and risks relating to metrology.

We have a back-up supply for electricity and for critical processes there is also a diesel-powered generator. We continually monitor events on the electricity market and make partial purchases on it. We use natural gas to provide heat energy, and reserves of extra-light fuel oil as a back-up fuel.

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

Risks relating to inadequate production and distribution of energy and process utilities (electricity, steam, heating water, compressed air, refrigerant, river water, and pharmaceutical and process water) are reduced by ensuring critical equipment redundancy, robust system planning, regular preventive maintenance and systems testing and keeping stocks of critical spare parts. Staff undergo regular training and their knowledge and expertise is regularly tested.

Climate-control systems undergo appropriate planned and preventive maintenance. In the event of any failure, we have our own trained and organised maintenance team for immediate intervention, with a central control system for rapid alerts and detection of failures and spare parts. Non-critical equipment is spread out to ensure that a single breakdown does not have a key impact on production capacity, while critical equipment is duplicated. All air conditioning systems and energy utilities are duplicated for systemic information technology premises, and feature protective systems and regular testing of all potential failures.

Risks relating to the reliability of technical systems are kept at acceptable levels through continual monitoring of operations, implementing checks, servicing and maintenance in line with planned procedures, improvements to equipment and implementing modern approaches to maintenance. Failures and breakdowns are rectified according to procedures defined in advance. The staff that monitor and maintain the technical systems undergo regular training and testing of their knowledge and expertise. The spare part inventories are regularly checked and replenished.

We carry out regular measurement, calibration and maintenance of weighing equipment.

INVESTMENT PROJECT RISK

Investment project risk primarily includes risks relating to investment planning and value, equipment purchase, work execution, schedules and changes to the basic plan. We reduce risk by verifying works contractors and having a contactor selection system. We check contract compliance in both legal and accounting terms. We supervise all execution phases ourselves. We verify whether any changes to an investment are justified and their impact on costs and achievement of works on schedule. We consistently supervise investment costs, both ordinary costs and others that arise due to ex-post changes to a project.

INFORMATION TECHNOLOGY RISK

A set methodology is used at Krka to define the criticality of information resources, based on assessments of the criticality of processes and the criticality of an information resource. 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 have been identified for all critical information sources, and the Management Board approved acceptable risk levels and the measures required to eliminate unacceptable risks.

HUMAN RESOURCE RISK

Due to a lack of suitable employees on the labour market, we systematically educate and train our staff to acquire national vocational qualifications. Specific attention is paid to key staff members, who are also targets for competing companies. We plan and regularly monitor their education and development, 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 loyalty to the company, and reduce the possibility of their 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 we require to meet our strategic, developmental and sales plans.

LEGAL RISK

The Krka Group has its own legal service, which is responsible for oversight of legal certainty and the legality of operations. The legal service is involved in work in every field as required, particularly in keeping up-to-date with legislation, reviewing contracts, preparing internal regulations, leading and coordinating disputes or participating in the resolution of disputed issues that occur within the Company's operations.

Financial risk

FOREIGN EXCHANGE RISK

The Krka Group's broad spread of international operations exposes 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.

Krka's net exchange rate differences were positive at the end of 2010.

The Krka Group's statement of financial position discloses a surplus of assets over liabilities in all the currencies mentioned.

Due to the transfer of operations in most markets into local currencies or the euro, the value of the US dollar position was significantly reduced. This means that changes in the US dollar exchange rate no longer have a major direct impact on the Krka Group's foreign exchange differences.

Financial derivatives were not used to hedge currency positions in 2010. Due to the debt crisis in the eurozone and the euro's consequent weakness, exchange rate movements were favourable for the Krka Group for most of 2010.

In the first half of 2010 we generated a high positive exchange rate difference due to the strong appreciation of some major currencies, but these reduced during the rest of the year. The Krka Group ended 2010 with positive exchange rate differences. More information on exposure to exchange rate risk is provided in the notes to the financial statements in the chapter Financial Instruments.

VALUE AND VOLATILITY AND KEY EXCHANGE RATES

FX-rate – EUR 1	31. 12. 2009	31. 12. 2010	Lowest value	Highest value	Average value	Standard deviation	Coefficient of variation (%)
RUB	43.15	40.82	37.60	43.43	40.27	1.56	4
HRK	7.30	7.38	7.19	7.43	7.29	0.06	1
RON	4.24	4.26	4.06	4.37	4.21	0.08	2
PLN	4.10	3.98	3.83	4.20	4.00	0.08	2
CZK	26.47	25.06	24.41	26.47	25.29	0.54	2
HUF	270.42	277.95	261.92	290.57	275.46	6.68	2
UAH	12.02	10.61	9.45	11.33	10.37	0.45	4
RSD	95.89	105.50	95.89	107.52	102.94	3.41	3
USD	1.44	1.34	1.19	1.46	1.33	0.06	5

INTEREST RATE RISK

At the end of 2010 the Krka Group had five long-term loans, linked to the 6-month EURIBOR. No new long-term loans were agreed in 2010.

Exposure to interest rate changes was reduced.

Exposure to the reference interest rate therefore decreased in absolute terms compared to 2009, due to regular annual repayments of existing loans. More information on exposure to interest rate risk is provided in the notes to the financial statements in the chapter Financial Instruments.

Interest rates were low for most of 2010, but increased slightly in the final months. Due to the continuation of the difficult financial conditions and forecasts of low interest rates in 2010 and the years to come, we did not hedge interest rate risk in 2010.

VALUE AND VOLATILITY OF THE 6-MONTH EURIBOR

	31. 12. 2009	31. 12. 2010	Lowest value	Highest value	Average value	Standard deviation	Coefficient of variation
6-month EURIBOR	0.99%	1.23%	0.94%	1.28%	1.08%	0.00	11%

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.

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.

The trend for extending payment terms on individual sales markets continued in 2010, which led total trade receivables to increase. We assess that on average the quality of trade receivables remained unchanged in terms of maturity structure and assessed customer risk.

Receivables write-offs had no major material impact on Krka's financial position in 2010. More information on exposure to credit risk is provided in the notes to the financial statements in the chapter Financial Instruments.

Credit control is handled centrally for the entire Krka Group by the Risk Management Department and is organised for customers of both the subsidiaries and the controlling company according to standard procedures and rules.

LIQUIDITY RISK

Strong cash flow from operations and low indebtedness again ensured optimal liquidity for the controlling company and subsidiaries and enable the most favourable possible conditions for financing.

Due to its high credit rating and liquidity, Krka again obtained significantly better interest rates for short and long-term borrowing in 2010 than the average offered to companies in Slovenia.

In 2010 a high level of liquidity was again the basis for very favourable financing conditions.

Liquidity risk is managed centrally, at the Krka Group level. Future cash flow requirements are checked weekly, with the cooperation of subsidiaries. Any liquidity shortage is covered by agreed credit lines at banks, while periodic cash surpluses are placed with banks in short-term deposits. Effective cash management for the subsidiaries is organised at the Group level.

Below is a table of liquidity and working capital ratios. Responding rapidly to the demands of the market requires larger inventories, while customers expect longer payment terms. Together these dictate an increase in working capital. Higher working capital ensures that we strengthen business relations with our customers

LIQUIDITY RATIOS FOR THE KRKA GROUP

Liquidity ratios	2010	2009	2008	2007	2006	Krka's 5-year average
Current ratio	2.76	2.92	2.01	2.00	2.15	2.37
Quick ratio	1.78	1.92	1.09	1.09	1.35	1.44
Acid test ratio	0.04	0.08	0.04	0.10	0.23	0.10
Receivables turnover ratio	2.74	3.31	4.47	4.54	4.42	3.90
Working capital/sales ratio (%)	45.39	40.46	33.99	29.81	30.40	36.02

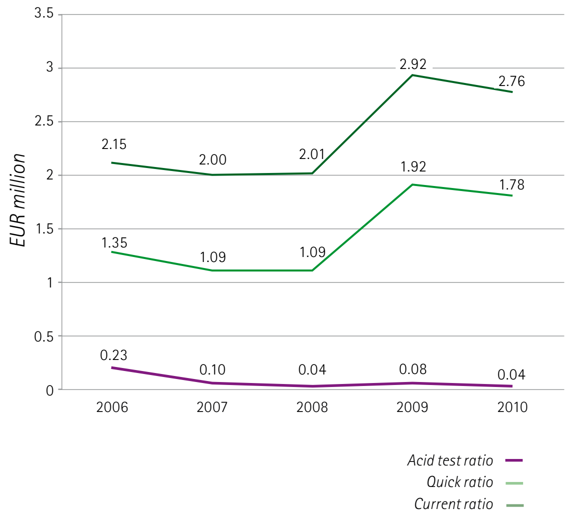
Current ratio = current assets/current liabilities
Quick ratio = (current assets – inventories)/current liabilities
Acid test ratio = (financial investments + cash and cash equivalents)/current liabilities
Working capital = (current assets – short-term loans – cash and cash equivalents) – (current liabilities – short-term borrowing)

Low indebtedness ensures Krka's financial stability.

Debt liabilities fell in 2010 and represented little liquidity risk. 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 Krka Group could use its EBITDA to pay off all its net debt within 0.40 of a year, while the operating profit is 58.9-times higher than interest expenses. Both are addressed in detail in the Business Operations Analysis.

MOVEMENT IN LIQUIDITY RATIOS FOR THE KRKA GROUP



PROPERTY AND BUSINESS INTERRUPTION INSURANCE

The Krka Group's international insurance programme ensures the management of risk, its consequences and the sources of risk that have a major impact on maintaining the Group's economic strength, growth and profit. Insurance provides financial compensation for damage to property caused by destructive natural forces, technical production issues, and human factors, and provides cover for fixed costs and profits in the event of a lengthy interruption in production.

The selection of insured risks and insurance limits are defined separately for each location. At the Ločna production site there is a more detailed division into independent complexes separated by fire protection walls or natural barriers and safety distances between facilities. A sufficient distance or other obstacles prevent the spread of fire or the effects of explosions to another complex. Krka implements measures within these complexes to reduce the likelihood and consequences of loss events and puts into practice insurance recommendations, which reduces the maximum potential loss and hence also losses from business interruption.

Increasing our contribution to damages reduces premiums and improves attitudes to assets.

The limits of insurance cover are defined as the total value of facilities, equipment and inventories and costs for removal of debris, and include cover for fixed costs and profit linked to the sales of products made from the company's own active substances. To ensure Group insurance matters are transparent, Krka has introduced a central damage claims register kept by the controlling company's Financial Sector that allows it to monitor damage claim procedures from notification of the event to receipt of the insurance payout and increase its contribution to damages by increasing or introducing a deductible. This reduces the insurance premium and increases equipment availability.

LIABILITY INSURANCE

Krka has simplified liability insurance within the Group for material and non-material claims by third parties or Group employees due to loss events that might have been caused accidentally by Krka's activities, property or placing of products on the market, while at the same time also managing the liability of contractual partners, particularly for construction and installation work, investment projects and transport.

INTERNAL AND EXTERNAL AUDITS

In the field of property insurance in subsidiaries abroad, Krka ensures adequate insurance coverage and compliance with local legislation, while working hard to standardise the insurance function as well as health and safety at work. Visits and discussions with subsidiary management teams were organised to address these issues at Krka Farma Zagreb in Jastrebarsko, Krka Polska in Warsaw and Krka Rus in Istra, Russia. Despite differences in legislation, the current situation reflects a high standard of conformity with the requirements of the controlling company and progress in preventive and organisational and technical measures to reduce risk. There were no external audits in the field of insurance in 2010.

INVESTOR INFORMATION

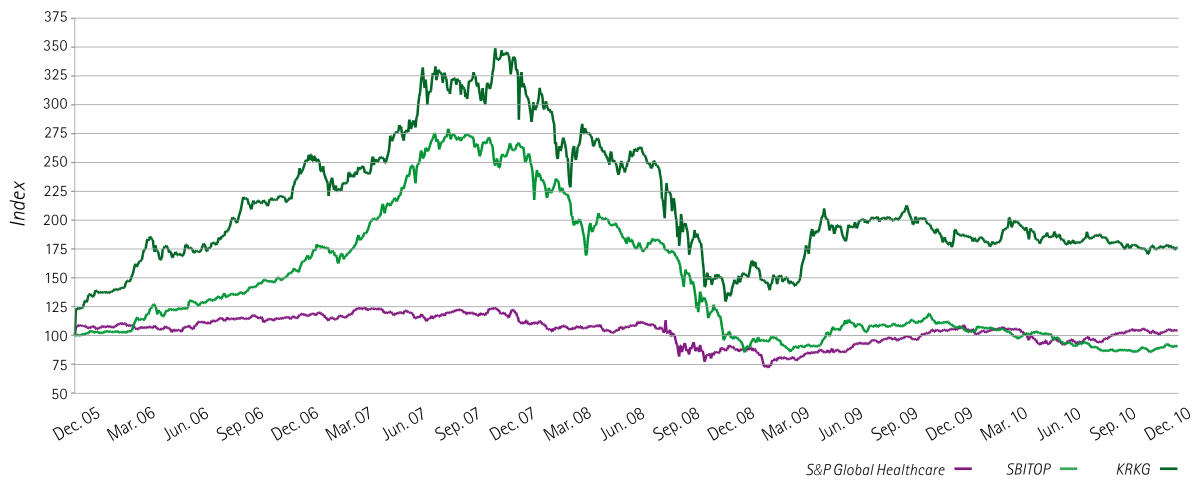
Shareholder return

KRKA SHARE PRICE					
EUR	2010	2009	2008	2007	2006
Year high	72.69	76.17	123.47	126.58	79.14
Year low	60.94	47.78	46.02	79.23	42.74
On 31 December	62.95	64.04	48.27	124.29	78.48
Annual growth (%)	–2	33	–61	58	84

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

In 2010 the share price fell by 2%. The value of the Ljubljana Stock Exchange's blue-chip index (SBITOP) fell by 13% over the same period.

KRKA SHARE PERFORMANCE RELATIVE TO SELECTED SHARE INDICES (INDEX: START OF 2006 = 100)



The growth in the Krka share price over the past five years has significantly outstripped the growth of the SBITOP index 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 dividend payment commencing 60 days after the AGM.

DIVIDENDS

	2010	2009	2008	2007	2006
Earnings per share[1] in EUR	5.06	5.14	4.61	3.92	3.30
Gross dividend per share[2] in EUR	1.10	1.05	0.91	0.80	0.69
Dividend pay out[3] (%)	21	23	23	24	24
Dividend yield[4] (%)	1.7	1.6	1.9	0.6	0.9

[1] Net profit of Krka Group majority shareholders/average number of shares issued in the period, excluding own shares
[2] Dividend paid for 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 2006 is used for conversions to EUR in 2006.

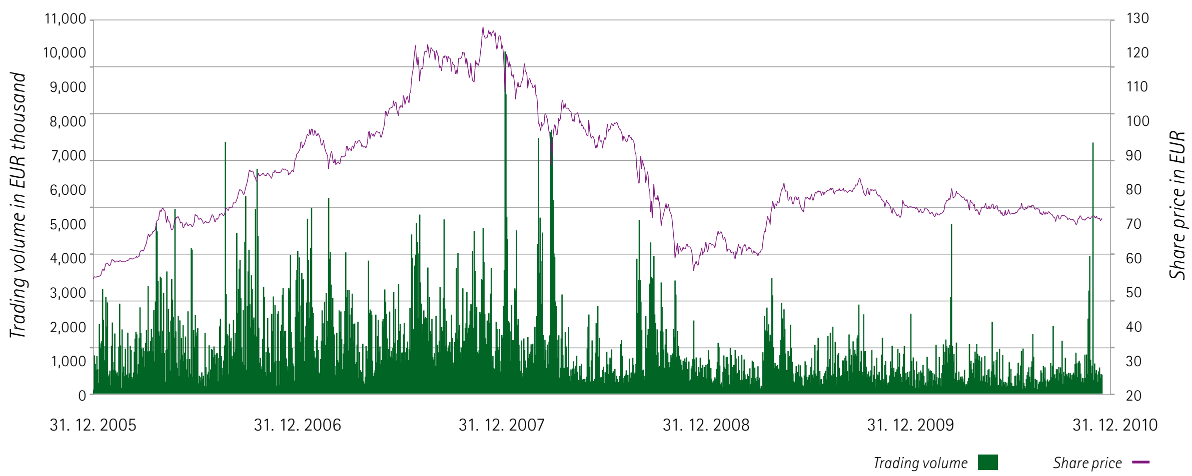
Share trading and shareholding

Krka shares are listed on the Prime Market of the Ljubljana Stock Exchange with the trading code KRKG. The Prime Market is for share issuers on the Ljubljana Stock Exchange that are outstanding in terms of liquidity, size and transparency. 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.

We follow a stable dividend growth policy.

In 2010 the average daily turnover in Krka shares on the Ljubljana Stock Exchange was EUR 0.7 million, a fall of over 10% compared to 2009. The average daily turnover volume fell by over 20%. Krka shares remained the most traded security on the Ljubljana Stock Exchange.

TRADING IN KRKA SHARES OVER PAST 5 YEARS

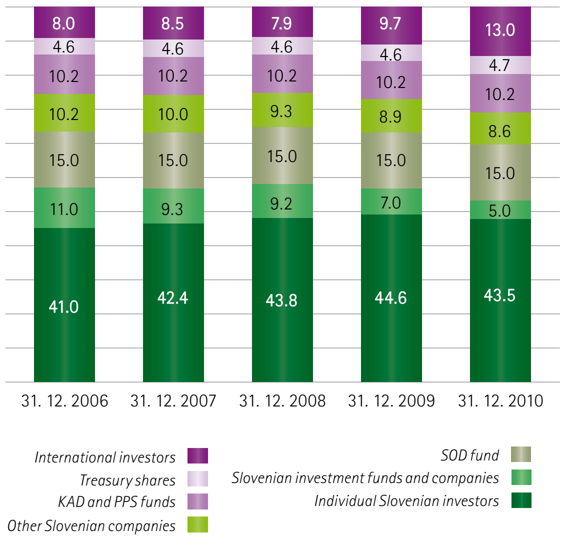


Source: Ljubljana Stock Exchange

10 LARGEST SHAREHOLDERS ON 31 DECEMBER 2010

	Shareholder	No of shares	Share ownership (%)
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	UNICREDIT BANK AUSTRIA AG	530,741	1.50
5	LUKA KOPER, D. D.	433,970	1.23
6	ZAVAROVALNICA TRIGLAV, D. D.	388,300	1.10
7	DELNIŠKI VZAJEMNI SKLAD TRIGLAV STEBER I	379,598	1.07
8	SOCIETE GENERALE-SPLITSKA BANKA D.D.	311,263	0.88
9	UNICREDIT BANK HUNGARY ZRT	282,129	0.80
10	HYPO ALPE-ADRIA-BANK D.D.	248,029	0.70
		12,214,530	**34.48**

SHAREHOLDER STRUCTURE (%)



At the end of 2010 Krka had 79,296 shareholders, which is 4% lower than at the end of 2009 (82,606). The international investors increased their ownership share most significantly, they own 13% of all shares issued. In 2010 the number of individual investors holding Krka shares decreased most significantly, down from 3,238 to 77,678. The ownership share of Slovenian state financial companies – SOD, and KAD with PPS – remained unchanged.

BUSINESS OPERATIONS ANALYSIS

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

Sales

SALES AND SALES GROWTH FOR THE KRKA GROUP AND KRKA COMPANY

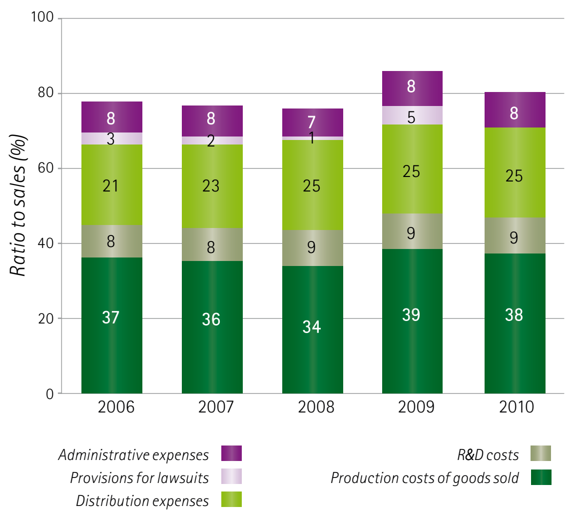
Despite uncertain economic conditions around the world in 2010, Krka still achieved sales growth. The Krka Group's total sales were worth EUR 1,010.0 million, an increase of EUR 57.0 million or 6% on 2009.

Over the past five years, average annual sales growth has been 12.8%.

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

Operating expenses

STRUCTURE OF GROUP'S OPERATING EXPENSES BY FUNCTION IN GROUP SALES



The Krka Group incurred operating expenses of EUR 810.4 million, 1% down compared to 2009.

The Krka Group's operating expenses include the production costs of goods sold at EUR 385.4 million, distribution expenses at EUR 256.6 million, EUR 90.9 million for R&D costs, and EUR 77.5 million for administrative expenses. Over the past five years, the operating expenses to sales ratio has ranged from 76% in 2008 to 86% in 2009, a figure caused in part by newly formed provisions.

In 2010 the operating expenses to sales ratio was 80%.

The largest operating expense item was production costs of goods sold, which increased by 4% compared to 2009. Their ratio to sales is 38%. The production costs of goods sold item includes the impact of a change in finished product inventories.

Distribution expenses were equal to one quarter of sales in 2010, and were 6% higher than the 2009 figure (to ensure greater comparability the 2009 figures are for sales and marketing expenses but excluding provisions). The cause of the growth in distribution expenses lies primarily in the continual expansion of the marketing and sales network.

The R&D costs to sales ratio was 9%, and the administrative expenses to sales ratio was 8%. R&D costs were up 3% compared to the previous year, while administrative costs increased by 6%.

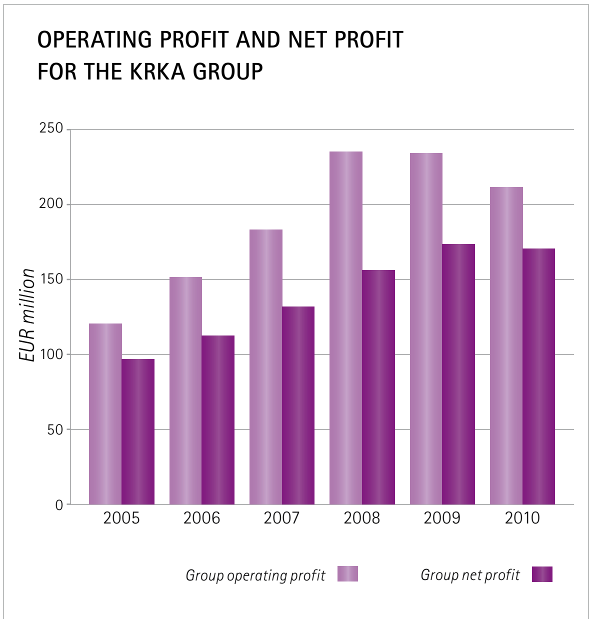
Financial income and expenses

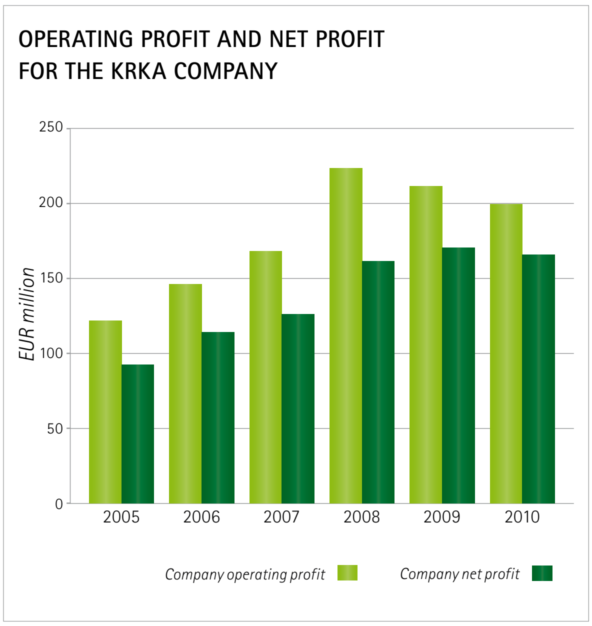
	KRKA GROUP					KRKA COMPANY				
EUR thousand	2010	2009	2008	2007	2006	2010	2009	2008	2007	2006
Financial income	7,972	1,070	3,029	7,635	8,924	10,637	12,160	4,856	11,791	10,518
Financial expenses	–8,071	–11,740	–34,177	–16,343	–11,247	–6,982	–10,139	–22,780	–16,265	–10,836
Net financial result	**–99**	**–10,670**	**–31,148**	**–8,708**	**–2,323**	**3,655**	**2,021**	**–17,924**	**–4,474**	**–318**

The 2010 net financial result was over EUR 10 million up on the 2009 figure.

The Group's net financial result in 2010 is an improvement on 2009. The largest financial income item at EUR 6.3 million was the net exchange difference, followed by reversal of impairment, which was worth EUR 0.8 million and loan interest, also at EUR 0.8 million. Financial expenses include interest expenses for long-term and short-term borrowing worth EUR 3.6 million, and allowances for receivables and write-offs at EUR 4.2 million.

Operating result





A year-on-year comparison of profit must take into account that in 2009 Krka released non-current provisions for lawsuits in the amount of EUR 91.4 million and formed new non-current provisions for lawsuits worth EUR 47.5 million, which had a positive impact on profits in 2009.

The Group's operating profit of EUR 211.5 million was EUR 23.5 million or one tenth lower than in 2009, while EBITDA fell by EUR 18.5 million or 6%.

In 2010 the pre-tax profit decreased compared to the previous year by EUR 13 million or 6% to EUR 211.4 million. The effective tax rate for the Group was 19.1%, which was 3.5 percentage points lower than the previous year.

The Krka Group generated a net profit of EUR 170.9 million, a decrease of EUR 2.8 million or 2% compared to 2009.

The Group's net profit was EUR 170.9 million.

Assets

	KRKA GROUP					KRKA COMPANY				
EUR thousand	2010	Prop. (%)	2009	Prop. (%)	Index 10/09	2010	Prop. (%)	2009	Prop. (%)	Index 10/09
Non-current assets	**846,506**	**56.9**	**808,022**	**60.2**	**105**	**807,409**	**55.8**	**784,594**	**59.8**	**103**
Property, plant and equipment	686,461	46.1	649,146	48.4	106	513,683	35.5	485,653	37.0	106
Intangible assets	122,815	8.3	126,581	9.4	97	29,752	2.1	29,683	2.3	100
Investments and loans	9,550	0.6	9,722	0.7	98	244,644	16.9	250,114	19.0	98
Other	27,680	1.9	22,573	1.7	123	19,330	1.3	19,144	1.5	101
Current assets	**641,698**	**43.1**	**533,010**	**39.8**	**120**	**638,902**	**44.2**	**528,345**	**40.2**	**121**
Inventories	229,343	15.4	181,646	13.6	126	163,974	11.3	138,612	10.5	118
Receivables	402,686	27.1	334,906	25.0	120	423,042	29.2	346,881	26.4	122
Other	9,669	0.6	16,458	1.2	59	51,886	3.7	42,852	3.3	121
Total assets	**1,488,204**	**100.0**	**1,341,032**	**100.0**	**111**	**1,446,311**	**100.0**	**1,312,939**	**100.0**	**110**

At the end of 2010 the Krka Group's assets were worth EUR 1,488.2 million, constituting growth of EUR 147.2 million (11%) compared to the end of 2009. The growth of non-current assets was attributable to the increased value of property, plant and equipment (PPE), which grew by EUR 37.3 million, while the increase among current assets receivables increased by 20%, and inventories by 26%. The ratio of non-current to current assets changed slightly compared to the year-end of 2009, with the proportion of non-current assets decreasing by 3 percentage points to 57% of total assets.

Non-current assets represented 57% of total assets, while current assets represented 43%.

The total value of non-current assets was EUR 845.4 million, an increase of 5% compared to 2009. The most important non-current asset item was property, plant and equipment, which was worth EUR 686.5 million and constitutes 46% of the Group's total assets. Intangible assets represent 8% of total assets.

Current assets, with a total value of EUR 641.7 million, increased by 20%. The largest current asset item was receivables, which increased by 20% to EUR 402.7 million. Their increase was mainly the result of higher sales in the final months of 2010 and the extended payment terms offered on specific sales markets, due to customer liquidity problems brought on by difficult operating conditions. Inventories increased by 26% to EUR 229.3 million. This increase was primarily the result of increased material inventories (up 46%), due to planned production increases. The combined value of inventories and receivables increased by 22% compared to 2009. In other current assets, the value of cash and cash equivalents fell by EUR 5.6 million, and short-term loans fell by EUR 1.0 million.

Equity and liabilities

EUR thousand	KRKA GROUP 2010	Prop. (%)	2009	Prop. (%)	Index 10/09	KRKA COMPANY 2010	Prop. (%)	2009	Prop. (%)	Index 10/09
Equity	1,053,327	70.8	920,369	68.6	114	1,058,154	73.2	932,010	71.0	114
Non-current liabilities	201,624	13.6	237,834	17.8	85	171,542	11.8	205,785	15.7	83
Current liabilities	232,168	15.6	182,829	13.6	127	216,615	15.0	175,144	13.3	124
Total equity and liabilities	**1,487,119**	**100.0**	**1,341,032**	**100.0**	**111**	**1,446,311**	**100.0**	**1,312,939**	**100.0**	**110**

The Group's equity increased by EUR 133.0 million compared to 2009, which can be attributed to the Group profit of EUR 170.9 million, a translation reserves worth EUR 1.8 million and the deferred tax effect resulting from a change in the fair value of financial assets available for sale worth EUR 0.1 million. Equity was reduced by dividend payments totalling EUR 37.2 million, by the purchase of own shares worth EUR 2.3 million, and by a change in the fair value of financial assets available for sale of EUR 0.4 million.

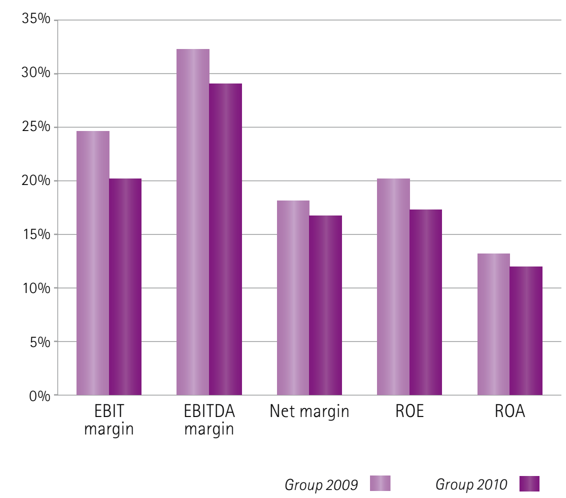
The Group's equity increased by 14%.

Non-current liabilities decreased, which is attributable to a reduction of EUR 37.9 million or 36% in the value of long-term borrowings. Short-term borrowings increased by EUR 6.8 million or 13%, while total short-term and long-term borrowings decreased by one-fifth.

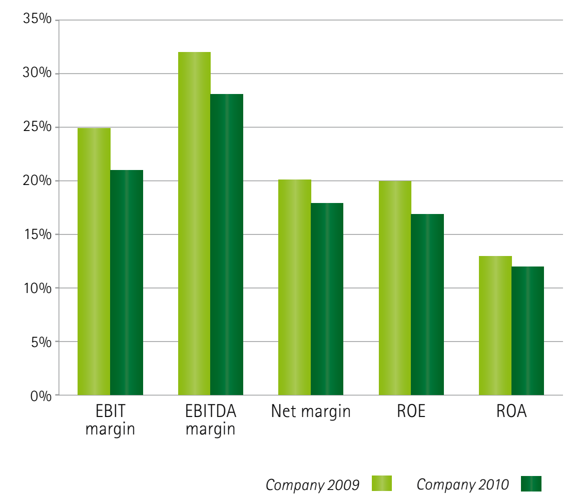
In the Group's current liability structure, operating liabilities increased by EUR 18.9 million or 26%, and other current liabilities were up by EUR 15.5 million or 27%. Income tax liabilities were EUR 8.1 million higher.

Performance ratios

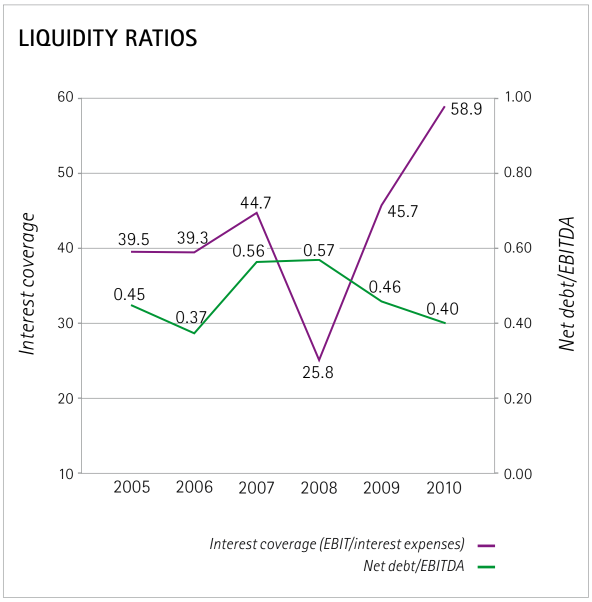
PROFITABILITY RATIOS FOR THE KRKA GROUP



PROFITABILITY RATIOS FOR THE KRKA COMPANY



The performance ratio values were all in compliance with the strategic guidelines and annual objectives.



Interest coverage in 2010 was higher than in 2009 due to reduced interest expenses. The 2010 operating profit covered interest liabilities of almost 59 years. An indicator value of around 13 years is enough in the United States for smaller, riskier companies to earn the top credit rating (AAA), while for larger, stable companies that figure is around 9.

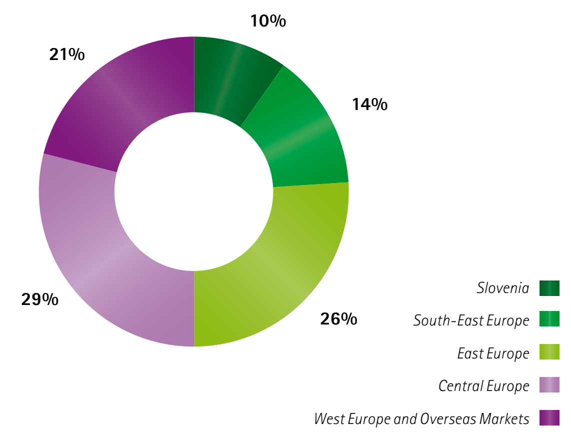
The net debt/EBITDA ratio was 0.40, an improvement on 2009 due to the reduction in total borrowings. The ratio indicates that the Group could pay off its net debt in full in under five months.

OPERATING FIGURES FOR THE PAST FIVE YEARS

	KRKA GROUP					KRKA COMPANY				
EUR thousand	2010	2009	2008	2007	2006	2010	2009	2008	2007	2006
Sales revenues	1,010,021	953,038	949,920	780,918	667,955	932,366	850,119	826,160	686,729	586,102
EBIT	211,471	234,992	236,781	183,642	151,079	199,742	211,635	223,642	168,672	147,568
– EBIT margin	20.9%	24.7%	24.9%	23.5%	22.6%	21.4%	24.9%	27.1%	24.6%	25.2%
EBITDA	293,192	311,667	308,390	240,856	198,783	260,477	270,430	275,371	213,055	183,761
– EBITA margin	29.0%	32.7%	32.5%	30.8%	29.8%	27.9%	31.8%	33.3%	31.0%	31.4%
Net profit	170,918	173,685	155,891	132,853	112,086	165,920	170,812	161,130	126,521	113,027
– Net margin	16.9%	18.2%	16.4%	17.0%	16.8%	17.8%	20.1%	19.5%	18.4%	19.3%
Assets	1,488,204	1,341,032	1,271,036	1,121,418	879,127	1,446,311	1,312,939	1,224,392	1,057,258	854,286
ROA	12.1%	13.3%	13.0%	13.3%	13.4%	12.0%	13.5%	14.1%	13.2%	14.0%
Equity	1,053,327	920,369	783,296	680,913	570,905	1,058,154	932,010	797,203	672,010	569,918
ROE	17.3%	20.4%	21.3%	21.2%	21.3%	16.7%	19.8%	21.9%	20.4%	21.6%

MARKETING AND SALES

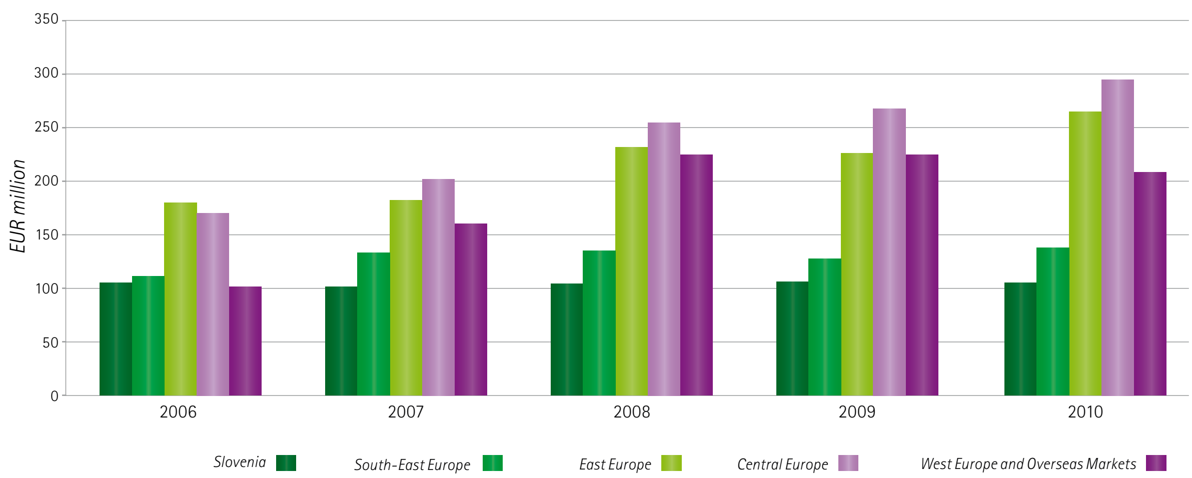
KRKA GROUP SALES BY REGION IN 2010



KRKA GROUP AND KRKA COMPANY SALES BY REGION

	KRKA GROUP			KRKA COMPANY		
EUR thousand	2010	2009	Index 2010/2009	2010	2009	Index 2010/2009
Slovenia	104,640	105,994	99	76,569	73,847	104
South-East Europe	138,014	128,466	107	139,312	122,481	114
East Europe	264,897	225,744	117	253,163	198,378	128
Central Europe	293,675	267,688	110	287,291	261,243	110
West Europe and Overseas Markets	208,795	225,146	93	176,031	194,170	91
Total	**1,010,021**	**953,038**	**106**	**932,366**	**850,119**	**110**

KRKA GROUP SALES BY REGION



Slovenia

Sales of products and services on Krka's domestic market in 2010 were worth EUR 104.6 million, a fall of 1% on 2009. Product sales were worth EUR 72.7 million, the largest share from prescription pharmaceuticals with 85%, while self-medication products and cosmetics contributed 12% and animal health products 3%. Product sales increased by 2% compared to 2009, despite reductions in pharmaceutical prices. Terme Krka contributed EUR 30.8 million to total sales, which is 7% less than in 2009. The main reason for the fall in Terme Krka sales was the ambitious renovation work which required the Talaso Strunjan business unit to be almost completely closed for the first four months of 2010.

Krka maintained its position as market leader on the Slovenian prescription pharmaceutical market with a 13% share.

Alongside the top-selling Prenessa with Prenewel (perindopril in fixed-dose combination with indapamide), Atoris (atorvastatin), Ultop (omeprazole) and Lorista (losartan), including fixed-dose combinations with diuretics, the range of products on the market is constantly being expanded in line with Krka's policy of introducing new pharmaceuticals. Despite increasing competition among generics, Krka has increased its market share in individual therapeutic areas, particularly among products to treat the central nervous system which achieved high sales growth.

Krka continued to consolidate its position as market leader on the Slovenian market.

KRKA GROUP MARKET POSITION IN SLOVENIA
The top-ranked pharmaceutical company, with a market share of 13.1%.
Our products are market leaders: • in the proton pump inhibitor group with a market share of 45% • in the group of medicines to treat high blood pressure, with a market share of over 42% • in the statin group with a market share of over 33% • in the group of antipsychotics and antidepressants with a market share of around 19%.
Prenessa with Prenewel (perindopril in fixed-dose combination with indapamide) and Atoris (atorvastatin) are in first and fourth place in the top 10 best-selling pharmaceuticals on the Slovenian market.
All Krka pharmaceuticals on the list of interchangeable medical products with the highest recognised price are available to patients without co-payment.

South-East Europe

Krka achieved product sales worth EUR 138 million on the markets of south-eastern Europe, which is EUR 9.5 million more than in 2009. Sales growth was achieved on all markets in the Region except Serbia, Kosovo and Albania, and was highest in Romania.

Croatia is one of Krka's key markets, and contributed EUR 41.2 million, the highest single-country sales in the Region, despite low sales growth. Growth in the volume of prescription pharmaceutical sales succeeded in balancing out the negative impact of price reductions for pharmaceuticals on the official medicines list. Animal health product sales increased by almost 7%, while sales of self-medication products and cosmetics were slightly down on the 2009 figures. Krka retained its position as the third-ranked generic producer in Croatia, just behind two domestic producers.

Our bestselling pharmaceuticals are Atoris (atorvastatin), Zyllt (clopidogrel), Enap (enalapril), Lanzul (lansoprazole), Ciprinol (ciprofloxacin), Helex (alprazolam) and Vasilip (simvastatin). Significant contributions to sales growth also came from the actively promoted products Ampril (ramipril), Ampril HD (ramipril and hydrochlorothiazide), Valsacor (valsartan), Valsacombi (valsartan and hydrochlorothiazide) and Nolpaza (pantoprazole) and from Elicea (escitalopram) and Vizarsin (sildenafil), both new to the market in 2010.

Krka consolidated its position as the third-ranked generic pharmaceutical producer.

KRKA GROUP MARKET POSITION IN CROATIA
The leading foreign generic producer with a 5.2% market share.
The fourth-ranked pharmaceutical company overall.
Our products are market leaders: • in the statin group with a market share of 21% • in the fluoroquinolone antimicrobial group with a 50% market share.
Our products are among the market leaders: • in the benzodiazepine group with a market share of 23% • in the platelet aggregation inhibitor group with a market share of over 20% • in the group of angiotensin II receptor antagonists in fixed-dose combinations with diuretics with a market share of almost 17%.

On the **Romanian** market, the second largest in the Region, product sales were worth EUR 40 million, growth of 25% compared to 2009. Part of the sales growth achieved can be attributed to the macro-economic conditions, but far more influential has been the successful launch of new products and effective marketing work with established products, which are of great interest to the Romanian market due to their high quality and their accessibility. The best-selling products were Bilobil (ginkgo biloba), Enap (enalapril), Ciprinol (ciprofloxacin), Prenessa (perindopril) including fixed-dose combination with diuretics, Oprymea (pramipexole) and Rawel (indapamide).

We achieved sales growth of 25% on the Romanian market.

Pharmaceuticals introduced to the market in 2010 promise considerable sales potential for the future, especially Atoris (atorvastatin), Tolura (telmisartan), Emanera (esomeprazole) and Nolpaza (pantoprazole).

KRKA GROUP MARKET POSITION IN ROMANIA
The third-ranked foreign generic pharmaceutical company with a 2.3% market share.
In 2010 Krka achieved one of the highest rates of growth among leading pharmaceutical companies on the market.
Our products are the market leaders: • in the fluoroquinolone antimicrobial group with a market share of over 35% • in the cerebral and peripheral vasotherapeutic group with a market share of over 26%.
Our products are among the market leaders: • 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 11%.

In **Serbia** sales were slightly down on the previous year. Krka increased sales by 14% in **Macedonia**, and by 3% in **Bosnia and Herzegovina**, which consolidated our position as the leading foreign generic producer on both markets.

Sales growth was also recorded in **Bulgaria** and **Montenegro**, but was somewhat lower in **Albania** and **Kosovo** as a result of unfavourable macro-economic trends.

East Europe

Region East Europe comprises a number of markets on which the Krka Group sold products worth a total of EUR 264.9 million in 2010, growth of 17% compared to 2009. Sales growth was achieved on the largest market in the Region, the Russian Federation, as well as on most other markets in the Region.

The key market, the **Russian Federation**, remains Krka's largest individual market. Sales there were worth EUR 191.6 million, which is 13% higher than in 2009. The best-selling products were Enap (enalapril) and Lorista (losartan) including fixed-dose combinations with diuretics, Herbion, Pikovit, Atoris (atorvastatin) Vasilip (simvastatin), Zyllt (clopidogrel), Nolicin (norfloxacin), Macropen (midecamycin) and Orsoten (orlistat), which deserves mentioning for the rapid sales it has achieved since

Krka ranked number two in an independent opinion poll in the Russian Federation about the reputation of pharmaceutical companies.

first reaching the market in 2009. We were similarly successful with sales of the pharmaceuticals Perineva (perindopril), Niperten (bisoprolol) and Nolpaza (pantoprazole), which we introduced to the market in 2010. The best-selling animal health products were Enroxil (enrofloxacin), Floron (florfenicol) and Kokcisan (salinomycin).

Krka's great reputation in Russian Federation was confirmed by an opinion poll, in which Krka was ranked second among the best reputed pharmaceutical producers in the country.

KRKA GROUP MARKET POSITION IN THE RUSSIAN FEDERATION
The fourth-ranked foreign generic pharmaceutical company with a 1.7% market share.
Our products are market leaders: • in the statin group with a market share of 22% • in the group of non-mineral multivitamins for paediatric use, with a market share of over 83% • in the group of pharmaceuticals to treat colds (other medicines), with a market share of over 27%.
Our products are among the market leaders: • in the macrolide antibiotic group with a market share of 11% • in the group of ACE inhibitor fixed-dose combinations with diuretics with a market share of 18% • in the platelet aggregation inhibitor group with a market share of 22% • in the group of angiotensin II receptor antagonists in fixed-dose combinations with diuretics with a market share of 15%.

Ukraine is the second largest market in the Region, and through additional marketing and sales activities Krka achieved 65% growth, with sales reaching EUR 38.7 million. Sales of self-medication products increased most. The best-selling products were Herbion, Enap (enalapril), including its fixed-dose combinations with diuretics, Atoris (atorvastatin) and Naklofen (diclofenac).

High sales growth was achieved in Ukraine in 2010.

KRKA GROUP MARKET POSITION IN UKRAINE
The third-ranked foreign generic pharmaceutical company with a 2.2% market share.
Our products are market leaders: • in the statin group with a market share of over 35% • in the group of anti-dementia medicines, with a market share of over 35%.
Our products are among the market leaders: • in the macrolide antibiotic group • in the glucocorticoid group • in the group of ACE inhibitors in fixed-dose combinations with diuretics.

In **Uzbekistan**, despite customers facing continual problems in providing foreign currency, Krka achieved 38% sales growth, with prescription pharmaceuticals highest and Enap (enalapril) particularly outstanding. In **Kazakhstan** Krka achieved 14% sales growth, mainly attributable to prescription pharmaceuticals, the best-selling ones being Enap (enalapril), including fixed-dose combinations with diuretics, Vasilip (simvastatin), Macropen (midecamycin) and Zyllt (clopidogrel). In **Mongolia** sales grew by 19%, again largely due to successful prescription pharmaceutical sales. In **Georgia** sales growth was 14%, due largely to the performance of self-medication products. High sale growth was also recorded in **Turkmenistan** and **Tajikistan**. Sales in **Kyrgyzstan**, where Krka registered a representative office in 2010, remained at 2009 levels. Product sales in **Belarus** were worth EUR 4.4 million, slightly down on last year. Sales in **Moldova**, **Azerbaijan** and **Armenia** were also slightly lower than in 2009.

Central Europe

Region Central Europe is Krka's leading Region by sales value and includes the key market of Poland. The total value of sales in the Region in 2010 was EUR 293.7 million, which exceeded the 2009 figure by 10%. The dominant share of sales came from prescription pharmaceutical sales, followed by self-medication products and animal health products.

In **Poland** Krka's product sales were worth EUR 130.3 million, which represents 44% of sales in this Region, and an increase of 16% on the 2009 sales. The prescription pharmaceutical group contributed most to the increase in total sales. Atoris (atorvastatin) has become the most important product in the group prescription pharmaceuticals, followed by Lorista (losartan), Nolpaza (pantoprazole), Zalasta (olanzapine), Valsacor (valsartan) and Vasilip (simvastatin). A significant contribution came from pharmaceuticals introduced to the market in 2009 and 2010: Doreta (paracetamol and tramadol), Cezera (levocetirizine), Elicea (escitalopram), Ampril (ramipril), Vizarsin (sildenafil) and Nimvastid (rivastigmine). Sales of self-medication and cosmetic products remained at the same level as 2009, with Septolete and Bilobil (ginkgo biloba) the best-selling products.

In Poland Krka had one of the highest growth rates among leading generic producers.

The subsidiary, Krka-Polska, introduced the SAP information system to its operations. Two awards testify to Krka-Polska's success: one from the trade journal Gazeta Farmaceuticzna for improving its marketing position and the Forbes Diamond award for the company with the fastest growing value. Septolete, Pikovit Complex and Fitoval all also gained recognition with product awards.

KRKA GROUP MARKET POSITION IN POLAND
The fourth-ranked foreign generic pharmaceutical company with a 2.6% market share.
In 2010 Krka again achieved one of the highest growth among leading pharmaceutical companies on the market.
Our products are market leaders: • in the statin group with a market share of over 16% • in the group of angiotensin II receptor antagonists including fixed-dose combinations with diuretics with a market share of 29%. • in the group of intestinal anti-inflammatory products 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 around 12% • in the atypical antipsychotic group with a market share of around 12% • in the platelet aggregation inhibitor group with a market share of over 20% • in the fluoroquinolone antimicrobial group with a 30% market share.

In 2010 Hungary became the second largest market in the Region with one of the highest rates of sales growth.

Sales in **Hungary** reached EUR 56.9 million, representing growth of 21% compared to 2009, making Hungary the second largest market in the Region. The main contribution to these sales came from prescription pharmaceuticals: Atoris (atorvastatin), Prenessa (perindopril) and Lavestra (losartan) including fixed-dose combinations with diuretics, Nolpaza (pantoprazole) and Lansoptol (lansoprazole). Highlights included Lavestra (losartan), which became the third highest selling product with sales growth of 60% and Nolpaza (pantoprazole), which ranked just behind and also returned high sales growth. Sales of self-medication products were down compared to 2009, while sales of animal health products grew by 5%.

KRKA GROUP MARKET IN HUNGARY
The third-ranked foreign generic pharmaceutical company with a 2.5% market share.
In 2010 Krka achieved one of the highest rates of growth among leading pharmaceutical companies on the market.
Our products are market leaders: • in the statin group with a market share of over 16% • in the proton pump inhibitor group with a market share of 18%.
Our products are among the market leaders: • in the monocomponent angiotensin II receptor antagonist group with a market share of over 13% • in the group of ACE inhibitors in fixed-dose combinations with diuretics, with a market share of over 12% • in the platelet aggregation inhibitor group with a market share of almost 10%.

In the **Czech Republic**, the Region's third largest market, Krka achieved sales of EUR 54.5 million in 2010. The best-selling products among the prescription pharmaceuticals were Atoris (atorvastatin), Lorista (losartan), Amprilan (ramipril) and Prenessa (perindopril) including fixed-dose combinations with diuretics, Lanzul (lansoprazole) and Asentra (sertraline), and Septolete and Nalgesin S (naproxen) among the self-medication products.

In the Czech Republic Krka is the third-ranked foreign pharmaceutical company.

KRKA GROUP MARKET POSITION IN THE CZECH REPUBLIC
The third-ranked foreign generic pharmaceutical company with a 2.9% market share.
Our products are among the market leaders: • in the monocomponent angiotensin II receptor antagonist group with a market share of around 30% • in the group of angiotensin II receptor antagonists including fixed-dose combinations with diuretics, with a market share of around 20% • in the group of ACE inhibitors in fixed-dose combinations with diuretics, with a market share of over 23% • in the statin group with a market share of almost 15% • in the anxiolytic group with a market share of over 37%.

On other markets in the Region, the fastest growth was on the smallest market, **Estonia**, where sales improved by 31% on 2009. Sales were also up compared to 2009 in **Slovakia**, **Lithuania** and **Latvia**.

West Europe and Overseas Market

Sales in Region West Europe and Overseas Markets reached EUR 208.8 million in 2010, 7% down in terms of value on the 2009 sales. Sales of products under Krka's own trademarks through subsidiaries continue to grow, while the largest proportion of sales was generated by sales of generic pharmaceuticals via partners.

The most important markets in this sales region are Germany, the Nordic countries, France, the UK and Portugal. In Portugal, Spain and the Nordic countries and Krka's other European markets sales growth was particularly pronounced, and double-digit growth was also achieved for sales of prescription pharmaceuticals on Krka's overseas markets. On the western European markets Krka achieved high sales volumes and market shares in the sale of individual generics, with highlights including clopidogrel, pantoprazole, esomeprazole, lansoprazole, gliclazide SR, perindopril and enalapril in fixed-dose combinations with diuretics. Krka is continually adding new products to the range it offers and started marketing the animal health products carprofen and toltrazuril in western Europe, the first generic producer to do so for toltrazuril.

On western European markets we were the first to launch generic esomeprazole and toltrazuril, and we also increased sales of Krka-branded products.

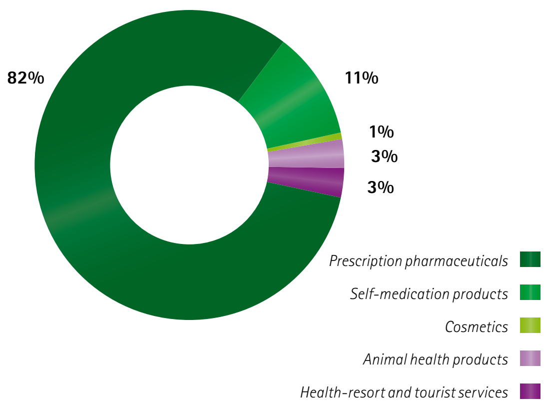
KRKA GROUP POSITION ON WESTERN EUROPEAN MARKETS
The leading supplier of generic clopidogrel, esomeprazole, olanzapine, donepezil, toltrazuril and enrofloxacin.
Krka is among the leading suppliers of generic pantoprazole, lansoprazole, perindopril, enalapril, carvedilol, mirtazapine, venlafaxine SR and florfenicol.
Krka sells prescription pharmaceuticals under its own brand, via subsidiaries, in Germany, the Nordic countries, Austria and Portugal, and via partners in the UK, Spain and Greece.

Product and service groups

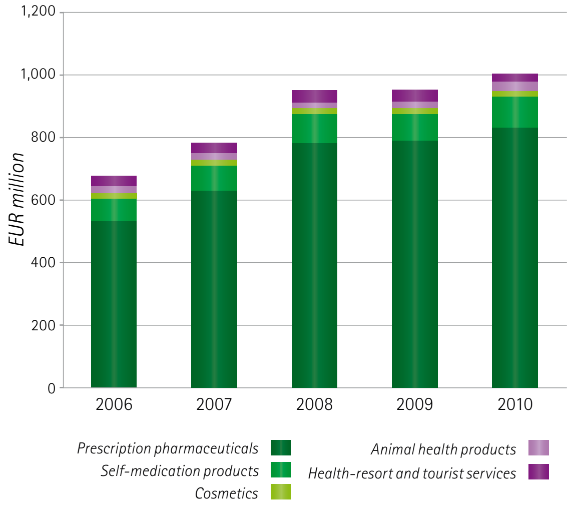
Krka's main line of business is the production and sale of prescription pharmaceuticals, which constitute 82% of Krka Group sales. They are followed in sales volume by self-medication products and animal health products. The company's activities are supplemented by health-resort and tourist services. Over the past five years sales of prescription pharmaceuticals and self-medication products have grown most, by over 50%.

Prescription pharmaceuticals represent 82% of total Krka Group sales.

KRKA GROUP SALES BY PRODUCT AND SERVICE GROUP IN 2010



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	2010	2009	Index 2010/2009	2010	2009	Index 2010/2009
Human health products	947,621	890,795	106	897,903	819,505	110
– prescription pharmaceuticals	830,328	793,903	105	784,908	732,382	107
– self-medication products	111,665	89,559	125	107,588	80,071	134
– cosmetic products	5,628	7,333	77	5,407	7,052	77
Animal health products	30,473	27,777	110	30,607	28,323	108
Health-resort and tourist services	30,839	33,181	93			
Other	1,088	1,285	85	3,856	2,291	168
Total	**1,010,021**	**953,038**	**106**	**932,366**	**850,119**	**110**

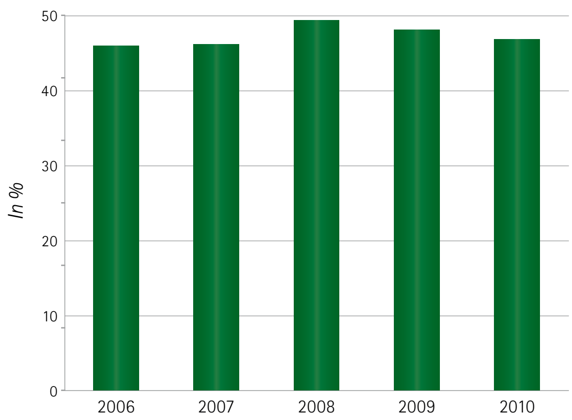
New products

For a number of years Krka has kept the proportion of new products in its overall sales at a high level. Products first introduced to a specific market in the last five years constituted 47% of total sales in 2010. Emanera/Emozul/Escadra (esomeprazole), which was launched in 2010, has already become one of our leading pharmaceuticals in its first year on the market. Other newer products among the leading products include Nolpaza (pantoprazole), Zalasta/Zolrix (olanzapine), Valsacor (valsartan) and Glyclada/Gliclada (gliclazide).

Products first introduced to an individual market in the past 5 years represent 47% of total sales.

In 2010 Krka started marketing several pharmaceuticals with new active substances, while existing brands were supplemented with new strengths, pharmaceutical forms or packaging. The Krka product range is also being expanded into new markets.

PROPORTION OF NEW PRODUCTS* IN KRKA GROUP SALES



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

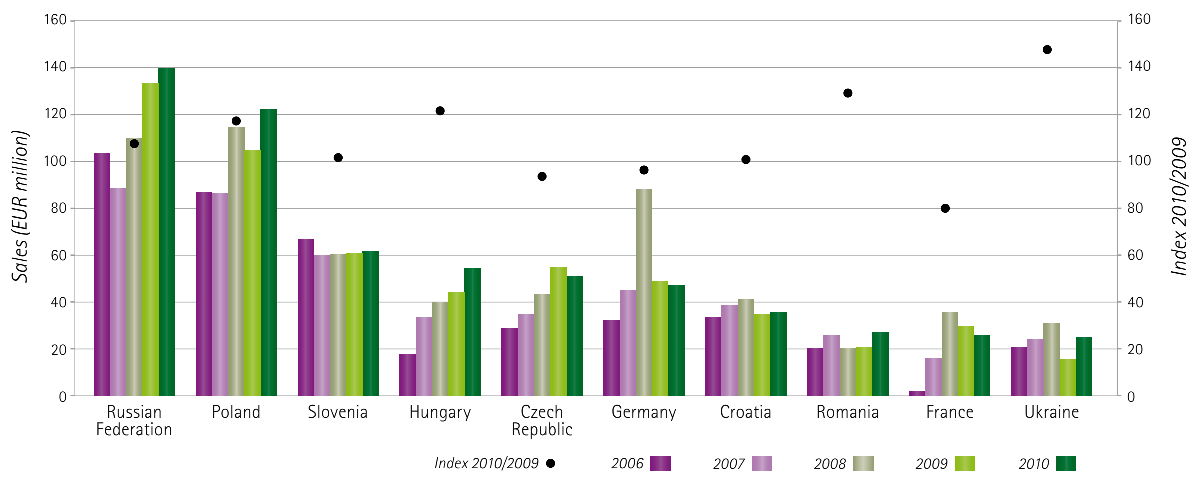
NEW PRODUCTS IN 2010	
PRESCRIPTION PHARMACEUTICALS	
For the treatment of cardiovascular diseases	Sorvasta/Roswera (rosuvastatin) Tolura/Telmista (telmisartan) Karbis/Candecor/Canocord (candesartan) Olimestra (olmesartan) Niperten (bisoprolol)
For the treatment of diseases of the alimentary tract and metabolism	Emanera/Emozul/Escadra (esomeprazole) Zulbex/Gelbra (rabeprazole) Enyglid (repaglinide)
SELF-MEDICATION PRODUCTS	
For coughs and colds	Septolete plus with honey and lime
Vitamins and minerals	Pikovit Omega-3/IQ Pikovit Prebiotic/Prebio
ANIMAL HEALTH PRODUCTS	
Antiparasitic for pets	Fypryst (fipronil)

Prescription pharmaceuticals

In 2010 the Krka Group achieved sales of prescription pharmaceuticals worth EUR 830.3 million, which is 5% more than in 2009. 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 Ukraine, Romania, Hungary, Poland and the Russian Federation, and among other markets in Portugal, Uzbekistan, Spain, Estonia and some smaller markets.

PRESCRIPTION PHARMACEUTICALS SALES ON THE 10 LARGEST MARKETS

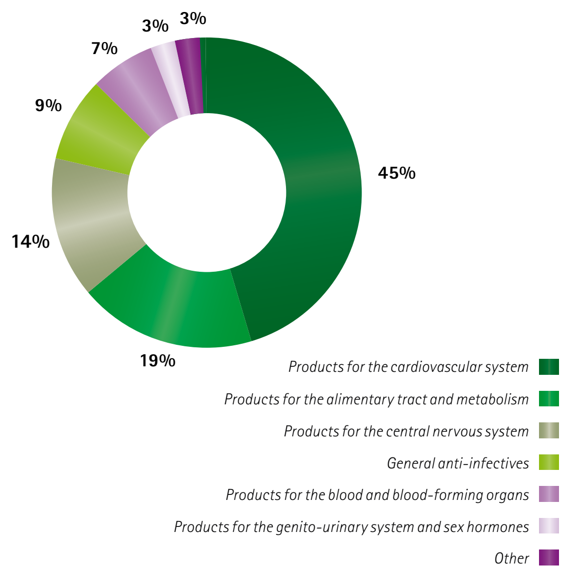


Products to treat cardiovascular diseases remain the key therapeutic group for prescription pharmaceutical sales. The sales share for products to treat the alimentary tract and metabolism rose by 2 percentage points, while products for the central nervous system were in third place.

The top therapeutic groups: products for cardiovascular diseases, for the alimentary tract and metabolism diseases, and for the central nervous system diseases.

The ten leading prescription pharmaceuticals by sales value are Enap (enalapril), Atoris (atorvastatin), Zyllt (clopidogrel), Lorista (losartan), Nolpaza (pantoprazole), Prenessa/Perineva (perindopril), Lanzul (lansoprazole), Vasilip (simvastatin), Emanera/Emozul/Escadra (esomeprazole) and Zalasta/Zolrix (olanzapine).

PRESCRIPTION PHARMACEUTICAL SALES BY THERAPEUTIC GROUP IN 2010



MEDICINES FOR THE TREATMENT OF CARDIOVASCULAR DISEASES

Statins

In 2010 Krka maintained its position as the leading generic producer of hypolipidemics on the markets of Slovenia, central, eastern and south-eastern Europe. Atoris (atorvastatin) was again the leading statin on those markets by sales volume, while Vasilip (simvastatin) remained the leading generic simvastatin by sales value. In Slovenia and on eastern European markets, Krka has a market share of over 25% among statin producers.

Atoris (atorvastatin) remains one of Krka's leading pharmaceuticals by sales. In 2010 it retained its position as the leading statin in Slovenia with a market share of over 55%, in Ukraine with a market share of over 30% and in Poland with a market share of over 20%. In Estonia and Moldova it has taken over as the leading atorvastatin, and remains the leading atorvastatin on most other markets. The highest growth in Atoris sales (over 20%) was recorded in the Russian Federation, Poland, Ukraine, Moldova, Estonia and Georgia. In 2010 Krka also started to market Atoris in Armenia, and also in Romania, immediately after patent protection expired in the last days of 2010.

Vasilip (simvastatin) retained its position as the number one simvastatin in Slovenia and Ukraine with a market share of over 50% and in the Russian Federation with a market share of over 30%. In Kazakhstan it became the leading simvastatin in 2010, achieving a market share of over 50%, while on other markets it continues to rank among the top simvastatins.

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

In its second year on the Slovenian market, **Ezoleta** (ezetimibe) has already gained a share of over 25% of the ezetimibe market by volume. Krka started marketing Ezoleta in Latvia and Estonia in 2010, as the first generic ezetimibe.

In 2010 Krka enhanced its rich modern range of hypolipidemics with a new statin: **Sorvasta/Roswera** (rosuvastatin). It is currently available in Slovenia and Krka plans to launch it also on other markets.

ACE inhibitors

In 2010 Krka retained its position as the number one producer of generic ACE inhibitors on the markets of Slovenia and central, eastern and south-eastern Europe. Krka's Enap (enalapril) and Prenessa/Perineva (perindopril) are both in the top 10 best-selling ACE inhibitors.

Enap (enalapril) has been Krka's leading pharmaceutical for many years and retained this position in 2010. Together with its fixed-dose combinations with hydrochlorothiazide **Enap H**, **Enap-HL** and **Enap-HL 20**, it is the leading enalapril with a market share of over 35% on the markets of Slovenia, central, eastern and south-eastern Europe. In Slovenia, Croatia, Slovakia, Latvia and Armenia it has a market share of over 50% for enalapril and its fixed-dose combinations. This is due to the recognition and trust in the Enap brand among doctors and patients, which is based on over two decades of excellence in clinical experience, that has been demonstrated in the treatment of millions of patients. Krka is also one of the leading producers of enalapril on western European markets.

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

Prenessa/Perineva (perindopril) is one of Krka's most modern ACE inhibitors, which it has successfully marketed in most of central Europe for five years, with good sales results also being achieved on most western European markets. In 2010 we launched perindopril on the markets of eastern Europe (Russian Federation, Ukraine and Kazakhstan) and expanded our presence on the markets of south-eastern and western Europe. Prenessa/Perineva remains the leading generic perindopril on the markets of Slovenia and central, eastern and south-eastern Europe and together with its fixed-dose combination with indapamide **Co-Prenessa/Prenewel**, has achieved large market shares: over 50% in Slovenia, over 25% in Hungary, and between 15-20% in the Czech Republic, Slovakia and Lithuania. In western Europe Krka is also one of the leading suppliers of perindopril and fixed-dose combinations with indapamide. In 2010 the Krka's perindopril range was expanded with the third and strongest strength of fixed-dose combinations – perindopril and indapamide in a 8 mg/2.5 mg dose, which has started being marketed in the Russian Federation, Hungary, Slovenia and Lithuania.

The efficacy and safety of **Ampril/Amprilan** (ramipril) have been confirmed by many of our own clinic trials. It is a powerful ACE inhibitor, and is also suitable for patients at high risk of cardiovascular disease. In 2010 Ampril/Amprilan and its fixed-dose combinations with hydrochlorothiazide was actively marketed on 20 markets. In the Russian Federation and Moldova it is the leading ramipril with a market share of almost 50%, and is the leading generic ramipril in Slovenia, Ukraine, Armenia, Kazakhstan and the Czech Republic.

Sartans (angiotensin II receptor antagonists)

In 2010 Krka first became the leading sartan producer on the markets of Slovenia, central, eastern and south-eastern Europe with one of the highest sales indexes: market shares of over 15% in terms of value, and over 25% in terms of quantity.

In 2010 Krka first became the leading sartan producer on the markets of Slovenia and central, eastern and south-eastern Europe.

Lorista/Lavestra (losartan) and Valsacor (valsartan) are well established sartans that together with their fixed-dose combinations rank in the top ten best-selling sartans in Slovenia and central, eastern and south-eastern Europe. Valsacor (valsartan) has the highest sales growth of this group of pharmaceuticals. In 2010 the range was expanded with three new sartans, Olimestra (olmesartan), Karbis/Candecor/Canocord (candesartan) and Tolura/Telmista (telmisartan).

Lorista/Lavestra (losartan), together with its fixed-dose combinations with hydrochlorothiazide **Lorista/Lavestra H** and **Lorista/Lavestra HD**, is an established brand, known for its quality, efficacy and safety that have been confirmed in everyday clinical practice and our own clinical research. This contributes to the fact that Lorista/Lavestra has a market share of over 30% for losartans and their fixed-dose combinations on the markets of Slovenia, and central, eastern and south-eastern Europe. In 2010 Krka started to market it on two western European markets (Germany and Austria) and several eastern European markets (Belarus, Moldova, Mongolia, Georgia). The range of fixed-dose combinations has been enhanced with a combination containing a higher dose of losartan (100 mg) and lower dose of hydrochlorothiazide (12.5 mg), which enables additional adaptation of treatment to individual patients. Krka is the only generic supplier of this combination in the UK.

In 2010 Krka launched three new sartans.

Valsacor (valsartan) with fixed-dose combinations with hydrochlorothiazide (**Valsacombi/Co-Valsacor/Valsacor H/Valsaden**) has a market share of almost 25% on the markets of Slovenia and central, eastern and south-eastern Europe among valsartans and their fixed-dose combinations. It is the leading valsartan in Poland, Lithuania, Slovenia, Slovakia, the Czech Republic and Estonia, and in 2010 Krka also began marketing it on new western European markets. In many countries Krka expanded this product range by adding fixed-dose combinations, and also started to market the highest strength of valsartan, 320 mg, in Slovakia and Slovenia, becoming the only generic to offer such a range of strengths.

In 2010 Krka became the first generic to start to market its own telmisartan with the name **Tolura/Telmista**, which is currently available in Romania and Lithuania. Krka was the first generic producer to begin marketing **Karbis/Candecor/Canocord** (candesartan) in Poland, and in the coming year intends to offer it on other markets. The third new sartan is **Olimestra** (olmesartan), which Krka started to market in Latvia and Estonia.

Other pharmaceuticals for the treatment of high blood pressure

Niperten (bisoprolol) was added to the wide range of pharmaceuticals for the treatment of high blood pressure in 2010, and began to be marketed in the Russian Federation. Niperten is Krka's second beta-blocker, joining **Coryol** (carvedilol), which is the leading carvedilol in Slovenia, Ukraine, Romania and the Czech Republic. Krka's pharmaceuticals for the treatment of high blood pressure also include **Rawel SR** (indapamide) and **Tenox/Hipres** (amlodipine), which it also started to market in Azerbaijan and Portugal.

MEDICINES FOR THE TREATMENT OF DISEASES OF THE ALIMENTARY TRACT AND METABOLISM

Proton pump inhibitors

Our many years of experience and doctors' trust in the quality, efficacy and safety of Krka's proton pump inhibitors have again made Krka the leading producer of pharmaceuticals in this group on the markets of Slovenia, central, eastern and south-eastern Europe, as well as one of the producers with the fastest growth in this sector. Krka's proton pump inhibitors have to date been used to treat over 60 million patients.

Ultop (omeprazole), the first pharmaceutical in this group, is today the most frequently prescribed proton pump inhibitor in Slovenia. **Lanzul/Lansoptol** (lansoprazole) is the leading lansoprazole in Slovenia, Romania, the Russian Federation, Croatia, Poland and the Czech Republic and a number of other markets, and Krka is one of the leading producers of lansoprazole in Europe.

Krka is the leading producer of proton pump inhibitors on the markets of Slovenia and central, eastern and south-eastern Europe.

In 2007 Krka started to produce and market **Nolpaza** (pantoprazole), which is present today in numerous European and some Asian markets. Nolpaza is characterised above all by its safety, since pantoprazole is the safest of all the proton pump inhibitors. Nolpaza is the leading pantoprazole in Slovenia, Lithuania and Latvia – with a market share of over 40% – and in the Russian Federation and Estonia – with a market share of over 30% – and is among the fastest growing proton pump inhibitors on the markets of Slovenia and central, eastern and south-eastern

Europe. In 2010 Krka introduced it to new markets in the oral dosage form and in a new intravenous form. Major additions were made to the proton pump inhibitor product range in 2010, with the launch of **Emanera/Emozul/Escadra** (esomeprazole) and **Zulbex/Gelbra** (rabeprazole). Krka markets Emanera/Emozul/Escadra on most central European and some south-eastern European markets, and is the leading supplier of generic esomeprazole in western Europe. **Zulbex** is currently available in Hungary via a partner firm, and in future Krka intends to launch rabeprazole on other markets. By starting to market two new pharmaceuticals in this group, Krka became the only European pharmaceutical company to produce all five proton pump inhibitors, which allows us to offer doctors pharmaceuticals appropriate to any patient.

Krka is the only European pharmaceutical company to produce all five proton pump inhibitors.

Oral antidiabetics

Gliclada/Glyclada is Krka's gliclazide in prolonged-release tablet form, which it successfully markets on all central European markets, making Krka the leading generic producer of oral pharmaceuticals to treat type-2 diabetes on these markets. Gliclada/Glyclada is the leading generic sulfonylurea by sales. In 2010 Krka remained Europe's leading supplier of generic gliclazide in prolonged-release tablet form. In 2010 Krka's oral antidiabetics range expanded with the addition of **Enyglid** (repaglinide), which it started marketing in Germany and Macedonia.

Medicines for the treatment of obesity

In 2009 Krka started marketing **Orsoten** in the Russian Federation, marking a move into the therapeutic field of treating obesity and excess body mass. In 2010 Orsoten was still the only generic orlistat on the Russian market, and had a 20% market share by volume.

MEDICINES FOR THE TREATMENT OF DISEASES OF THE CENTRAL NERVOUS SYSTEM

Antipsychotics

Krka is one of the rare generic pharmaceutical companies that offers modern treatments for schizophrenia and bipolar disorder, as it produces four major atypical antipsychotics: olanzapine, quetiapine, risperidone and ziprasidone. It is the leading generic antipsychotic producer on the markets of Slovenia and central, eastern and south-eastern Europe.

Zalasta/Zolrix (olanzapine) is Krka's leading antipsychotic. In Latvia it has almost 90% of the olanzapine market, and market shares between 20 and 40% in Poland, Slovenia, Lithuania and Estonia.

Kventiax (quetiapine) is a modern antipsychotic offering a sound balance between efficacy and safety. It is one of the leading quetiapines on the markets of Slovenia and central, eastern and south-eastern Europe with a market share between 15 and 20% in Slovenia, Lithuania, the Czech Republic and Slovakia. In 2010 Krka started to market it in the Russian Federation.

Krka is the leading generic producer of antipsychotics and antidepressants on the markets of Slovenia and central, eastern and south-eastern Europe.

Zypsilan/Zypsila/Ypsila (ziprasidone) is a modern atypical antipsychotic with an excellent safety profile with regard to metabolic parameters and extrapyramidal side effects, even with higher dosage. It was the first generic ziprasidone in Europe and in 2010 was still the only one on many markets.

Antidepressants

Krka is one of the leading generic antidepressant producers on the markets of Slovenia and central, eastern and south-eastern Europe. Our range of antidepressants covers the two most frequently sold pharmaceutical groups in this segment of medicines: sertraline and escitalopram among serotonin-specific reuptake inhibitors (SSRI), and venlafaxine among serotonin-noradrenaline reuptake inhibitors (SNRI) group, and is broadened also by mirtazapine.

Alventa/Olwexya (venlafaxine) in prolonged-release capsule form is a very effective antidepressant that is popular with psychiatrists. Krka's venlafaxine is one of Europe's leading venlafaxines with a market share of over 30% in Slovenia, Lithuania and Slovakia.

In 2010 **Asentra** (sertraline) was the leading generic antidepressant on the markets of Slovenia and central, eastern and south-eastern Europe with over 25% of the sertraline market. In Slovenia, Asentra has over half the sertraline market, while in Poland and the Czech Republic it has almost one third.

Elicea/Ecytara (escitalopram) is a modern antidepressant with a rapid and powerful antidepressant action. Krka began to market it in 2010 on six markets in central and south-eastern Europe and it has become the leading generic escitalopram in Slovenia, Poland, the Czech Republic, Lithuania, Latvia and Estonia.

Mirzaten (mirtazapine) maintained its position in 2010 as the leading mirtazapine on the markets of Slovenia, central, eastern and south-eastern Europe. The latest orodispersible form of **Mirzaten Q-Tab/Oro Tab** has now been launched in the Czech Republic and Poland.

Medicines for the treatment of Alzheimer's disease

Krka is the leading generic producer of pharmaceuticals for the treatment of Alzheimer's disease in Slovenia and central and south-eastern Europe. **Yasnal** (donepezil) is the leading generic donepezil on those markets, while **Nimvastid** (rivastigmine), launched in the Czech Republic and Slovakia in 2010, is the leading generic rivastigmine. Yasnal has a market share of over 50% in Slovenia, Lithuania and Slovakia. Rivastigmine is a dual action pharmaceutical that effectively treats patients in an advanced phase of Alzheimer's disease. The orodispersible tablet form has made it easier for many patients to take Nimvastid.

Medicines for the treatment of Parkinson's disease

After two years on the market, **Oprymea** (pramipexole) has become the leading generic dopamine agonist on the markets of central and south-eastern Europe. In 2010 Krka started to market pramipexole in Germany and Macedonia.

Analgesics

Doreta (tramadol and paracetamol) is the first generic fixed-dose combination of its kind, and is currently marketed in Slovenia and central and south-eastern Europe. In 2010 Krka started to market it in the Czech Republic and Poland, consolidating its position in the field of pain relief. One of the most important products in Krka's analgesic range is Naklofen duo (diclofenac), which was launched on a number of eastern European markets in 2010.

MEDICINES FOR THE TREATMENT OF INFECTIONS

Fromilid (clarithromycin) is the number one generic macrolide on the markets of Slovenia and central, eastern and south-eastern Europe and the third best-selling macrolide brand. It is the leading clarithromycin in Ukraine, Hungary, Croatia, Slovenia, Georgia and Armenia and has a market share of over 30% in ten countries. To date it has been used to treat over 20 million patients. In 2010 Krka started marketing the prolonged-release form, **Fromilid uno**, in Uzbekistan, Turkmenistan and Tajikistan.

Krka is the leading generic fluoroquinolone producer on the markets of Slovenia and central, eastern and south-eastern Europe. The **Ciprinol** (ciprofloxacin) brand covers a broad range of pharmaceutical forms and strengths, including the prolonged-release tablets **Ciprinol SR**, the leading ciprofloxacin in Slovenia, Croatia, Romania, Ukraine and a number of other central and eastern European countries.

MEDICINES FOR THE TREATMENT OF DISEASES OF THE BLOOD AND BLOOD-FORMING ORGANS

Platelet aggregation inhibitors

Zyllt (clopidogrel) is one of the Krka's best-selling pharmaceuticals. It is internationally established, having been available on select markets since 2005. The trust placed in this medicine by doctors and patients has again in 2010 made it the leading generic clopidogrel on the markets of Slovenia and central, eastern and south-eastern Europe. It is achieving high sales growth and high market shares in Croatia (35%), the Russian Federation (20%) and between 10 and 20% in Hungary, Estonia, Slovenia, Lithuania and Poland. In 2010 Krka also became the leading supplier of generic clopidogrel in western Europe.

Krka markets the leading generic clopidogrel on the markets of Slovenia and central, eastern and south-eastern Europe.

MEDICINES FOR THE FOR THE TREATMENT OF DISEASES OF THE URINARY TRACT

Medicines for the treatment of benign prostatic hyperplasia

Krka's range of pharmaceuticals to treat benign prostatic hyperplasia (BPH) includes active substances that are market leaders in treatment of these diseases on the markets of central, eastern and south-eastern Europe. **Tanyz** (tamsulosin), **Kamiren/Kamiren XL** (doxazosin) and **Finpros/Finster** (finasteride) offer optimal treatment adapted to individual need.

Medicines for the treatment of erectile dysfunction

In its second year of being marketed the pharmaceutical to treat erectile dysfunction, **Vizarsin** (sildenafil), has achieved market shares of over 30% in Slovenia and over 20% in Lithuania and Estonia. In 2010 Krka started marketing pramipexole in Croatia and Macedonia. In 2010 the Krka website www.midva.com, aimed at people with erectile problems, was expanded to include language versions in English, Polish, Lithuanian, Slovak and Croatian.

MEDICINES FOR THE TREATMENT OF DISEASES OF THE RESPIRATORY SYSTEM

Monkasta (montelukast) is a pharmaceutical to prevent and treat chronic bronchial asthma and to alleviate the symptoms of seasonal allergic rhinitis (hay fever). It is marketed in Slovenia, Poland and a number of other central and south-eastern Europe. **Cezera** (levocetirizine) is intended to treat the symptoms of allergic rhinitis and chronic idiopathic urticaria, and offers rapid and powerful action. In 2010 Krka began to market it in Poland, where it has achieved a market share of over 10%, and in Portugal.

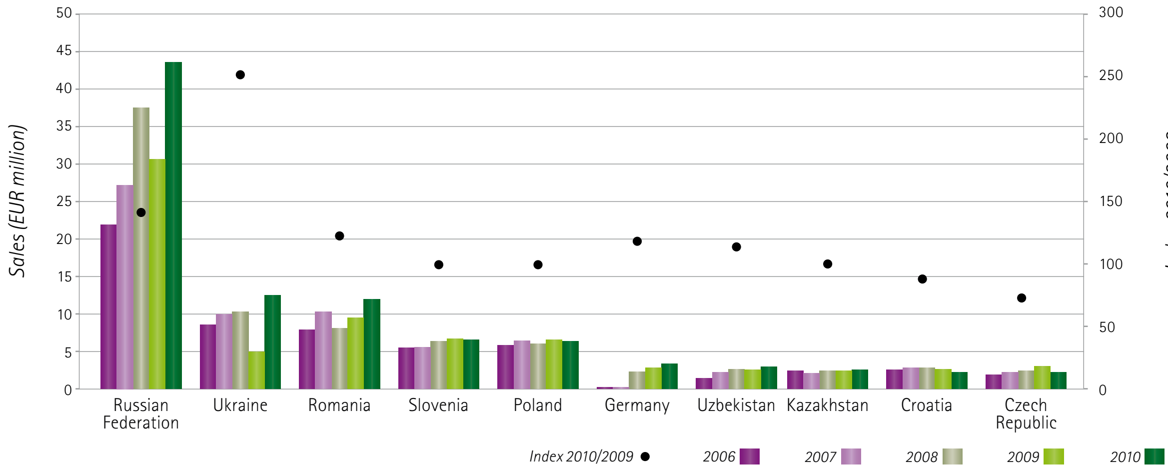
Self-medication products

Self-medication product sales growth was highest on the two largest markets: the Russian Federation and Ukraine.

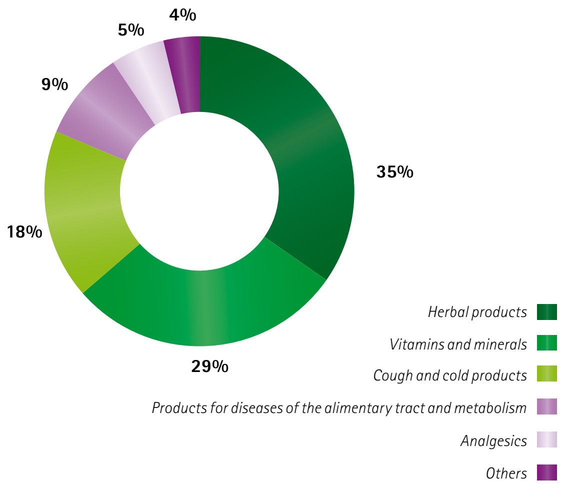
In 2010 the Krka Group sold self-medication products worth EUR 111.7 million, which is 25% more than in 2009. High sales growth, compared to 2009, was achieved on the two most important markets: over 40% in the Russian Federation and over 150% in Ukraine. On the other ten largest markets, sales increased most in Romania, Germany and Uzbekistan, and also increased in Latvia, Macedonia, Slovakia and a number of smaller markets.

The leading Krka self-medication products, which also rank as leading Krka products overall, are Bilobil, Septolete, Herbion and Pikovit.

SELF-MEDICATION PRODUCT SALES ON 10 LARGEST MARKETS



SELF-MEDICATION PRODUCT SALES BY THERAPEUTIC GROUP IN 2010



With its **Bilobil** brand, Krka was among the leading suppliers of ginkgo products on the markets of Slovenia and central, eastern and south-eastern Europe in 2010. It retained its position as market leader in Romania and took over as market leader in Ukraine and the Russian Federation, and remained among the market leaders in Poland. Krka was the only supplier on the Slovenia market in 2010. Krka has increased the number of markets on which the latest Bilobil brand products are available: **Bilobil intense** (120 mg) in Ukraine and **Bilobil Aktiv/ Bilobil Duo** (combination of ginkgo and ginseng) in the Czech Republic and Hungary.

Septolete, the key brand for cough and cold category, was significantly enhanced in 2010 with the addition of the new **Septolete plus with honey and lime**, which was launched on seven markets: Slovenia, Poland, Croatia, the Czech Republic, Estonia, Latvia and Macedonia. The new product and even more intense promotional work on the 'plus' branding led to market shares increasing. The Septolete brand remains one of the leading products for sore throats in Slovenia, Croatia, Poland, the Czech Republic and Slovakia. Consumer trust in Septolete has been confirmed by the Golden Otis award, which is awarded to pharmaceutical producers and their products in Poland. In 2010 Septolete won a Golden Otis in the sore throat category for the second time.

Krka's two key brands for vitamin and mineral products are **Duovit** and **Pikovit**. The **Duovit** brand is aimed at adults and includes eight products. Among the most important in 2010 were **Duovit for men** and **Duovit for women**, which sold successfully on most of Krka's major markets. The **Pikovit** brand offers vitamin and mineral products for children. In 2010 Krka started marketing two new products: **Pikovit Omega-3/Pikovit IQ** and **Pikovit Prebiotic/Pikovit Prebio**. The Pikovit brand also includes eight products, adapted to children of different ages, and offered in child-appropriate pharmaceutical forms. The success of this brand can be attributed to effective marketing strategies, partnership relations with doctors and pharmacists and the trust of parents and their children. In 2010 Pikovit won a silver EFFIE 2009 award for its effective marketing strategy in the Russian Federation, while Pikovit complex won the Golden Otis award in the children's vitamins category.

New products were added to the key brands Septolete, Pikovit and Duovit.

Herbion cough syrups are a herbal medicine that alleviate problems with two kinds of cough. They are well supported by health professional public in the Russian Federation and Ukraine, as can be seen in the recommendations by doctors and pharmacists. The brand is also spreading to other eastern European markets, with Krka launching the syrups in 2010 in Kazakhstan, Uzbekistan, Turkmenistan and Moldova. The positive results in eastern Europe have led to a significant growth in sales of these products in 2010.

Nalgesin S is Krka's most important OTC analgesic. In 2010 Krka increased advertising to the general public, while consolidating its reputation among pharmacists. It is a modern pharmaceutical offering rapid and effective pain relief with a higher price positioning among analgesics, which is gaining increasing consumer trust due to its efficacy.

Cosmetic products

In 2010 the Krka Group achieved cosmetic product sales of EUR 5.6 million, which is 23% less than in 2009. This was largely due to the withdrawal of skin care products from eastern European markets and the continued contraction of the product range on other markets.

Fitoval is Krka's most important cosmetic product.

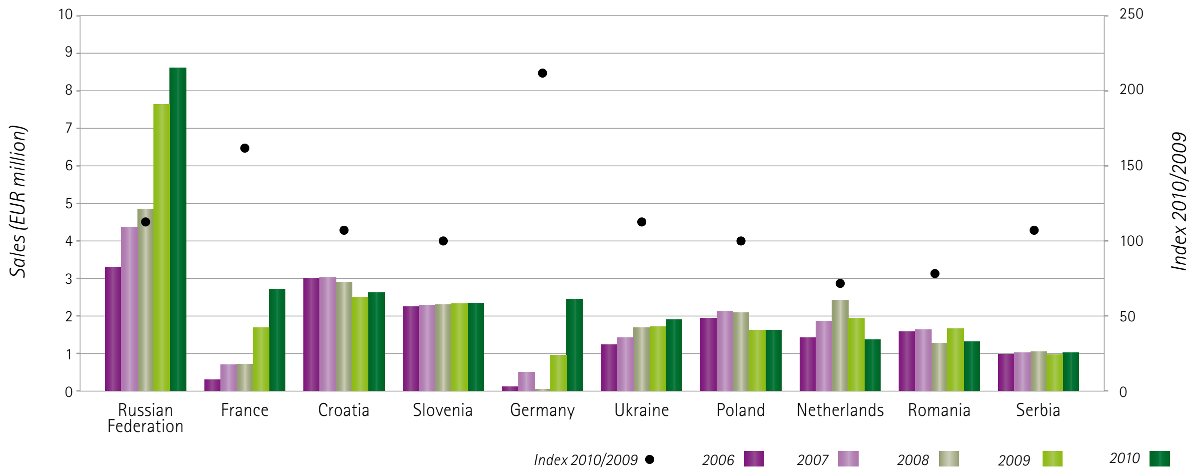
In future **Fitoval** will be Krka's key cosmetic brand. It achieved significant sales growth in 2010 compared to the previous year. Fitoval offers a comprehensive approach to eliminating the most common hair and scalp problems: hair loss, dandruff and damaged hair. The range of products provides external care for hair and the scalp as well as nutrition for hair roots. In 2010 Krka started marketing Fitoval in Poland and from 2010 it has been available in an updated and more user-friendly packaging. In its first year, Fitoval won a Polish consumer award – 2010 Discovery of the Year.

Animal health products

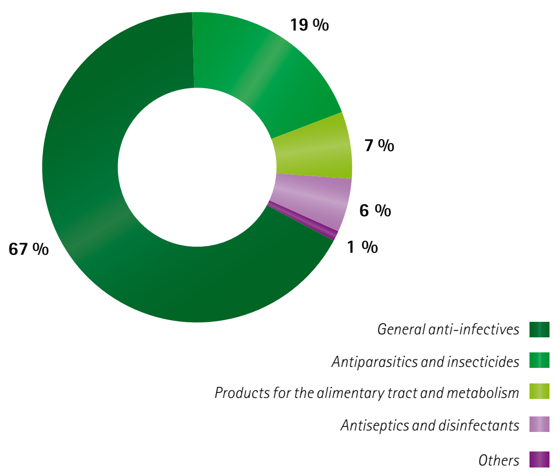
Region East Europe remains the largest for animal health product sales while the highest growth was in Region West Europe.

In 2010 the Krka Group sold animal health products worth EUR 30.5 million, 10% more than in 2009. Sales increased most in Germany, France, the Russian Federation and Ukraine, all top 10 markets, as well as on smaller markets.

ANIMAL HEALTH PRODUCT SALES ON 10 LARGEST MARKETS



ANIMAL HEALTH PRODUCT SALES BY THERAPEUTIC GROUP IN 2010



Krka's leading animal health products are **Enroxil** (enrofloxacin) and Floron (florfenicol). Enroxil is the only generic to match the reference product in all dosage forms. The product range also includes **Enroxil flavour** in flavoured-tablet form and **Enroxil Max** for single dosage, which was launched in the Russian Federation and Ukraine in 2010.

Krka's **Floron** is one of Europe's leading generic florfenicols. Its market share was maintained in Slovenia and central, eastern and south-eastern Europe, and continued to increase in western Europe, bolstered by new dosage forms which were launched in Spain, France and Portugal in 2010.

Kokcisan (salinomycin) is Krka's most important coccidiostatic. Its efficacy has been confirmed by independent institutions in Germany, the UK and Spain and through everyday use in many markets. Kokcisan is sold in over 30 countries around the world.

Ecocid S/Oxicid S is a modern disinfectant. It meets the needs of users wanting an effective, environmentally friendly and high-quality product and its efficacy has been proved using the latest EU-standard compliant methods for testing disinfectant performance. Stable growth has made Ecocid S one of Krka's top-5 animal health products.

Fypryst (fipronil) is an important new product for the treatment of pet animals. Globally, this is the highest selling sector of animal health products.

Fypryst is a modern antiparasitic for removing and controlling external parasites of cats and dogs. In 2010 Krka started to successfully market it in Slovenia, many of the central European markets, and Macedonia, and in the coming year it plans to expand sales, primarily across the markets of eastern, south-eastern and western Europe.

Fypryst (fipronil) is an important new product for pets.

Health-resort and tourist services

In 2010 the Terme Krka Group generated sales of EUR 30.8 million from its business units of Šmarješke Toplice, Dolenjske Toplice, Strunjan, Novo mesto and Otočec, which is 7% less than in 2009. The main reason for the fall in sales was the complex renovation work which required the Talaso Strunjan business unit to be almost completely closed for the first four months of 2010. Despite the high level of occupancy at Talaso Strunjan after it reopened, the fall in revenues could not be made up, and the business unit finished 2010 with sales down by one quarter on 2009. Sales at the Terme Dolenjske Toplice business unit grew by 5%, while growth at Terme Šmarješke Toplice was 3%. Healthcare services offered by the Terme Krka Group did not fall, since the number of health-related visits was less affected by the recession.

In 2010 the Terme Krka Group recorded over 308,000 overnight stays, 72% by domestic guests, while the most frequent foreign guests were Italians (10%) and Austrians and Russians (both 4%). The occupancy rate was 72% at Terme Šmarješke Toplice and 65% at Terme Dolenjske Toplice. The Dolenjske Toplice resort, which boasts the Hotel Balnea, one of the most attractive wellness hotels in Slovenia, achieved a 60% increase in Serbian guests compared to 2009, while the number of overnight stays by guests from Nordic countries, Croatia and Italy also increased. In 2010 the number of overnight stays by guests from Israel, the UK, Serbia and France increased compared to 2009 in the hotels at Terme Šmarješke Toplice, the first spa complex in Slovenia to offer medical wellness programmes.

RESEARCH AND DEVELOPMENT

The basic objective of Krka's research and development remains the development of generic active substances and pharmaceutical dosage forms and the technologies required to produce and evaluate them. Research into innovative technology, 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. Bringing a new product to the market on time is the result of creative and innovative procedures and, above all, teamwork from the research and development staff. Developing and gaining marketing 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 in order to open up new sales opportunities. Remaining competitive in future will continue to demand effective research and development, the protection of our industrial property, rapid marketing authorisation and the launching of competitive new products.

In 2010 marketing authorisation was acquired for 24 new products in 49 dosage forms and strengths.

In 2010 Krka acquired marketing authorisation for **24** new products in **49** dosage forms and strengths.

In 2010 numerous new marketing authorisations were achieved through a range of European and national procedures. A total of 72 procedures were carried out for 26 products in various forms via the most demanding European marketing authorisation procedures: centralised procedures (CPs), decentralised procedures (DCPs), and mutual recognition procedures (MRPs), for a wide range of dosage forms and strengths.

Krka acquired marketing authorisation for 925 products in 1,891 pharmaceutical forms and strengths in 58 countries.

NUMBER OF NEW MARKETING AUTHORISATIONS FOR THE KRKA GROUP BY REGION

	Slovenia		South-East Europe		East Europe		Central Europe		West Europe and Overseas Market	
	No of products	No of forms	No of products	No of forms	No of products	No of forms	No of products	No of forms	No of products	No of forms
2010	**42**	**88**	**96**	**224**	**157**	**243**	**208**	**444**	**422**	**892**
2009	43	64	101	173	126	222	171	317	433	887
2008	29	49	113	241	177	284	93	215	225	546
2007	11	39	104	223	108	181	86	311	123	576
2006	23	36	114	234	97	152	84	210	–	–

Protecting our know-how and intellectual property

Krka uses patent applications to protect the results of its development work in key areas. In 2010 Krka submitted patent applications for 15 new inventions, and 14 international patent applications on the basis of prioritised applications from 2009.

Our products are marketed under our own trademarks. In 2010 Krka registered 99 trademarks in Slovenia, and submitted 73 international applications, and 9 applications in individual countries.

Prescription pharmaceuticals

In 2010 we acquired marketing authorisation for 14 new prescription pharmaceuticals in 33 dosage forms that represent the result of Krka's knowledge and experience in the development of pharmaceutical products. Most new products reflect Krka's vertical integration of development and production processes, which allows them to achieve long-term market competitiveness.

Krka is one of the leading generic producers of pharmaceuticals for the treatment of cardiovascular diseases. The range of pharmaceuticals to reduce blood pressure was expanded with two new angiotensin II receptor antagonists (sartans) – **telmisartan** and **candesartan**. A CP was carried out via the European Medicine Agency (EMA) to acquire marketing authorisation for the entire European Union for the new product **Tolura**, which contains the active substance **telmisartan**, which is produced in tablet form in 3 strengths. A marketing authorisation procedure was concluded for **Candecor/Karbis**, which contains the active substance **candesartan**, which is produced in tablet form in 4 strengths.

New marketing authorisations added products to the range of sartans, statins, gastrointestinal products and antipsychotics.

New fixed-dose combinations of **losartan**, **valsartan** or **perindopril** with a diuretic have supplemented the established brands **Lorista**, **Valsacor** and **Prenessa/Perineva**. Marketing authorisation was acquired in most EU states for two new strengths of **Lorista H/Lavestra H**, a fixed-dose combination of losartan and hydrochlorothiazide in film-coated tablets, and for **Valsacombi/Co-Valsacor/Valsaden**, a fixed-dose combination of valsartan and hydrochlorothiazide, and a new strength of the fixed-dose combination pharmaceutical **Co-Prenessa/Prenewel**, which contains the active substances **perindopril** and **indapamide**.

Marketing authorisation was also gained for a new pharmaceutical from the statin group, **rosuvastatin (Sorvasta)**, in film-coated tablets in 4 strengths. The broad range of rosuvastatin dosages allows treatment to be adapted to individual patient need in order to achieve the lipid value that guidelines require.

Proton pump inhibitors are a key therapeutic group for Krka. A DCP was concluded for a product in this group for the active substance **rabeprazole (Gelbra)** in gastro-resistant tablet form. New marketing authorisations were acquired for pharmaceuticals with the active substances **esomeprazole (Emanera, Emozul)** in gastro-resistant capsules, with which Krka has made inroads into the markets of western Europe. A marketing authorisation procedure was completed for **pantoprazole (Nolpaza)** powder for solution for injection, a new dosage form that allows treatment with pantoprazole even for the neediest patients while still in hospital.

The range of pharmaceuticals to treat the central nervous system – Krka's third key therapeutic group – was also enhanced. A DCP was concluded to gain marketing authorisation for the new pharmaceutical **ropinirol (Rolpryna SR)** in prolonged-release tablet form in 3 strengths. Krka's prolonged-release ropinirol can replace existing products from the dopamine agonist group with a patient-friendly once-a-day dosage better suited to the condition it treats.

The new dosage forms we developed are more patient-friendly and offer new forms of use.

Krka acquired marketing authorisation via a national procedure in the Russian Federation for a new pharmaceutical from the antipsychotic group, **aripiprazole fumarate (Zylaxera)**, with 4 strengths in tablet form. The clinical efficacy of aripiprazole is comparable to the efficacy of modern atypical antipsychotics, but it is outstanding in terms of tolerability.

A DCP was used to acquire marketing authorisation for **donepezil (Yasnal)** in the new dosage form of orodispersible tablet, **donepezil ODT** in 2 strengths. The orodispersible tablet provides patients with a simple dosage delivery system that makes treatment even easier.

In 2010 marketing authorisation was acquired for the new product **Asolfena** with the active substance **solifenacin** in film-coated tablet form in 2 strengths. This marked Krka's entry into the new field of urology – treating an overactive bladder. The existing brand **Tanyz**, with the active substance **tamsulosin**, was broadened by marketing authorisations in several European Union countries for new forms of the pharmaceutical: film-coated tablets with modified release **Tanyz ERAS**. Tamsulosin offers a foundation for the treatment of benign prostate hyperplasia. The new pharmaceutical form allows it to be taken separate from meal times.

Krka has expanded its range of products to treat high blood pressure in the Russian Federation and other eastern European countries. Marketing authorisation was acquired for **candesartan (Candecor)** in tablet form in 4 strengths and for **irbesartan (Firmasta)**, as a film-coated tablet in 3 strengths. Marketing authorisation was also acquired for two combinations of **valsartan** or **perindo-**

pril with the diuretic hydrochlorothiazide in a range of doses (**Valsacor H**, **Valsacor H 160**, **Valsacor HD 160**, **Co-Prenessa/Co-Perineva**).

The most notable marketing authorisations in south-eastern Europe were for pharmaceuticals to treat cardiovascular disease, such as **irbesartan** (**Firmasta**) in film-coated tablet form, **ezetimibe** (**Ezoleta**) in tablet form, a fixed-dose combination of **valsartan** and **hydrochlorothiazide** (**Valsacombi**) in film-coated tablet form and the fixed-dose combination of **perindopril** and **indapamide** (**Co-Perineva/Co-Prenessa/Prenewel**) in tablet form. The range of proton pump inhibitors was expanded with the addition of **esomeprazole** (**Emanera**), gastro-resistant capsules in 2 strengths, and **pantoprazole** (**Nolpaza**) in the new dosage form of powder for solution for injection. Marketing authorisation was acquired for the antidepressant **escitalopram** (**Elicea**) in film-coated tablet form, for the fixed-dose combination **paracetamol** and **tramadol** (**Doreta**) to eliminate or alleviate pain and **repaglinide** (**Enyglid**) and **sildenafil** (**Vizarsin**).

In 2010 Krka also acquired a number of marketing authorisations for overseas markets. Marketing authorisation was acquired in Hong Kong for **Atoris** with the active substance **atorvastatin** in film-coated tablet form in 2 strengths, and **Kventiax** with the active substance **quetiapine** in film-coated tablet form in 4 strengths.

Self-medication products

In 2010 Krka added two new products to one of its key brands, **Septolete**. We acquired marketing authorisation for **Septolete plus** strawberry flavour in lozenges in Slovenia, Lithuania, Bulgaria, Poland and Slovakia. Most marketing authorisation procedures for EU markets were concluded for **Septolete plus honey and lime** flavour lozenges. The **Septolete** brand was also broadened with the introduction of a spray, a new dosage form with immediate action on mucous membrane, offering effective alleviation of pain. The first marketing authorisations for **Septolete plus spray** were acquired in Slovenia, Estonia, Lithuania and Latvia.

Notification was acquired for two products in syrup form, **Pikovit Omega 3** and **Pikovit Prebiotik** in the Russian Federation, which broadened the Pikovit vitamin range to include food supplements. Pikovit Omega 3 includes Omega 3 acids as well as vitamins, while Pikovit Prebiotik includes prebiotic fibres.

Important notifications were acquired for **Orsoslim** capsules on the key markets of the Russian Federation, Kazakhstan and Ukraine. The product contains a combination of important vitamins, L-carnitine, caffeine, and green tea extract and is aimed at helping people to reducing weight and maintain a balanced body weight.

The marketing opportunities for the **Bilobil** brand were increased. In **Ukraine** we gained **marketing authorisation** for **Bilobil intense capsules** and **Herbion Ginseng** capsules and notification for **Duovit Vision** capsules.

Animal health products

Krka acquired marketing authorisation for 7 new products in 13 dosage forms and strengths.

A marketing authorisation was successfully concluded for the new pharmaceutical **Fypryst** in solution form for application on skin to prevent and treat infestation by tics, fleas and lice in cats and dogs. It contains the active substance **fipronil**, which exhibits insecticidal and acaricidal activity against external parasites. Marketing authorisation was acquired in ten EU countries and the Russian Federation. Fypryst is a significant new addition to the range of pharmaceuticals to treat pet animals.

The product range for pets was expanded in 16 EU states with a new pharmaceutical, **Rycarfa**, with the active substance **carprofen**, which we produce in tablet and injection solution form. The product is for pain relief following operations and in the event of degenerative conditions of the musculoskeletal system in dogs and cats. Marketing authorisation was acquired in most EU countries and the Russian Federation.

Krka gained marketing authorisation for 7 new animal health products in 13 dosage forms and strengths.

The marketing authorisation procedure was completed in the Russian Federation for the new product, **Animavit**, a granulate containing probiotic microorganisms of the species Bacillus subtilis. It is a feed additive to increase growth, stabilise intestinal flora and increase resistance in pigs.

Marketing authorisation was gained for the new pharmaceutical **Floron** in most EU states in the dosage form of premix for medicated feeding stuff. The product contains the active substance **florfenicol** and prevents and treats bacterial infections of the respiratory tract in pigs.

Marketing authorisation procedures were concluded in the EU and the Russian Federation for the new pharmaceutical **Toltarox** in oral suspension form. The product contains the active substance **toltrazuril** which prevents and treats Coccidia infections in new-born pigs.

The new pharmaceutical form of **florfenicol** (**Floron**) and **toltrazuril** (**Toltarox**) have expanded Krka's range of antimicrobial and antiparasitic products for pigs.

Cosmetic products

In 2010 we expanded the marketing opportunities of the **Fitoval** line. In Ukraine we gained marketing authorisation for Fitoval capsules and registered the entire Fitoval Formula product range as cosmetic products: dermatological anti-hair loss shampoo and lotion, dermatological shampoo for damaged hair, and dermatological anti-dandruff shampoo and lotion.

Health-resort and tourist services

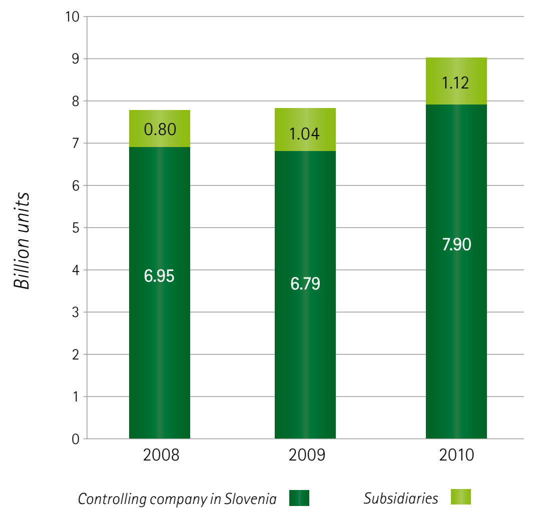
The Terme Krka Group's coastal centre Talaso Strunjan started 2010 with major investment works. The largest tourism investment project on the Slovenian coast provided increased pool and accommodation capacity, and above all new premises for health activities and hydrotherapy, as well as a relaxation centre. The renovation of Hotel Svoboda included the hotel forecourt, reception foyer and hotel rooms. These acquisitions have placed the Strunjan health resort among the very best Slovenian providers of high quality talassotherapy (sea-water therapy) and Mediterranean-inspired services.

PRODUCT SUPPLY

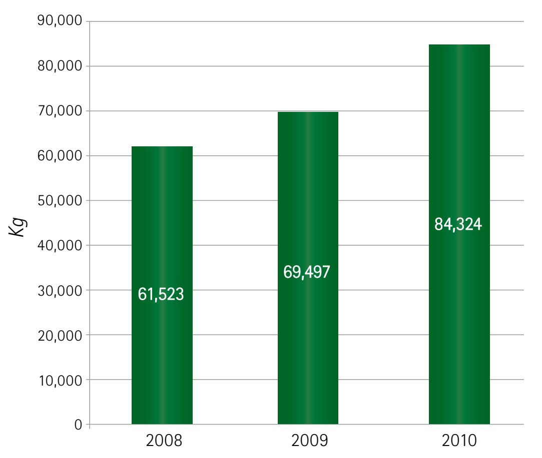
The objective of the Product Supply function is to put in place the conditions to ensure the physical and structural growth of sales through optimal management of Krka's own capacity to produce active pharmaceutical ingredients (APIs) and finished products in Slovenia and elsewhere, the construction of new capacities of this kind, and the continued expansion of contracted production. We are continually upgrading and modernising Krka's own production capacity.

At the new OTO plant for solid dosage forms in Ločna, we have already installed around one-third of the planned technological equipment, increased optical inspection capacity in injection solution production, and we are also preparing the construction of additional API production capacity within the Sinteza 2 project at the Krško site.

PRODUCTION OF FINISHED PHARMACEUTICAL PRODUCTS



PRODUCTION OF APIS



The production of APIs and finished products increased by 16 and 20% respectively in 2010 compared to 2009, in terms of both physical production volume and the number of bulk product and finished product batches. Our production plants outside Slovenia made considerable contributions to this result.

Compared to 2009, production of APIs and finished products increased in 2010 by 16 and 20% respectively, in terms of production volume and number of bulk and finished product batches.

The Krka-Rus subsidiary is expanding its production capacity, which is significant given efforts by the Russian government to boost domestic pharmaceutical production, as it consolidates Krka's status as a domestic pharmaceutical producer. In 2010 we increased packaging capacity by one-third, and started preparations for construction of the new Krka-Rus II production and distribution centre, while we also increased production quantity at the production plant in Jastrebarsko for select products for sale in Croatia and other markets in south-eastern, central and eastern Europe.

What makes this increase in production an even more notable success is the fact that every single product was provided with all the regulatory documentation required for the market, despite the fact that the number of versions of existing and new products increased by a quarter. We maintained the quality of our products and services at a high level, and once more we passed numerous inspections and audits by regulatory bodies and business partners.

We plan production in line with sales forecasts and, for strategically important products, ensure provision of several production sites and purchasing sources for active substances and other materials. Reliability and quality are vital elements in the purchasing materials, equipment and services, while managing and continually reducing purchasing costs are of increasing importance. We closely follow global purchasing trends, and include our suppliers in our regular auditing system, while developing partnerships with them. In 2010 we introduced new alternative sources of inactive substances (excipients) and primary packaging and significantly reduced paper packaging costs.

In 2010 new alternative sources of key inactive substances (excipients) and primary packaging were introduced and paper packaging costs significantly reduced.

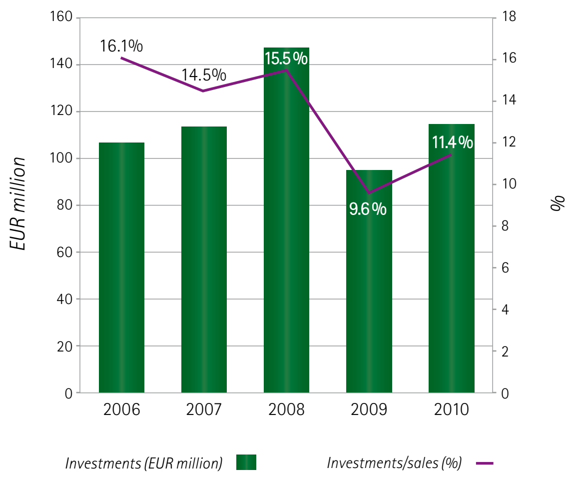
The rapid and high quality transfer of technological procedures for production of bulk products and packaging, subordinate to the production plan in order to satisfy sales requirements, ensures that we can effectively eliminate bottlenecks, implement and optimise utilisation of production capacity and take into account the competitive advantages of the business environments in which we operate.

INVESTMENTS

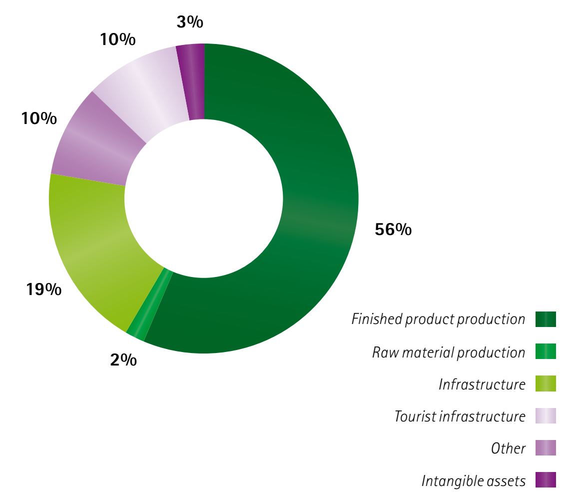
In 2010 we allocated EUR 115.2 million to investment.

In 2010 the Krka Group's investments totalled EUR 115.2 million. Some of the investment activities that were put on hold in 2009 due to the uncertain conditions were added to the 2010 plan.

KRKA GROUP INVESTMENTS 2006–2010



STRUCTURE OF KRKA GROUP INVESTMENTS IN 2010



Over half of all investment in 2010 was allocated to increasing production capacity for finished products.

NEW CAPACITY AND TECHNOLOGIES IN 2010

Modern syrup production and biocide production plant

The modern plant at Bršljin, opened at the end of April 2010, is an important phase in the technological and product development of the Krka Group. Investment in the plant has totalled EUR 26 million. The renovation and upgrade of the premises took place in two phases. In phase one a separate facility was built for biocide production and power infrastructure and material flows were optimised, while the second phase was the construction of a modern new plant for syrup production. The plant is already producing a new liquid animal health biocide and, in separate premises, Herbion and Pikovit syrups.

The planned capacity of the plant is 22 million syrup bottles per year with two shifts. The production processes are fully automated and computer supported, and the plant was constructed in accordance with the latest technological solutions and in line with GMP practice and European standards on health and safety for people and the environment.

New technology project

A development and investment project that will permit the development of new stable bioequivalent generic pharmaceuticals is based on new technology that requires installation of technical equipment – a fluid bed dryer.

Pilot optimisation studies will be carried out on this equipment for processes that will provide knowledge and experience that can be used in transferring procedures and processes to an industrial scale.

The project has cost EUR 3.5 million and was partly financed by the European Union from the European Regional Development Fund. This took place within Operational Programme for Strengthening Regional Development Potentials 2007-2013 and made the company more competitive.

Renovation and expansion of packaging warehouse and start-up of first solar power plant

At the end of November the renovated and expanded high-bay packaging warehouse was opened. This EUR 3.4 million investment improved warehouse flow and reliability and increased capacity by 25%. The innovations led to an increase in warehouse flow of 50%. The new transport system offers the latest in warehouse standards, and is the product of Slovenian contractors.

We are increasing our environmental responsibility by using renewable sources of energy.

Krka's investments are not only aimed at achieving the best possible business results, but also at utilising renewable energy sources and increasing environmental responsibility. We have used new warehouse construction to install our first solar power plant, with which Krka will contribute to CO_2 reduction and produce additional, cheaper electricity.

Spray production line

The planning of new products in spray form led to renovation works taking place in the Solutions and Emulsions plant that will be aimed at preparation of products and premises in the sterile eye ointment plant, where filling will take place on a new line. Test production of sprays (Septolete plus) started in mid-December 2010.

Expansion of liquid raw material storage facility

The investment in expanded warehouse capacity for solvents has ensured a reliable supply of solvents to production plants and other users and safe solvent handling.

The liquid raw material warehouse was expanded with four additional 40 m^3 reservoirs and a platform for movable 1m^3-containers, which will enable warehousing of regenerated solvents, lyes and waste solvents from production plants.

Two major investments come to an end

Work started in June 2009 to build a new solid dosage production (OTO) plant at the Krka production complex in Ločna. This will increase production capacity to 2.5 billion tablets, coated tablets or capsules per year. The plant has five floors with a total surface area of 17,000 m^2, and the value of the investment is EUR 91 million.

The steel building core was put in place and the main construction work finished in 2009. Installation works started in January 2010. The installation work was advanced enough by the end of September to start qualifying machinery and installing technological equipment, which is set for completion in 2012. The technical inspection of the plant is planned for February 2011, with production on the first line planned for the second quarter of 2011.

The growth of Krka sales depends to a large extent on Krka's research and development teams creating new products. The construction of the new Research and Control Centre 3 (RKC-3) will offer the possibility of expanding research and development in terms of quantity and quality, and ensure the quality and control of incoming materials, bulk products and finished products in line with the good laboratory practice standards for new production capacity. RKC-3 will provide the conditions we need to operate state-of-the-art laboratory equipment and to introduce the latest analytical methods we need to maintain our competitive advantage.

We started construction on RKC-3 in September 2009. The facility – with a total net surface area of 11,479 m^2 – is located next to RKC-1 and RKC-2, with which it forms a functional and architectural whole. By the end of 2010 the facility installations were ready for laboratory equipment and furniture to be fitted. Equipment switch-on will take place in parallel with assembly of laboratory furniture and finishing work in the facility will be carried out. The move to the new EUR 22 million premises is planned for the end of June 2011.

OUTSIDE SLOVENIA

In the Russian Federation Krka will start constructing a logistics centre and a new solid dosage pharmaceutical production plant, which will support the flexible and modular development of production capacity in several phases to meet the market's requirements. The investment is also significant in the light of efforts by the Russian government to boost domestic pharmaceutical production, as it consolidates Krka's status as a domestic producer. In 2010 the company increased packaging capacity by one-third and started work for construction of the new production and distribution centre, Krka-Rus II. Six packaging lines will be fitted in phase one. Plant capacity will be between 1.5 and 1.8 billion tablets and capsules per year.

In 2010 building permits were acquired for a new factory in the Russian Federation.

In 2010 Krka acquired the building permits and produced the implementation plans. Production will start in 2013 and the investment value is assessed at EUR 135 million.

Tablet and capsule packaging capacity at the **TAD Pharma** and **Krka Rus** subsidiaries was increased with two new packaging lines. The lines started operating in October 2010.

TERME KRKA

Accommodation and pool capacity and healthcare facilities were expanded at the Hotel Svoboda in Strunjan.

In spring 2010 the hotel's foyer and rooms and the health centre with specialist clinics and physical therapy were all renovated. The renovated swimming pools, hydrotherapy rooms and Salia relaxation centre were opened during the 1 May holidays. The value of this renovation project was EUR 8.6 million.

NEW PROJECTS

Two new projects are currently in the conceptual and planning stage that will address the need for new production capacity for active pharmaceutical substances and solid dosage oral pharmaceutical forms.

In 2010 preparation of project documentation began for the construction of the new plant for solid oral dosage forms, Notol 2. According to the timetable, plan to acquire a building permit will be completed by the end of March 2011, and implementation plans by the end of 2011.

Krka's location for the expansion of chemical production plants in Slovenia is in Krško, where it is building an API production plant: Sinteza 1. The location will also require construction of all the utility infrastructure required to power the new facilities. The construction of Sinteza 1 and its utility infrastructure is in the phase of planning and acquiring consents from the responsible institutions for a building permit. The implementation projects will be produced during 2011.

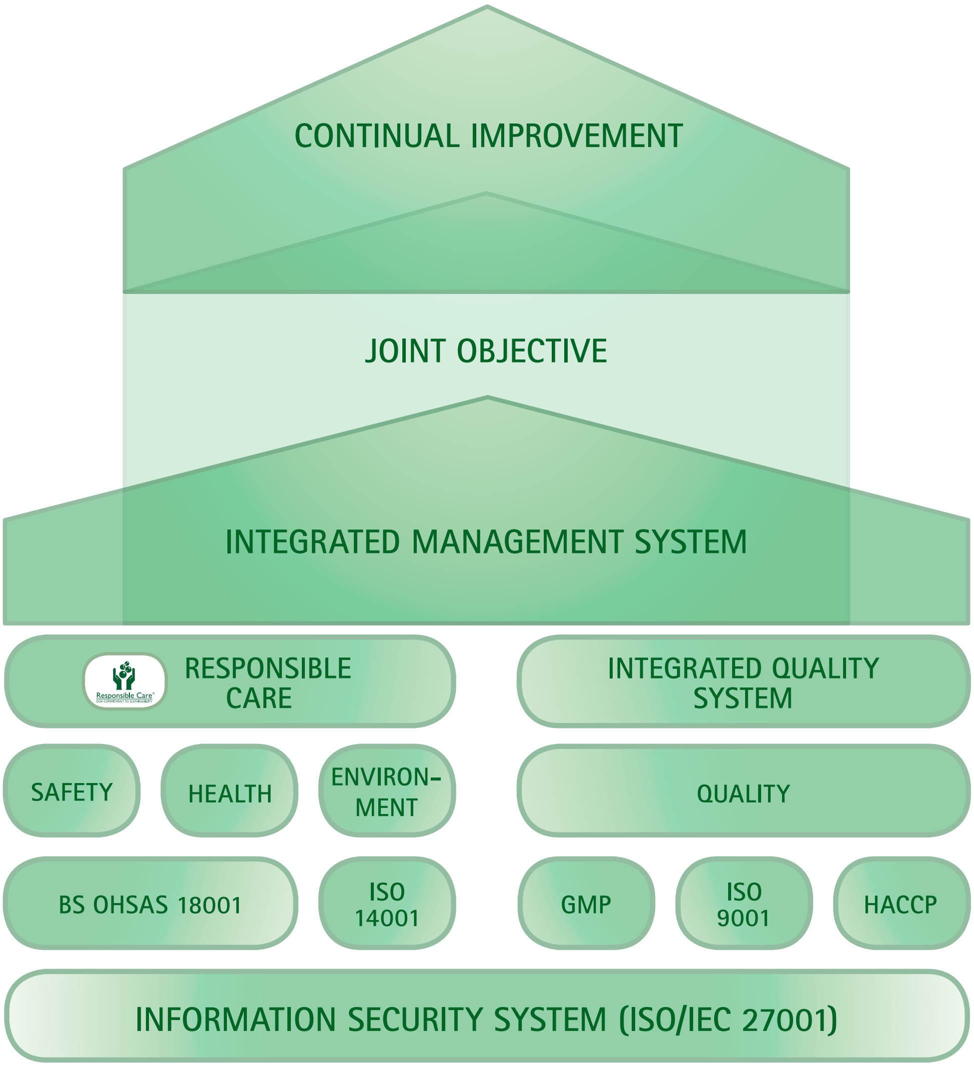
INTEGRATED MANAGEMENT SYSTEM

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

Management system

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 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, BS 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 that electronic document management offers include reduced costs, reduced time from document production to application, easier access, faster document search, and the fact that only electronic documents are 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 inspections by Slovenian and foreign inspectors from agencies and inspectorates demonstrate our compliance with regulatory and legal requirements (good practices, GxP).

The IMS allowed different systems to be managed efficiently and effectively in a standardised manner.

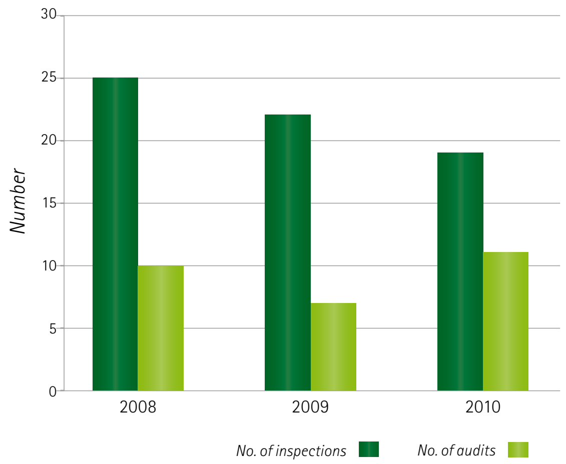


The driving force behind the progress and continual improvement of quality in every area of Krka operations lies in the ongoing changes and advances dictated by the standards and guidelines and the PDCA approach (Plan, Do, Check, Act) on the one hand, and Krka's commitment to such standards on the other. 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 approved in regular inspections by domestic and foreign state regulatory bodies, and assessed by certification organisations and partners. The appropriateness of quality system was recognised by all inspections and audits.

NUMBER OF INSPECTIONS AND ASSESSMENTS IN THE KRKA GROUP



The IMS shows those with an interest of Krka's approach to quality, the environment, health and safety at work, food safety and information security. Good business results confirm the efficiency and effectiveness of the IMS.

- Inspectors from the Agency for Medicinal Products and Medical Devices of the Republic of Slovenia (JAZMP) carried out regular 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.
- 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 successfully performed, with inspectors confirming 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, therefore 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 carried out inspections to verify that conditions are in place to ensure the traceability of feed in three registered plants and compliance with requirements for the issue of veterinary permits for the export of feed additives.
- 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 (Slovenian Institute of Quality and Metrology).
- Two inspections of the research and development facilities were carried out at the end of 2010. The Agency for Medicinal Products and Medical Devices of the Republic of Slovenia (JAZMP) carried out inspections of development laboratories, the Environmental Inspectorate from the Slovenian Ministry of the Environment verified implementation of the provisions of Management of Genetically Modified Organisms Act within Preclinical Research.
- An inspection of the pharmacovigilance system in Krka and its subsidiaries Krka-Polska and TAD Pharma was completed successfully. It was implemented by the UK regulatory agency, MHRA. The inspection was carried out both in London and at the headquarters of the companies, an innovation that will probably be standard practice in future.
- In October 2010 Krka underwent an ISM quality audit for the 15th successive year. A team of eight SIQ auditors 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, BS OHSAS 18001 and ISO/IEC 27001).

Quality assurance processes

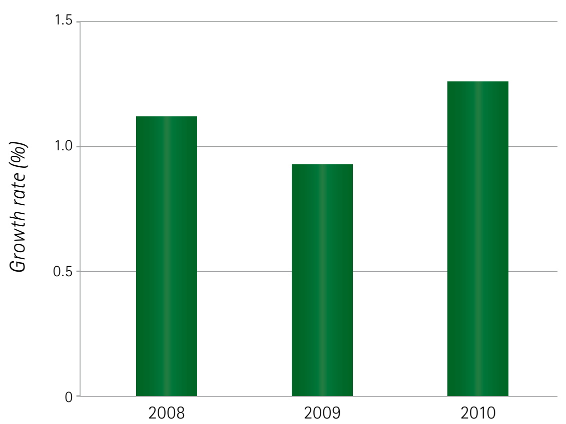
Employing a process-based approach enables effective process management. Krka has six key processes – purpose, boundaries, owners, inputs, output and objectives – that have a significant impact on implementing policy and achieving strategic objectives. Quality assurance processes are part of the company management process and form the basis for other corporate processes.

Krka implements every possible action to ensure the compliance of products for human and animal use that it releases to market – from purchasing to verification of incoming materials and the production process through to verifying compliance of the finished product.

Krka incorporates and manages quality assurance in the research and development field in the earliest possible phases of product development. Such approach leads to assuring the appropriate quality, safety and efficacy of finished products.

Laboratory testing is used to control and guarantee the appropriate quality level for products, incoming materials and the production environment in all production locations. In 2010 there was a 25% increase in the overall scope of laboratory quality control work. Optimal analysis response times are a vital component in realising sales orders and satisfying our customers, and therefore will remain a key objective in future.

PRODUCT BATCH INDEX



The number of product batches for market varies according to sales requirements and production realisation. All production batches are assessed according to internal regulations, good manufacturing practice standards and marketing authorisation documentation before approval for sale.

The information security management system (ISMS) is ISO/IEC 27001 certified. Regular information source risk assessments are carried out and the ISMS is also regularly assessed by external security inspections. Krka's internal rules on archiving documentary material are in accordance with the Slovenian Act on the Protection of Documentary and Archive Material and Archives and are undergoing verification by the Archive of the Republic of Slovenia. Particular attention was paid to expanding and implementing the ISMS system in our subsidiaries and representative offices abroad. The basis for successful ISMS implementation is the education and awareness of the employees, which takes place with the support of modern technologies such as e-learning.

Business continuity measures are being upgraded into the integrated business continuity management system in line with the BS25999 standard.

Document management is a key foundation for quality and company performance, so we ensure that the prominent progress and the transfer to electronic documentation are carefully kept in line with legislative requirements. The change management system for production and control processes was introduced in 1995 and has been continually updated since then. In 2010 a change management system supported by the SAP information system was introduced, which offered considerable advantages, such as faster flow, greater transparency, reduced committee time required to consider changes, time traceability, status traceability, and easier reviewing of implementation.

Every year Krka implements new projects and installs new equipment as part of its expansion of production capacity. The GxP compliance of new projects, processes, machinery, laboratory equipment, process utilities, and climate-control and computer systems is verified before use through validation processes or certification, with that status being regularly checked through re-validation or certification or periodic testing. This validation process has been approved by inspections to date and is implemented through the Krka Company and its subsidiaries Krka-Farma Jastrebarsko, Krka-Rus, Krka-Polska and TAD Pharma.

Improving the quality system

The IMS and quality management system undergo continual improvement, which is 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.

The Krka quality management system is subject to internal audits, external inspections and customer evaluation. The objective of these assessment procedures is the continual improvement of the IMS and the function of all the Krka Group's processes. The management systems of suppliers and contracted partners are also assessed to ensure their product and process quality management remains at a high level of quality, with a focus on the areas that have a key impact on finished product quality. To this end we evaluate individual suppliers and partners and take measures required to keep product quality risk at an acceptable level. We have a clear overview of the quality systems used by our suppliers and contractual partners and define transparent client requirements responsibilities within quality assurance contracts that form an integral part of our raw material and product production process, which together enable us to optimise work processes and reduce time and costs.

Checking our suppliers' and partners' quality systems ensures product quality right through from purchasing materials to the customer.

We directly measure customer satisfaction via customer satisfaction surveys, and indirectly via customer complaint indicators, in order to improve processes and match customer requirements more closely. 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.

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

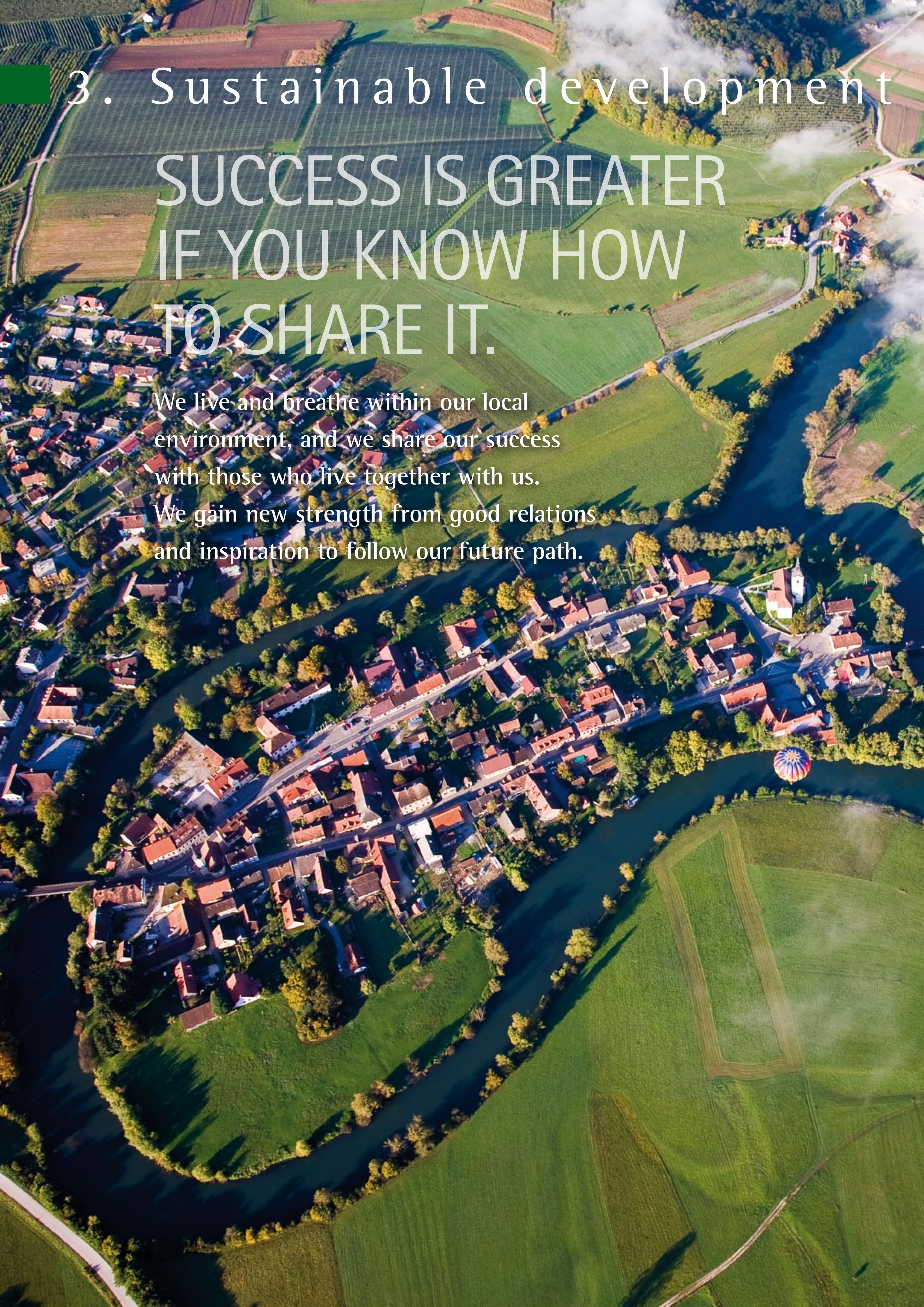
The performance of all major IMS processes is also periodically reviewed by the Quality Committee on the basis of performance criteria. The committee proposes the strategy for further development of these processes.

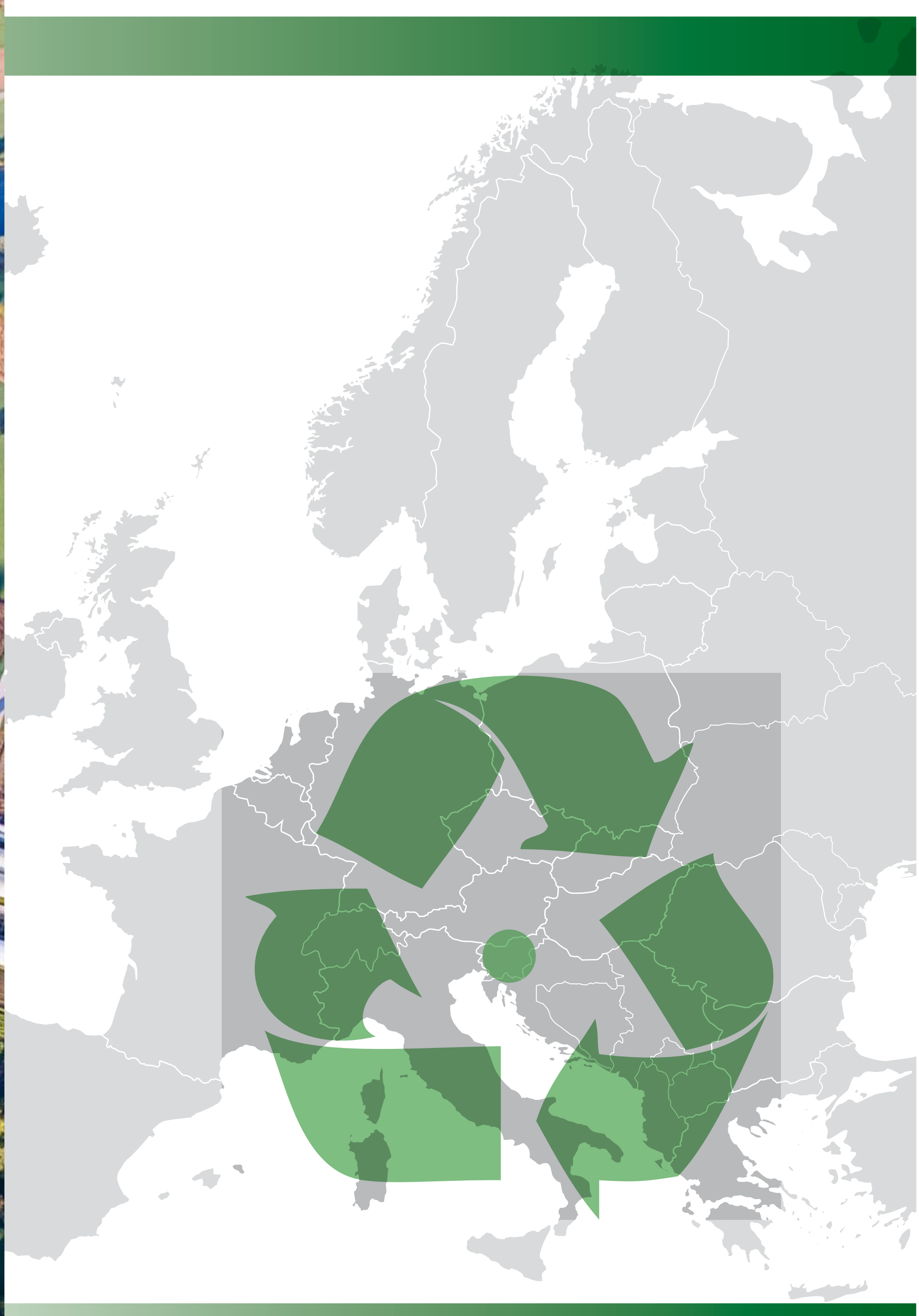
Krka also places special focus on the environment, and occupational health and safety (ISO 14001, OHSAS 18001) as well as open and honest public relations. We regularly inform the public about the improvements we introduce. The proof that our approach is successful and correct is our right to use the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

3. Sustainable development

SUCCESS IS GREATER IF YOU KNOW HOW TO SHARE IT.

We live and breathe within our local environment, and we share our success with those who live together with us. We gain new strength from good relations and inspiration to follow our future path.





Our social responsibility can be seen in our respectful approach to employees, business partners, buyers, suppliers and owners, as well as the broader local communities. We strengthen our close links with our surroundings through cooperation, sponsorship and grants.

EMPLOYEES

KEY DATA

Number of employees: 8,569, of which 52% in Slovenia: 3784 in the Krka Company and 675 in Terme Krka

Average age: slightly under 38 years

Percentage of female employees: 62% (41% of senior management and management positions held by women)

Percentage of employees with at least university qualification: 51%

In 2010 the number of Krka Group employees increased by 594

Organisational effectiveness demands continual change.

The company's competitiveness and performance are based on the continual improvement of internal processes. This is of increasing importance given our intense growth and expansion into new international markets. The Krka Group is becoming increasingly complex, which means we pay very close attention to organisational efficiency. In 2010 we carried out seven major reorganisations, and important changes also took place alongside the restructuring of representative offices as subsidiaries. In 2010 the representative office in Lithuania was restructured as a subsidiary, while work was undertaken to restructure the Ukraine representative office as a subsidiary and to establish a representative office in Kyrgyzstan.

We can only achieve success with well qualified and committed people. The number of employees is growing, especially in companies and representative offices outside Slovenia, in marketing and sales and in Slovenia in production. A total of 4,110 employees already work in Krka companies and representative offices outside Slovenia, which is 48% of all employees in the Krka Group.

The number of employees in Krka representative offices and companies outside Slovenia is on the increase.

Attracting qualified professionals who can contribute to the realisation of our objectives requires systematic work with young people, even before they enter the job market. We offer university and high school students who have already demonstrated a certain talent and ability during their education the opportunity to acquire study grants. We keep close ties with students on study grants, and during internships they also have the chance to demonstrate their knowledge and abilities in practical work. This also offers us the possibility of getting to know future colleagues better, while they are able to find their place in our organisation and come to terms with the work that will provide them with a challenge and source of motivation for continued growth and development. In 2010 Krka had 120 students on study grants, 19 of whom graduated in 2010.

We offer study grants to talented young people.

The need to identify and develop 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 a period of 40 years, we have already awarded 2,327 of them. In 2010 Krka awarded 5 prizes for special achievements in the field of research work, 29 prizes to undergraduate and postgraduate students and 11 for high school students.

At the jubilee 40th edition of the Krka Prizes we were honoured by the presence of the President of Slovenia, Dr Danilo Türk. At the ceremony President Türk presented Krka with a Gold Order of Merit in recognition of its contribution to the successful development of Slovenian society, promoting research and development work among young people, transferring knowledge between universities and the economy and the direct inclusion of young researchers in international cooperation.

We have been awarding Krka Prizes for 40 years.

Krka invests in the development of its own specialists and managers, and provides support for employees gaining higher education qualifications and also offer employees numerous opportunities for development, education and training. 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. The Krka Ethics Code also commits us to respect ethical and professional standards of work, conduct and behaviour.

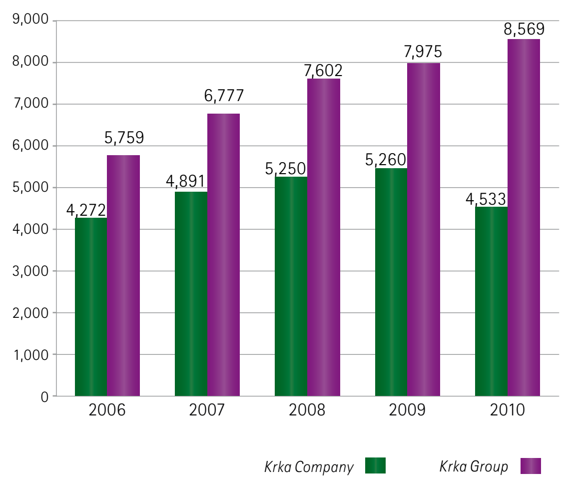
Quality of life and work, social security and ensuring safe working conditions form the foundation of a motivational work environment in which the goals and needs of the individual are connected to the Company's objectives.

The many prizes and awards Krka has been granted are the fruit of systematic work in the human resource sphere involving the corporate leadership, managers, specialist services and other partners. In 2010 Krka won the Top-10 award for investment and successful work in the field of education, was one of the finalists of the Golden Thread awards. The director of Human Resources, Dr Boris Dular, received a gold plaque from the Slovenian Human Resources Association for work in HR management, and Krka again won the title of best reputed employer in Slovenia.

NUMBER OF EMPLOYEES

On 31 December	2010	2009	2008	2007	2006	Index 2010/2009
Krka Company in Slovenia	3,784	3,563	3,380	3,213	3,016	106
Krka Company representative offices outside Slovenia	749	1,697	1,870	1,678	1,256	44
Krka Company	**4,533**	**5,260**	**5,250**	**4,891**	**4,272**	**86**
Subsidiaries outside Slovenia	3,361	2,036	1,673	1,240	857	165
Terme Krka Group	675	679	679	646	630	99
Krka Group	**8,569**	**7,975**	**7,602**	**6,777**	**5,759**	**107**

NUMBER OF EMPLOYEES IN THE KRKA COMPANY AND KRKA 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 in the Krka Group and has already reached 51%. This includes 90 people with doctorates and 245 with master's degrees and specialisations.

Krka employees are highly educated and highly qualified.

EDUCATIONAL STRUCTURE

On 31 December	2010	2009	2008	2007	2006
Doctorate	90	82	76	81	63
Master of science	245	215	178	161	162
University education	4,076	3,730	3,604	2,875	2,408
Higher professional education	780	698	596	619	324
Vocational college education	248	240	225	201	222
Secondary school education	1,711	1,599	1,503	1,404	1,138
Other	1,419	1,411	1,420	1,436	1,442
TOTAL Krka Group	**8,569**	**7,975**	**7,602**	**6,777**	**5,759**

EMPLOYEE EDUCATION AND DEVELOPMENT

The Krka Group invests significantly in the knowledge and development of its employees. The Krka appraisal interview is an important tool in providing effective leadership and 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. In previous years the Krka appraisal interview included employees with secondary, professional and university education and in 2010 the

All employees are involved in Krka appraisal system.

Krka appraisal system was expanded to all employees. Since these appraisal interview can also be a source of motivation and positive mutual relations, it is important that they are carried out correctly, so managers receive additional training for them.

Systematic early identification allows the planned development of promising and talented employees, and their preparation for more complex and responsible tasks via a system of planned education, skills trainings and acquiring experience in numerous areas.

Almost 1,000 or 12% employees were included in the **key and perspective staff scheme**. Considerable emphasis is placed on the skills and development of employees in companies and representative offices abroad. Nearly 400 employees from companies and representative offices abroad have been identified as perspective employees, which is 10% of the total number of employees outside Slovenia. A matrix assessment of the key and perspective staff was used to create a group of top employees with the most outstanding results who have demonstrated definite management or expert potential.

We systematically identify perspective employees.

We are building competence-based systems for various work areas, based on which we determine requirements for knowledge development and upgrading, and the development of employee skills. Competence-based selection questions and tasks allow us to target the most important requirements for a work position during the recruitment process.

Competences also form the basis for creating education and training programmes and evaluating those programmes. The requirements produced by the competence systems are backed by strategies arising from regular measurements of organisational climate.

The need to develop leaders led to the creation of our **own leadership school**, which comprises the Krka International Leadership School, Operational Leadership School and a basic level leadership programme. All three programmes are adapted to different levels of leadership. In an international environment we also provide 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.

Education is a Krka value.

Continual training enables professional and personal development and career advancement. Krka employees also study at universities, institutes and other institutions at home and abroad, with 81 currently enrolled in postgraduate studies for masters' or doctoral degrees or specialisation programmes. In 2010 there were 520 employees studying part-time, who Krka supports by co-financing school fees and offering study leave.

Education and training is organised and implemented in the Company's Training and Development. This involves numerous Krka specialists from a range of different fields. Continual training and education takes place in various specialist fields, in leadership and personal development, foreign language tuition, particularly English and Russian, using modern information technology, and quality.

Krka was one of the first companies in Slovenia to develop programmes for the **national vocational qualifications**. Krka is the only provider in the country for six NVQ programmes for the pharmaceutical industry, and employees from pharmacies and other pharmaceutical companies are included in the courses. In 2010 we awarded certificates to 133 Krka employees. In total we have awarded 753 certificates since 2004, including 142 to participants from pharmacies and other pharmaceutical companies.

Numerous training courses were held for Marketing employees in 2010 at all levels: for medical representatives, district managers, product managers and trainers. Tens of trainers are responsible for developing the skills of employees in the marketing and sales network.

Traditional forms of education are supplemented by e-learning, which is becoming an important form of education given Krka's widespread international network, as it allows us to reach employees in quite distant parts of the world. Employees outside Slovenia carried out 12,000 individual sessions in over 500 'webinars' (e-courses) translated into local languages. Their knowledge can also be tested via various forms of online testing, of which there were over 500 in the marketing network throughout the year, with 18,000 individual testing sessions.

Online training is particularly widespread outside Slovenia and primarily includes marketing staff. In 2010 online courses were also organised in the field of quality about information security, the quality manual and the HACCP-system. For new employees, who take part in a 5-day induction seminar, there is an online course on business e-correspondence.

Online training helps reach more employees.

The benefit of online training lies primarily in the fact that individuals can choose when they study. Online training overcomes great distances and includes numerous participants. It cannot completely replace traditional forms of education and training, especially workshops, team and experience-based teaching, but it is a welcome complementary method that can considerably increase the effectiveness of organisational forms.

The content and forms of education reflect Krka's values, particularly efficiency, flexibility, partnership and creativity.

Every employee in the Krka Group participated in different forms of training in 2010 more than five times. On average they spent **45** hours in training. Education spending is equivalent to **0.63%** of operating revenues.

EMPLOYEE MOTIVATION AND REWARD SCHEME

A performance bonus is paid to all Krka Company employees in Slovenia twice a year, based on performance criteria defined in the business plan.

In companies and representative offices abroad the provisions of local legislation and decisions by the Krka Management Board on these matters are considered. All employees outside Slovenia 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 results they achieve.

Since 1999 Marketing and Sales have selected and rewarded the best medical representatives in the field, with the selection later being expanded to include district managers, product managers, internal trainers and marketing managers. 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. Krka has been recognising the efforts of its most loyal employees for decades with anniversary bonuses and special awards. The ceremony at which we celebrate and recognise these achievements is known as the Krka Awards Day.

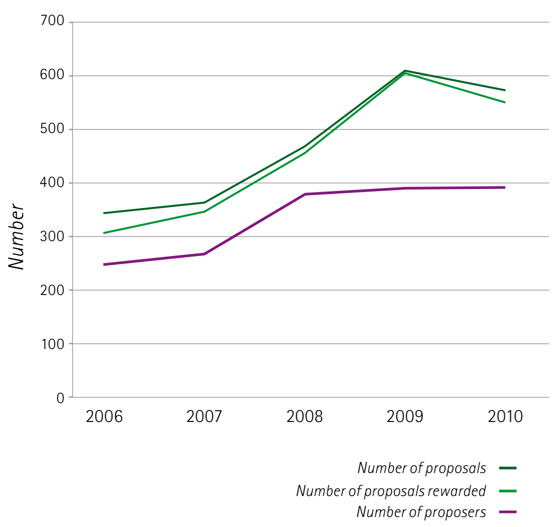
We promote commitment and loyalty, and reward excellence.

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 has 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 within the continual improvement system, the quality system, and hence also the integrated management system.

Employee proposals contribute to reducing costs and improving work processes. In addition to the awards employees receive for each innovative proposal, 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 2010 the number of proposals fell by 6% compared to 2008, while the number of proposers increased by 1%.

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,

We manage risks in the work process.

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).

We have an employee healthcare system that involves the heads of individual organisation 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. By the implementation of this project, sick leave was significantly reduced and stood at 5.1% last year in Slovenia.

Teamwork in employee healthcare produces results.

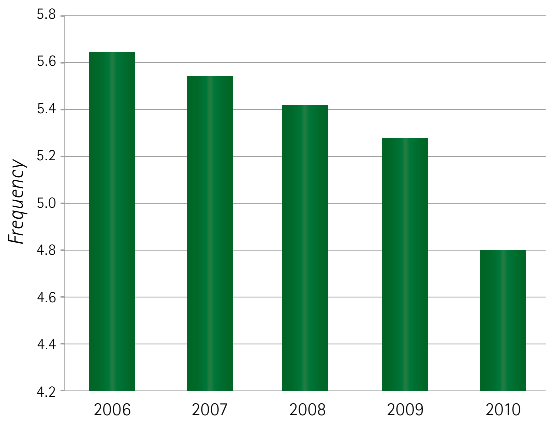
Sick leave within the Krka Group was 4.6%, and maternity leave 3.4%.

A total of 5.8% of employees has a registered disability. In accordance with legislation and regulations and the individuals' disabilities, we have a team of experts to find 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 capacities. Krka also provides appropriate requalification for employees who can no longer perform their duties.

The health and safety at work system is organised in accordance with the **BS OHSAS 18001:2007 standard**, and is fully covered by 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 prepares key objectives and programmes that are submitted to the Management Board for approval.

Data on workplace accidents 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 4.8 in 2010. All accidents were minor.

FREQUENCY OF WORKPLACE ACCIDENTS (LTAR)



No major incident, such as a fire or major spillage of hazardous chemicals, occurred in 2010. The Fire Safety Department and the Industrial Fire Service Crew is responsible for emergency responses. In 2010 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 Krka has organised activities that contribute to increasing our employees' quality of life and quality of work. In all locations in which it is possible, we provide employees with high quality, nutritional warm meals. This also provides a good example and guide to employees about the importance of healthy food.

We offer quality of life to employees and Krka pensioners.

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

Health and interpersonal relations at Krka are supported by organising preventive, recreational and social programmes and a wide range of cultural and sporting events.

In 2010 we continued 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. In 2009 and 2010 over 3000 Krka employees took part in hikes along 11 routes.

The Krka Trim Club organises weekly sporting activities in which over 950 employees take part. Krka has holiday accommodation and also organises 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

We are aware that high quality communications with investors and analysts increase understanding of the Krka business story and make a contribution to achieving the company's objectives. In 2010 we received the Ljubljana Stock Exchange's award for the most transparent public company in Slovenia for the fourth 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 information disclosure policy.

Krka wins most transparent public company award for fourth consecutive year.

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 (special issue of the company's review Utrip prihodnosti, presentation and promotional material for investors)
- Annual General Meetings
- press conferences announcing business results
- communicating with financial media.

Krka regularly participates in meetings with investors on domestic and foreign financial markets. We try to meet all requests for meetings from interested investors or financial and market specialists. In 2010 we initiated over 90 individual meetings with foreign and domestic investors, including the second presentation of Krka to the US investors.

2010 saw the second presentation of Krka to US investors.

Krka's 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 for more information, via telephone on +386 7 331 2109 or via email finance@krka.biz.

Communications with customers

Interactivity and feedback are the guidelines for our communications with customers, based on mutual cooperation, recognition and trust. In line with trends in modern communication, we give ever greater focus to online communications, which allows us to be more interactive and offers greater user involvement.

Customer feedback is a guiding principle in our work.

We classify our customers into four groups according to their status within the pharmaceutical market:
1. institutions (health, regulatory, industrial property services, health insurance etc.)
2. direct customers (distributors, other pharmaceutical companies)
3. indirect customers (pharmacies, hospitals, pharmacists, doctors, veterinaries)
4. final users (patients, consumers).

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 prizes, looking for new research and development solutions and the continual education of our experts.

Another customer group is direct customers, primarily distributors and hospitals. We are well aware how important their satisfaction is, which is the reason we systematically measure and analyse it. We first carried out satisfaction surveys in 2005, and they have been a permanent feature of our work since then. Our objective is to identify key areas for improvement and ensure continued sales growth. The surveys indicate that the satisfaction of direct customers is increasing. In 2010 the average satisfaction score was 4.5 (scale of 1 to 5), the highest to date. This confirms the high quality of our products and sales and post-sales procedures, and also reflects the good reputation Krka enjoys on the market.

One of our most important customer groups is indirect customers, doctors and pharmacists, who form a link between us and our final users, as they prescribe, recommend and dispense our products.

Customer contact is maintained via our large marketing and sales network that covers 34 markets.

We have an effective marketing and sales network in place on 34 markets to ensure good cooperation with doctors and pharmacists. Every year medical representatives in Slovenia and abroad increase their number of visits to doctors and pharmacists, as research indicates that direct contact remains a key factor in establishing new pharmaceuticals and decisions on prescribing and dispensing them.

Our medical representatives develop and maintain contacts with doctors and pharmacists, so we ensure they undergo regular training. We organise regular product-related training for them and communication and sales-skills training. Training increasingly takes place online. Of course, personal contact is never neglected, so we organise meetings in order to exchange experience. We regularly test the knowledge and qualifications of our medical representatives and use the results to select and adapt the content of training.

We also organise numerous specialist gatherings for doctors and pharmacists each year in different countries with a Krka presence. The meetings are becoming increasingly interactive, demanding the active participation of those involved. External lecturers, experts and opinion-formers from a range of fields address current topics of practical value for participants in workshops, round table discussions, symposiums and lectures. Guest satisfaction is tested after every meeting and forms the criterion for organising events in the future. Approval rates are increasingly high.

In 2010 Krka again organised a series of international symposiums, which took place as part of major international congresses: the Hungarian Cardiological Congress in Balaton, the Macedonian Cardiological Congress in Ohrid and the European Gastroenterological Congress in Barcelona.

One method for measuring the satisfaction of final users and direct customers with our products is the many clinical trials we run to test the clinical efficacy and safety of pharmaceuticals. International clinical research is carried out each year for key products. Krka is one of the few generic pharmaceutical companies to carry out clinical trials. The system in place to monitor any adverse effects is in compliance with applicable European requirements and legislation and is standardised across every market.

Krka respects all the complex legal regulations and rules governing communication with final users. In 2010 we strengthened our online presence, increasing the number of websites aimed at the general public. Many product websites (e.g. Pikovit, Septolete, Fitoval) are published in local languages for various markets. Emphasis is given to online activities that increase sales. We continue to publish the e-mesečnik (e-monthly), and continually offer new and topical themes on the public access website www.ezdravje.com (ehealth.com). In 2010 we launched a website aimed at pet lovers: www.klopi-bolhe.com (ticks-fleas.com). We also updated websites addressing specific diseases or conditions (e.g. excess body weight or erectile dysfunction). The websites also allow users to contact us directly via email.

Our web presence is increasing, and we use many other modern communication tools.

Despite the major focus on online activities and online publications, we continue to issue a wide range of print material. Material is prepared for final consumers of self-medication products and consumers on promotion. In Slovenia we have been publishing the magazine Caring for Your Health for five years. The magazine has over 30,000 subscribers, and is available in pharmacies and doctor's waiting rooms. We also issue a series of Caring for Your Health booklets for patients providing information on various common diseases and medicines, with the advice on how to deal with problems and tips on healthy living offering added value for patients. In 2010 we issued a completely new booklet entitled Erectile Dysfunction. For sufferers of depression we issued a diary in the form of a booklet with the title My Companion. These booklets are available in printed form from general and family doctors. More and more patients are reading the booklets on our website: www.krka.si.

Communications with employees

At Krka we know that employees are the key to our success, and the glue that keeps a company and its employees together is good communication. The purpose of the communication is not only to inform employees, but also by encouraging them to provide feedback and suggestions to motivate them as well.

We promote open and two-way communication at every level. That is how we work to create a good working environment, increase the sense of belonging, and build a culture of mutual trust and respect, lifelong learning and responsible and effective work.

We keep employees informed about events within the company via various internal communications tools. People are kept up-to-date with notice on information boards and screens, through the weekly bulletin, Bilten, and the magazine, Utrip, which are published in printed and electronic form on the Intranet and Internet, as well as through meetings between management and worker representatives and through employee assemblies. Every employee can contact the President of the Management Board directly at any time.

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, plans for the coming year, the company's development strategy and other news. Employees can ask questions and put forward proposals.

Krkanet. The internal website is a tool for internal communications, the centralised publication of documents, and support for business processes and project work. The internal portal allows employees to prepare, publish and seek information and documents relating to their work, to cooperate between organisational units, work with shared documents and databases, and to collect and organise data and information in one place. It offers an important form of support for decision-making and project management and for securing information and data.

The internal website is a tool for internal communications, central publication of documents and support for business processes and project work.

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 published in local languages in our companies and representative offices in Poland, Croatia, the Russian Federation and Ukraine.

Utrip. A monthly internal magazine that sets out the company's vision, mission, values, strategy and policies. The varied content is intended to make events within the company as accessible as possible to employees and to summarise useful information in a single place: the management's business decisions, achievements in individual operational areas, and current events within the company and on our markets. In addition to Slovene, in recent years it has also been published in local languages in Poland, Croatia, the Russian Federation and Ukraine. In 2010 it again won a *Papyrus* award as one of the best printed corporate news publication in Slovenia. The award is made by the Slovenian Public Relations Association.

M-Bulletin. A professional monthly aimed at all employees in the marketing and sales network, primarily medical representatives, 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. Information 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

At Krka we are well aware that the media are a valuable partner, therefore we ensure a regular flow of information of importance to key stakeholders: customers, shareholders, consumers, the local community, financial markets and others.

Krka makes all public information and notices available promptly through its online media centre (http://www.krka.si/sl/medijsko-sredisce/), as well as photo and video-material, publications and other public information. In 2010 Krka kept the media informed of business events via quarterly press conferences and numerous press releases. We have also had meetings with journalists at other business events, such as official openings, presentation of new products and other corporate events. We also respond promptly to all questions from the press on an ongoing basis, while respecting the corporate disclosure policy.

Communications with the community

Our strategy is based on the principle of sustainable development, so for a long time the company's progress has been linked to that of the broader community. 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: to care about healthy living and the quality of life of all those in the community in which we work. Our long-term cooperation with the local community and contribution to its development does not just come from sponsorship and grants, but also from actions by individual Krka employees, which is an important part of the Krka tradition.

SPONSORSHIP AND GRANTS

In 2010 the Krka Company allocated EUR 3.6 million to sponsorship and grants, which is 0.4% of total sales. 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 that can contribute to improving the lives of as many people as possible.

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. The largest share is allocated to health and sport, followed by culture, science, education, humanitarian work and support for those whose efforts contribute to protecting the environment. We offer our own products to help people affected by natural disasters or social problems.

Healthcare. Krka allocates considerable funds to health institutions for modernisation and equipment upgrades. In 2010, as a major donor to the Novo mesto General Hospital, Krka donated a magnetic resonance imaging scanner, the very latest equipment which enables safe imaging of the entire body, without presenting any health risk. As we want to contribute to the destigmatisation and successful treatment of mental disorders, in Poland we actively support the Polish Action against Depression Society. Last year we also supported the publication of a book entitled Creativity and Mental Disorders, published by Idrija Psychiatric Hospital to mark Mental Health Day in Slovenia. Krka is also a co-founder of the Slovenian Heart Foundation and has supported its work throughout its existence. In 2010 we supported the traditional concert, which the society organises for its members. For the sixth 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. 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 related dangers.

Social responsibility is one of Krka's basic principles.

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 issues and the Dragotin Kette primary school in Novo mesto, which supports children with special needs. We frequently respond to Red Cross initiatives with donations, we support the work of retirement homes in Novo mesto, and work in different ways to help groups in need of assistance, such as people affected by natural catastrophes or with disabilities. Krka responded to the floods that struck large parts of Slovenia in 2010 with financial support for people affected in the local community. In the Russian Federation we offered assistance to orphans in the children's home in Pavlovo-Posadskiy. We donated Pikovit products and money collected at a charity auction.

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 2010 we presented the jubilee 40th edition of the Krka Prizes. Krka also cooperates with numerous scientific and education institutions in the field of development, research 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 Marjan Kozina Music School, the Dolenjska Museum, and the Krka Wind Orchestra. In 2010 we further developed the Krka book collection with a third monograph entitled River of Stories, in which we published the stories of Krka's growth by employees past and present. Krka celebrated the 200th anniversary of Chopin's birth by organising a concert by the Polish group, the Andrzej Jagodzinski Trio. 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 Gallery in Novo mesto, and the Ljubljana Theatre Club, and hosts creative workshops and a literary section.

Sport. Krka's efforts to fulfil its mission of helping as many people as possible live a healthy life means we devote a significant amount of funding to sport. In general, we sponsor clubs from the wider local region that promote mass participation and work with young people. For many years Krka has sponsored a wide range of sports clubs that bear the Krka name: 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, Grad Otočec golf club and others. We have also supported the ski-flying competition at Planica for many years. In 2010 Krka was a sponsor of the Slovenian Olympics team, supporting the participation of Slovenian athletes in the Winter Olympics in Vancouver, Canada. For three decades we have supported the Krka Trim Club, which offers Krka employees all kinds of sport and recreation.

Environmental protection. A basic principle of our business decisions is being responsible for the quality of life, and that includes placing responsibility for protecting the natural environment at the forefront of our work. In April 2010 we took part in the nationwide voluntary campaign Clean Up Slovenia in a Day, during which Krka employees cleaned and tidied the local environments of the Terme Krka resorts at Otočec, Šmarješke Toplice, Dolenjske Toplice and Strunjan, making our contribution to keeping Slovenia tidy.

Krka employees also care for the environment by saving 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. We have also decided to monitor our everyday actions, in order to reduce pollution and energy use, a small but important step in looking after our planet. Since autumn 2010 we have also cared for the environment with our first electric vehicle, which is used to deliver internal post. Given global trends that demonstrate the rapid development of electric vehicles, we have also installed the first charging station for electric vehicles in the guest car park in front of the administration building. We are sure increasing numbers of people will use electric vehicles in the future out of concern for public health and the environment.

PARTNERSHIPS

We develop partnerships with those we sponsor.

We develop partnership relations with those we sponsor. In addition to financial assistance we also offer organisational support and individuals from Krka participate in a wide range of projects, dedicating their free time to the work of societies.

Once a year we organise meetings for partners whose organisations bear the Krka name. We give a detailed presentation of the company and our corporate identity strategy, and together assess the direction of further cooperation. We cooperate in the leadership of the clubs and societies we support and regularly participate and monitor their progress.

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.

SOCIALLY RESPONSIBLE EMPLOYEES

Our socially responsible actions do not only involve investing money in individual social projects and campaigns, but also take place at the corporate level. 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.

One of the most visible projects, which started in 2009 and continued into 2010, has been the campaign Caring for Your Health – Together We Scale the Heights, in which we worked with the Slovenian Mountaineering and Climbing Association to signpost and do maintenance work on 15 hiking routes. The campaign is aimed at raising awareness about caring for your health. Since the best way to encourage people is by setting an example, in 2009 we organised five hikes and in 2010 six, in which over 3000 walkers took part. On another note, Krka employees and local residents have been involved in fire prevention for over four decades, as members of the Krka Volunteer Industrial Fire Service.

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.

In November 2010, the Krka Company and one of our directors, Zvezdana Bajc, received the 2010 People with Open Arms award for philanthropy, presented by the Slovenian magazine Naša žena.

Environmental communications

Krka's comprehensive approach to environmental protection includes environmental communication with employees and with the local and wider community. All our employees have a high level of awareness of environmental issues, which is enhanced by various forms of training, information provision on Krkanet and through articles in the Utrip internal magazine. We have a special responsibility to the local environment, and above all to local residents. Every second year we hold a meeting with local residents at which we inform them of our actions, results and plans that relate to environmental protection. We take their comments and initiatives into account when preparing environmental objectives and programmes. We also inform the general public of work in this field via the media and various consultations and round-table discussions. We are actively involved in the preparation of environmental legislation and the Environmental and Energy Section at the Dolenjska and Bela Krajina Chamber of Commerce and Industry. We also work together with specialist, scientific and educational organisations.

ENVIRONMENTAL PROTECTION

Planning and implementing environmental action is built into every segment of our operations. At Krka there is a fundamental principle: we must keep the environment we work in healthy. Through the high level of environmental awareness of all Krka employees, our basic line of business, and tangible environmental action we work to continually improve people's quality of life and the natural environment.

The environmental standard and environmental legislation

Attitudes to the environment are of increasing importance to customers, employees and all stakeholders, which is part of the reason that Krka introduced the ISO14001 environmental standard. This was our commitment to taking a systematic approach to environmental protection that we will continually upgrade. Our guiding principle in implementing a responsible approach to the environment is a clearly defined environmental policy. We monitor the voluminous environmental legislation and put it into practice through short-term environmental programmes and objectives. We reduce emissions into the environment by using the best available techniques as much as possible. Over the years progress has been made in every area of environmental protection.

Environmental protection permits

The Novo mesto site has been granted an integrated environmental protection permit.

In April 2010 Krka acquired an integrated pollution prevention and control permit for the Ločna site, the most important environmental permit for plant operation. The IPPC permit is based on the requirements of the EU directive on integrated pollution prevention and control (IPPC-Directive 96/61/EC), and the requirements of national legislation.

It includes a list of all sources of emissions into the environment and prescribes procedures required for emissions management, the reduction of emissions into air and water, the management of noise and electromagnetic radiation, efficient energy use and all natural resources and the storage of hazardous substances. It also defines the scope of emission monitoring, maximum permitted concentrations and annual quantities of substances discharged into the environment. Through responsible environmental management from product development to the finished product and through appropriate technical and other measures Krka complies with the permits requirements in full.

Environmental permits for emissions to water were also acquired for the Bršljin and Šentjernej plants, and procedure is underway to acquire the permit for the Ljutomer plant.

Environmental protection training

Krka works continually to involve all employees in carefully planned education, training and information provision in order to increase awareness of the importance of environmental protection. Content from this field is now part of the introductory training for new employees. Environmental protection themes are regularly addressed in the internal newspaper and on the internal website.

Krka permits institutions from all levels of education to visit and view our state-of-the-art environmental protection technology, to support their delivery of educational programmes. Students and junior researchers have produced work under the mentorship of Krka specialists responsible for environmental protection.

Significant environmental protection achievements in 2010

- Reduced quantity of mixed solid waste by 3%
- Replaced wet-type air filtration system with dry-type de-dusters in tablet production plant
- Acquired IPPC permit for Ločna site
- Acquired environmental permit for emissions to water for Beta Šentjernej plant
- Introduction of Energy Monitoring and Targeting system at all production locations in Slovenia
- Installation of solar power plant and industrial heat pumps
- Purchase of electric vehicle for local transport
- Signed up to joint plan for management of unused waste pharmaceuticals issued on Slovenian market.

Environmental protection objectives and programmes for 2011

- Ensuring pollution levels from waste water treatment plant are below legal thresholds and reducing the load on Krka river to a minimum
- Cooperating in the introduction of a project to use organic production waste as landfill cover material
- Reducing emissions of volatile organic compounds to air
- Educating and informing employees about environmental protection and efficient energy use
- Reconstructing energy systems to improve efficiency
- Reducing the quantity of mixed waste
- Acquiring environmental permit for emissions to water for Ljutomer plant
- Organising meeting with local residents.

Environmental protection costs

Over the past five years Krka has invested over EUR 24.7 million in environment protection (running costs and investments). The value of investments fluctuates over the year depending on the volume of environmental protection projects. In 2010 environmental protection running costs increased by 17% to EUR 4.2 million due to new legal obligations and increased production, while investments were worth EUR 959 thousand.

Use of natural resources

WATER

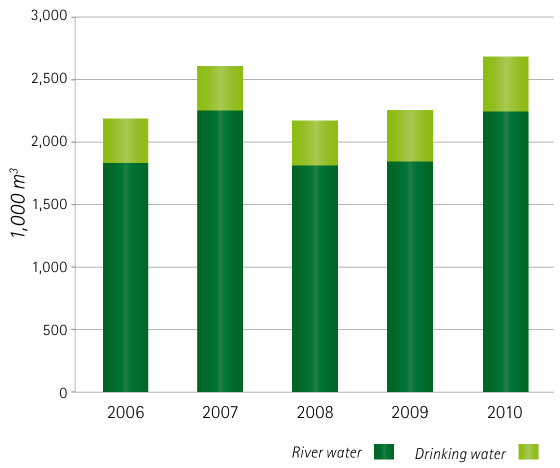
People rightly talk of water as a source of life, so vital that it must be protected, because correct handling of water is an essential part of keeping the environment healthy for future generations.

DRINKING WATER AND RIVER WATER

Drinking water is precious, so we apply a wide range of measures to limit its use. All Krka's water systems comply with HACCP system requirements. In order to prevent major losses of drinking water from leaks over 90% of the water supply network has been replaced in the past five years and placed on pipe bridges. Most of the drinking water Krka utilises is a raw material for the preparation of high quality purified waters used in the production of pharmaceutical products, making use of modern membrane technology (ultrafiltration, reverse osmosis). Where possible we replace drinking water with industrially-prepared water, which is drinking-water quality but is sourced from river water. Regular notification and employee training ensures rational water use on all Krka locations. Although production increased significantly in 2010, drinking water consumption only grew by 3%.

Most of the river water we use is for cooling via heat conductors, especially for API production. The remainder is used for preparation of various forms of process water for energy and production needs. Due to the increased physical scope of API production, the use of river water also increased in 2010, but ongoing action on efficient energy use ensured it only increased by around 20%.

DRINKING WATER AND RIVER WATER



ENERGY

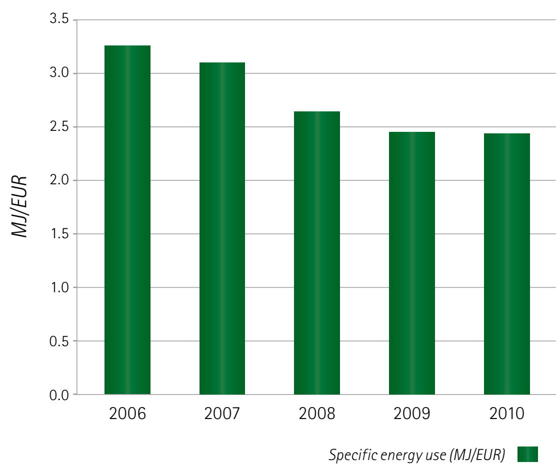
Krka's main sources of energy are:

- natural gas
- liquid petrol gas (LPG)
- electricity, and
- extra light fuel oil, as a back-up fuel.

SPECIFIC ENERGY USE

In recent years, specific energy use has been falling, due to numerous energy efficiency measures. Compared to 2009, specific energy use was slightly reduced despite a significant increase in production volume.

SPECIFIC ENERGY USE



ENERGY EFFICIENT INVESTMENT

Krka's responsible approach to efficient energy management and environmental protection overall is also demonstrated in its energy efficient investment. The company continually improves its investment management. Key energy indicators are defined for each investment at the very start. Projects take into account the most efficient energy use and the lowest possible environmental load. Investment results are monitored on a regular basis. In addition to investment costs, planning also includes full life-cycle plant operating costs, and energy reviews are carried out if required before major investments or upgrades.

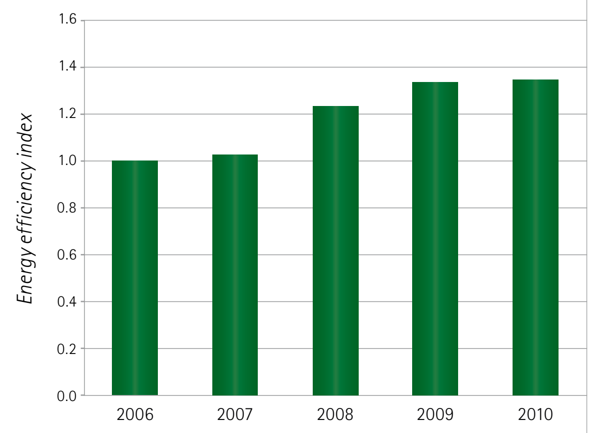
The continual increase in production volume over the past year has led us to invest in increasing cooling capacity required for technology and climate control systems. In addition to highly efficient cooling compressors, we have also installed a heat engine that produces cooling energy required for climate control systems. Waste heat is produced as a by-product, which is fully utilised to supplement the district heating system. In this way we have reduced the environmental load by over 600 tonnes of CO_2 per year.

Krka has also invested in the modernisation of the compressed air production station. With all the system upgrades, we assess that we have increased the energy efficiency of compressed air production by over 10%, representing a reduction in CO_2 emissions of 280 tonnes per year.

First industrial heat pump installed.

ENERGY EFFICIENCY INDEX

The specific energy use has been reduced by over 26% in the past five years, while the energy efficiency index has increased by 35%.



FIRST SOLAR POWER PLANT IN THE KRKA GROUP

The solar power plant produces enough power to serve 16 households.

The Krka Group's first solar power plant was installed as part of the extended packaging warehouse complex. The plant includes 348 modules for electricity production arrayed in an area of 1048 m^2 with a total power output of over 80 kW. The solar power plant will annually produce sufficient energy to serve the equivalent of 16 households. This represents a reduction in CO_2 of 33 tonnes in year.

If solar power plants prove technically, economically and environmentally justified, they will be installed in all Krka new-build projects.

First electric delivery vehicle

Another feature of Krka's environmental commitment is the first electric delivery vehicle, which will be used to distribute internal post around Krka's locations in the broader area of Novo mesto and Šentjernej. Given global trends that demonstrate the rapid development of electric vehicles, the guest car park already features our first charging station for electric vehicles.

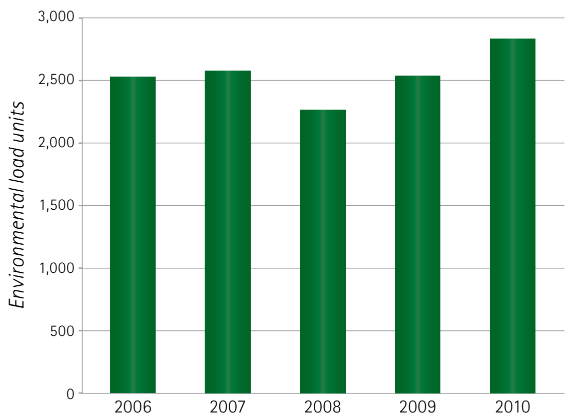
Emissions

WASTE WATER

In 2010 Krka treated 997,216 m^3 of waste water in its own waste water treatment plant. The main increase compared to 2009 came in the quantity of waste water from chemical synthesis. Despite the greater load in terms of the composition and quantity of waste water with expert management of the technologically complex waste water treatment plant, Krka ensures highly effective cleaning and outflow quality that meets legal requirements. Pilot tests on sludge stabilisation were concluded and research continued into possibilities for chemical pre-treatment of chemical synthesis waste water.

Waste water from the Bršljin and Ljutomer plants is appropriately treated at joint municipal waste water treatment plants. At the Šentjernej plant pre-treatment of waste water takes place in the plant's own waste water treatment plant. In future treatment will take place in full at the municipal waste water treatment plant in Šentjernej.

In 2010 an environment permit for emissions to water was acquired for the Bršljin site, with permits anticipated for the Ljutomer site in 2011.

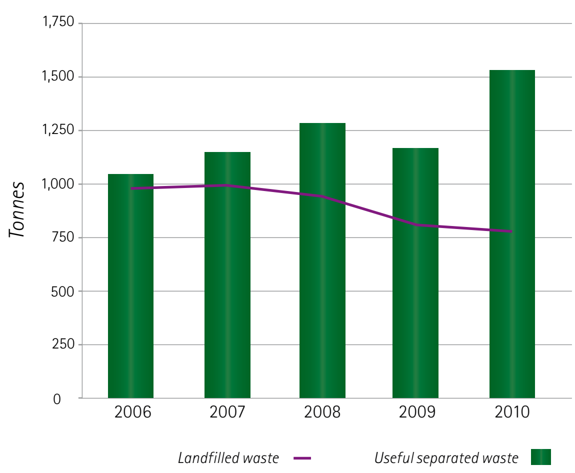


*Environmental load units (ELU) represent the prescribed mathematical calculation of pollution from all waste water outlets (Krka: Ločna, Šentjernej, Bršljin and Ljutomer). The calculation takes into account the annual waste water flow, organic pollution, nitrogen, phosphorous and suspended- solids, and the impact of waste water treatment.

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. Krka was successful in these efforts in 2010. There was a reduction of 25 tonnes in the quantity of production waste sent to landfill compared to 2009. This was achieved by harvesting high energy waste and directing it into energy use and by composting all herb waste. In 2010 a total of 1533 tonnes of useful separated waste (paper, plastic, glass, metal, wood), which is 30% more than in 2009. We are continually improving the separate waste collection system by organising waste collection points and purchasing new equipment.

USEFUL SEPARATED WASTE



NOISE

The installation of new equipment with reduced noise emissions into premises and the installation of additional noise pollution prevention measures has ensured minimal emission of noise into the environment. All measurement results are below the legally-defined threshold and below the threshold that would cause disturbance to the local environment.

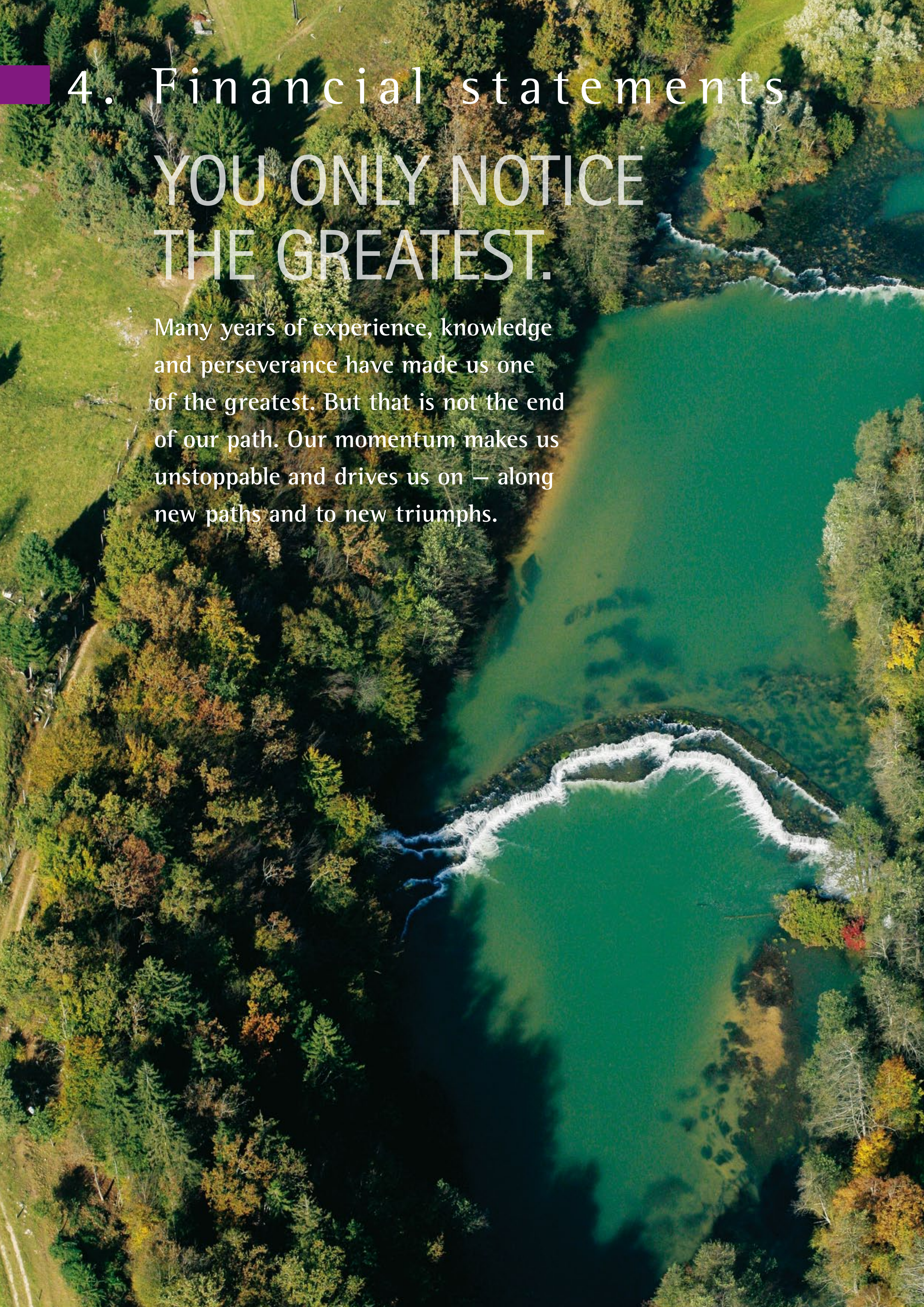
AIR EMISSIONS

Air emissions were reduced by cleaning systems fitted to all outlets constituting a potential source of air pollution. Using effective de-dusting systems, filters, wet-type filtration systems, condenser columns and thermal oxidisers keeps air emissions below the legal threshold values and at the level achievable with the best technology available for air emission reduction. Absolute filtration is applied to all particle outlets to air, ensuring complete removal of all particles. A general overhaul of thermal oxidisers has increased the effectiveness of volatile organic compound removal from chemical production waste air.

Environmental protection at Krka's foreign subsidiaries

Environmental protection is being increasingly incorporated in the operations of Krka's subsidiaries outside Slovenia. Emissions into the environment are managed 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 municipal waste water treatment plants, and particle emissions are reduced by installing filtration devices.

4. Financial statements



YOU ONLY NOTICE THE GREATEST.

Many years of experience, knowledge and perseverance have made us one of the greatest. But that is not the end of our path. Our momentum makes us unstoppable and drives us on – along new paths and to new triumphs.

Achieving great results is the common aim of every Krka employee. It is the only way we can continually develop and grow.

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') as adopted by the European Union, which is in compliance with the resolution adopted at the 11th Annual Meeting held on 6 July 2006.

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 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 2010.

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, as adopted by the European Union.

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, 18 February 2011

CONSOLIDATED FINANCIAL STATEMENTS OF THE KRKA GROUP

STATEMENT OF CONSOLIDATED FINANCIAL POSITION

in EUR thousand	Notes	31 Dec 2010	31 Dec 2009
Assets			
Property, plant and equipment	13	686,461	649,146
Intangible assets	14	122,815	126,581
Deferred tax assets	17	27,505	22,392
Long-term loans	15	4,312	4,064
Non-current investments	16	5,238	5,658
Other non-current assets		175	181
Total non-current assets		**846,506**	**808,022**
Inventories	18	229,343	181,646
Trade and other receivables	19	402,686	334,906
Short-term loans	15	1,227	2,213
Current investments, including derivatives	16	653	834
Cash and cash equivalents	20	7,789	13,411
Total current assets		**641,698**	**533,010**
Total assets		**1,488,204**	**1,341,032**
Equity			
Share capital	21	59,126	59,126
Own shares	21	–21,749	–19,489
Reserves	21	159,233	150,494
Retained earnings	21	855,140	728,554
Equity holders of the parent		**1,051,750**	**918,685**
Non-controlling interest	21	1,577	1,684
Total equity		**1,053,327**	**920,369**
Liabilities			
Long-term borrowings	23	67,214	105,113
Provisions	24	108,889	107,404
Deferred revenue	25	7,138	6,895
Deferred tax liabilities	17	19,468	18,422
Total non-current liabilities		**202,709**	**237,834**
Trade payables	26	91,386	72,500
Short-term borrowings	23	57,910	51,084
Income tax liabilities		9,814	1,695
Other current liabilities	27	73,058	57,550
Total current liabilities		**232,168**	**182,829**
Total liabilities		**434,877**	**420,663**
Total equity and liabilities		**1,488,204**	**1,341,032**

CONSOLIDATED INCOME STATEMENT			
in EUR thousand	Notes	2010	2009
Revenues	6	1,010,021	953,038
Production cost of goods sold		–385,409	–370,244
Gross profit		**624,612**	**582,794**
Other operating income	7	11,888	102,786
Distribution expenses		–256,619	–289,185
R&D costs		–90,924	–88,283
Administrative expenses		–77,486	–73,120
Operating profit		**211,471**	**234,992**
Financial income	11	7,972	1,070
Financial expenses	11	–8,071	–11,740
Net financial expenses		**–99**	**–10,670**
Profit before tax		**211,372**	**224,322**
Income tax expense	12	–40,454	–50,637
Profit for the period		**170,918**	**173,685**
Attributable to:			
– equity holders of the parent		171,025	173,766
– non-controlling interest		–107	–81
Basic earnings per share (in EUR)	**22**	**5,06**	**5,14**
Diluted earnings per share (in EUR)	**22**	**5,06**	**5,14**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME			
in EUR thousand	Notes	2010	2009
Profit for the period	**21**	**170,918**	**173,685**
Other comprehensive income for the period:			
Changes in retained earnings	21	0	–126
Changes in fair value of financial assets available for sale	21	–421	–686
Deferred tax effect – change in fair value of financial assets available for sale	21	84	170
Deferred tax effect and tax effect of transition to IFRS	21	0	–37
Translation reserve	21	3,682	–242
Deferred tax effect – translation reserve	21	–1,866	–202
Total other comprehensive income for the period		**1,479**	**–1,123**
Total comprehensive income for the period		**172,397**	**172,562**
Attributable to:			
– equity holders of the parent		172,504	172,701
– non-controlling interest		–107	–139

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in EUR thousand	Share capital	Own shares	Reserves: Share premium	Reserves: Legal reserves	Reserves: Statutory reserves	Reserves: Fair value reserves	Reserves: Translation reserve	Retained earnings: Other revenue reserves	Retained earnings: Net profit for the period	Retained earnings: Net profit carried forward	Total equity holders of the parent	Non-controlling interest	Total equity
Balance at 1 Jan 2010	**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**
Profit for the period	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**171,025**	**0**	**171,025**	**–107**	**170,918**
Other comprehensive income for the period													
Changes in fair value of financial assets available for sale	0	0	0	0	0	–421	0	0	0	0	–421	0	–421
Deferred tax effect – change in fair value of financial assets available for sale	0	0	0	0	0	84	0	0	0	0	84	0	84
Translation reserve	0	0	0	0	0	0	3,682	0	0	0	3,682	0	3,682
Deferred tax effect – translation reserve	0	0	0	0	0	0	–1,866	0	0	0	–1,866	0	–1,866
Total other comprehensive income for the period	**0**	**0**	**0**	**0**	**0**	**–337**	**1,816**	**0**	**0**	**0**	**1,479**	**0**	**1,479**
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**0**	**–337**	**1,816**	**0**	**171,025**	**0**	**172,504**	**–107**	**172,397**
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	52,000	–52,000	0	0	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	0	0	–106,766	106,766	0	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	0	0	62,285	0	–62,285	0	0	0
Formation of reserves for own shares	0	0	2,260	0	0	0	0	0	–2,260	0	0	0	0
Repurchase of own shares	0	–2,260	0	0	0	0	0	0	0	0	–2,260	0	–2,260
Dividends paid	0	0	0	0	0	0	0	0	0	–37,179	–37,179	0	–37,179
Total transactions with owners recorded in equity	**0**	**–2,260**	**2,260**	**0**	**5,000**	**0**	**0**	**114,285**	**–166,026**	**7,302**	**–39,439**	**0**	**–39,439**
Balance at 31 Dec 2010	**59,126**	**–21,749**	**123,252**	**14,990**	**27,184**	**1,767**	**–7,960**	**684,639**	**111,765**	**58,736**	**1,051,750**	**1,577**	**1,053,327**

in EUR thousand	Share capital	Own shares	Reserves					Retained earnings			Total equity holders of the parent	Non-controlling interest	Total equity
			Share premium	Legal reserves	Statutory reserves	Fair value reserves	Translation reserve	Other revenue reserves	Net profit for the period	Net profit carried forward			
Balance at 1 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**
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**

CONSOLIDATED STATEMENT OF CASH FLOWS			
in EUR thousand	Notes	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		**170,918**	**173,685**
Adjustments for:		**126,354**	**134,560**
– amortisation/depreciation	13,14	81,721	76,675
– foreign exchange differences		–97	–44
– investment income		–1,453	–1,328
– investment expense		1,926	3,363
– interest expense and other financial expense		3,803	5,421
– income tax	12	40,454	50,636
– other		0	–163
Operating profit before changes in net operating current assets		**297,272**	**308,245**
Change in trade receivables		–75,583	–85,195
Change in inventories		–47,697	29,701
Change in operating debts (liabilities)		18,884	2,504
Change in provisions		1,485	–42,193
Change in deferred revenue		243	1,476
Change in other current liabilities		15,425	7,814
Income taxes paid		–28,513	–56,612
Cash generated from operations		**181,516**	**165,740**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		803	737
Dividends received	11	9	13
Proceeds from sale of property, plant and equipment		516	1,649
Purchase of intangible assets	14	–7,251	–8,065
Purchase of property, plant and equipment	13	–107,922	–83,419
Proceeds from sale of property, plant and equipment		–1,373	–1,238
Purchase of intangible assets		1,063	1,034
Purchase of property, plant and equipment		–36	–65
Proceeds from sale of property, plant and equipment		42	219
Payments/Proceeds in connection with current investments and loans		1,534	–1,041
Payments in connection with derivative financial instruments	11	0	–1,035
Net cash used in investing activities		**–112,615**	**–91,211**
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		–4,278	–6,942
Repayment of long-term borrowings		–38,653	–29,541
Acquisition of long-term borrowings		0	60,000
Repayment/Acquisition of short-term borrowings		8,029	–56,586
Dividends paid		–37,097	–35,327
Repurchase of own shares	21	–2,260	0
Net cash used in financing activities		**–74,259**	**–68,396**
Net increase/decrease in cash and cash equivalents		**–5,358**	**6,133**
Cash and cash equivalents at beginning of period		13,411	7,604
Effect of exchange rate fluctuations on cash held		–264	–326
Net cash and cash equivalents at end of period		**7,789**	**13,411**

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 2010 relate 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 financial statements

STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union and in compliance with the Companies Act.

The consolidated financial statements were approved by the Company's Management Board on 18 February 2011.

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 14 Impairment testing of the trademark and goodwill,
- Note 24 Measurement of defined benefit obligations,
- Note 24 Provisions for lawsuits and contingent liabilities,
- Note 29 Valuation of financial instruments.

2. Significant accounting policies

The Group applies the same accounting policies in all periods presented in the accompanying consolidated financial statements.

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

Intragroup 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 exchange 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.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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 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 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 consolidated 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.

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 and trademarks) 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 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 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, 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 has left 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.

DEFERRED REVENUE

Deferred revenue referring to government grants is initially recognised when there is reasonable assurance that it will be received and that the Group will comply with the conditions associated with the grants. Deferred revenue that compensates the Group for expenses incurred is recognised in profit or loss on a systematic basis in the same periods in which the revenue is recognised. Revenue that compensates the Group for the cost of an asset is recognised in profit or loss on a systematic basis over the useful life of the asset.

FINANCIAL INCOME AND EXPENSES

Financial income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, 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 Group 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 Eastern 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 IAS 24 Related Party Disclosure (effective for annual periods beginning on or after 1 January 2011)

   The amendment exempts government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption.

The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel).

Revised IAS 24 is not relevant to the Group's financial statements as the Group is not a government-related entity and the revised definition of a related party is not expected to result in new relations requiring disclosure in the financial statements.

2. Amendment to IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011)

   The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required.

   The amendments to IFRIC 14 is not relevant to the Group's financial statements as the Group does not have any defined benefit plans with minimum funding requirements.

3. IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010)

   The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a 'debt for equity swap' are consideration paid in accordance with IAS 39.41.

   The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognized in profit or loss.

   The Group did not issue equity to extinguish any financial liability during the current period. Therefore, the Interpretation will have no impact on the comparative amounts in the Group's financial statements for the year ending 31 December 2010. Further, since the Interpretation can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the Interpretation will have.

4. Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods 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.

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 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 within the Note 29 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 individual markets continued in 2010 and resulted in an increase of total trade receivables. The quality of trade receivables in terms of the aging structure and the assessed risk remained basically unchanged.

No significant receivable write-offs due to default have been recorded in the reporting period. Detailed information on credit risk exposure is presented in the note 'Financial instruments'.

The credit control for the Group is conducted by the Finance Department of the controlling company on a centralised basis, whereas all customers are subject to unfirm procedures and terms.

LIQUIDITY RISK

The solvency of the controlling company and subsidiaries remained at an optimum level in 2010 which is mostly attributable to a strong cash flow from operations and low indebtedness. This further enabled financing under most favourable conditions and terms.

Based on its high credit standing and solvency, Krka attained far more favourable interest rates in 2010 for short-term and long-term loans as this is common for companies in Slovenia.

The liquidity risk is managed by the Group on a centralised basis. Future cash requirements are established on a weekly basis with the support of all subsidiaries. Possible cash deficits are secured in advance by banks based on agreed-upon credit lines, while occasional cash surplus is allocated to short-term bank deposits.

As for the bank balance of subsidiaries, an efficient cash management is provided on a Group level.

Liabilities associated with debt servicing decreased in 2010 and represented a low liquidity risk. Values of contractual cash flows arising from financial liabilities in terms of maturity are presented in the note 'Financial instruments' (Liquidity risk).

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.

As for all above stated foreign currencies the Group records excess of assets over liabilities.

The value of items expressed in US dollars declined significantly as most of the markets started to conduct their transactions in local currencies or the euro. Accordingly, the US dollar exchange rate is no longer considered to have a major direct impact on the Group's exchange differences.

No derivatives were used in 2010 for hedging against currency risk. As a result of the Eurozone debt crisis and consequently the weak euro value, the exchange rates were quite favourable for the Group for most of 2010.

First half of 2010 recorded a strong appreciation of individual currencies which resulted in high exchange differences. They gradually decreased over the year and by the end of 2010 the Group recorded exchange gains. More information relating to the currency risk is provided within the financial statements under the note 'Financial instruments'.

INTEREST RATE RISK

By the end of 2010 the Group recorded five long-term borrowings with a 6-month EURIBOR reference rate. No new borrowings were raised in the reporting period. As the annual instalments are regularly repaid, the exposure to interest rate risk has decreased in comparison to total borrowings in 2009. More information relating to the interest rate risk is provided within the financial statements under the note 'Financial instruments'.

2010 recorded a low level of interest rates, which however slightly increased in the last few months. The difficult financial situation prevailed in 2010 as well as expectations regarding low interest rates, hence no interest rate hedge instruments were applied in 2010.

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 equity holders of the parent and the average value of the equity holders of the parent. For the past five years, the average return on equity (ROE) was recorded at 20.3%.

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. At the 14th Annual Meeting held on 2 July 2009, the shareholders adopted a resolution authorising the Management Board of the controlling company 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 of the Krka Group. Furthermore, the purchase price must not exceed 30-fold the earnings per share held by the equity holders of the parent 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 Meeting took place.

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. Neither the controlling company nor its subsidiaries are 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	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Revenues to non-Group companies	**633,862**	**626,214**	**87,648**	**86,160**	**264,898**	**225,745**	**23,613**	**14,919**	**1,010,021**	**953,038**
Revenues to Group companies	**145,728**	**120,679**	**62,081**	**52,822**	**132,025**	**84,610**	**0**	**0**	**339,834**	**258,111**
Revenues from reversal of provisions and other revenues	9,037	99,234	186	0	2,665	0	0	3,552	11,888	102,786
Operating profit	**162,456**	**192,968**	**24,084**	**19,661**	**21,422**	**16,366**	**3,509**	**5,997**	**211,471**	**234,992**
Interest income	675	720	9	13	115	6	0	0	799	739
Interest expense	–3,567	–5,110	–24	–31	0	0	0	0	–3,591	–5,141
Net financial income/expenses	**–106**	**–10,779**	**–1,066**	**250**	**993**	**–172**	**80**	**31**	**–99**	**–10,670**
Income tax expense	–34,701	–38,073	–4,720	–4,240	–970	–7,514	–63	–810	–40,454	–50,637
Profit for the period	**127,649**	**144,116**	**18,298**	**15,671**	**21,445**	**8,680**	**3,526**	**5,218**	**170,918**	**173,685**
Investments in property, plant and equipment, and intangible assets	108,051	90,554	474	0	6,647	934	0	0	115,172	91,488
Depreciation of property, plant and equipment	54,005	51,562	4,968	4,893	11,433	9,625	411	396	70,817	66,476
Amortisation of intangible assets	8,133	7,851	722	717	1,920	1,542	129	89	10,904	10,199
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Total assets	**1,094,719**	**1,032,586**	**96,806**	**89,927**	**283,746**	**208,465**	**12,933**	**10,054**	**1,488,204**	**1,341,032**
Total liabilities	**270,408**	**277,412**	**33,239**	**34,874**	**122,723**	**102,588**	**8,507**	**5,789**	**434,877**	**420,663**

Segments within the financial statements differ from the sales regions presented in the Group's Business Report. Segments mentioned in the Business Report herein. The stated segments are earmarked for the management and correspond to the manner of the Group's management. In the Business Report, the sales are presented in terms of regions and groups of products and services and considering the management within sales and marketing. As for the Group's structure of revenues, none of the customers generated 10% or more among total revenue.

6. Revenues

in EUR thousand	2010	2009
Revenues from the sale of products	919,857	866,337
Revenues from the sale of services	34,402	44,008
Revenues from the sale of material and merchandise	55,677	42,602
Other revenues	85	91
Total revenues	**1,010,021**	**953,038**

7. Other operating income

in EUR thousand	2010	2009
Reversal of provisions and deferred revenue	765	93,249
Profit from the sale of property, plant and equipment and intangible assets	591	439
Other operating income	10,532	9,098
Total other operating income	**11,888**	**102,786**

8. Costs by nature

in EUR thousand	2010	2009
Cost of goods and material	268,819	213,730
Cost of services	205,667	193,035
Employee benefits cost	258,235	239,380
Amortisation/Depreciation	81,721	76,675
Formation of provisions for lawsuits	15	47,500
Other operating expenses	31,219	30,586
Total costs	**845,676**	**800,906**
Change in the value of inventories	–35,238	19,926
Total	**810,438**	**820,832**

9. Employee benefits cost

in EUR thousand	2010	2009
Gross wages and salaries and continued pay	198,349	185,891
Social security contributions and payroll tax	42,164	34,142
Retirement benefits and anniversary bonuses	5,823	8,608
Other employee benefits cost	11,899	10,739
Total employee benefits cost	**258,235**	**239,380**

As for the reporting period, the item of other employee benefits cost includes the vacation bonuses and travel allowances.

10. Other operating expenses

in EUR thousand	2010	2009
Grants and assistance for humanitarian and other purposes	3,043	3,526
Environmental levies	2,327	1,528
Other taxes and levies	7,234	5,170
Loss in the sale of property, plant and equipment and intangible assets	1,874	2,138
Write-offs and allowances for inventories	10,910	11,925
Other costs	5,831	6,299
Total other operating expenses	**31,219**	**30,586**

11. Financial income and financial expenses

in EUR thousand	2010	2009
Exchange differences	6,269	0
Interest income	799	739
Change in fair value of investments through profit or loss	52	101
Dividend income	9	13
Other income	21	32
Reversal of impairment	822	185
Total financial income	**7,972**	**1,070**
Exchange differences	0	–3,560
Interest expense	–3,591	–5,141
Change in fair value of investments through profit or loss	–53	0
Expense from derivative financial instruments, thereof:	0	–1,225
– outflows	0	–1,035
– changes in fair value	0	–190
Other expenses	–268	–280
Impairment and write-off of receivables	–4,159	–1,534
Total financial expenses	**–8,071**	**–11,740**
Net financial expenses	**–99**	**–10,670**

12. Income tax expense

ADJUSTMENT TO EFFECTIVE TAX RATE		
in EUR thousand	2010	2009
Income tax	46,303	39,178
Deferred tax	–5,849	11,459
Total income tax	**40,454**	**50,637**
Profit before tax	211,372	224,322
Income tax calculated using the actual tax rate	42,274	47,107
Tax exempt expenses	–2,371	22,911
Tax incentives	–5,769	–4,485
Revenue decreasing the tax base	–101	–21,133
Revenue increasing the tax base	27	591
Effect of different tax rates and other	6,394	5,646
Total income tax expenses	**40,454**	**50,637**
Effective tax rate	**19.1%**	**22.6%**

13. Property, plant and equipment

in EUR thousand	31 Dec 2010	31 Dec 2009
Property	29,370	29,253
Plant	306,844	300,078
Equipment	274,637	269,803
PPE under construction	75,610	50,012
Total property, plant and equipment	**686,461**	**649,146**

As for the reporting period the Group's largest investment (EUR 40,102 thousand) was the construction of a plant for production of solid pharmaceutical forms (OTO), while EUR 9,546 thousand were invested in 2009. EUR 8,879 thousand were invested in the construction of the research and control centre no. 3 (2009: EUR 1,525 thousand), EUR 3,178 thousand for the expansion of the packaging warehouse (2009: EUR 245 thousand), and EUR 2,436 thousand for the expansion of fluid materials warehouse (2009: EUR 79 thousand). Production capacities were increased in subsidiaries of Krka-Rus and amounted to EUR 3,556 thousand (2009: EUR 934 thousand) and TAD Pharma where investments amounted to EUR 1,959 thousand (2009: EUR 0). In 2010, Group's investments in the health-resort and tourist activity amounted to EUR 9,904 thousand (2009: EUR 2,302 thousand). Assets were mostly invested into the reconstruction of the pool and health area of Talaso Strunjan.

MOVEMENT OF PROPERTY, PLANT AND EQUIPMENT (PPE)					
in EUR thousand	Property	Plant	Equipment	PPE under construction	Total
Cost of purchase					
Balance at 1 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	−252	−460	−9,489	0	−10,201
Exchange differences	12	−2,560	−7,271	−318	−10,137
Transfer to intangible assets	0	0	−2	0	−2
Balance at 31 Dec 2009	**29,253**	**521,014**	**599,125**	**50,012**	**1,199,404**
Balance at 1 Jan 2010	**29,253**	**521,014**	**599,125**	**50,012**	**1,199,404**
Additions	0	0	0	107,922	107,922
Capitalisation – transfer from PPE under construction	261	27,147	54,967	−82,375	0
Disposals	−165	−801	−13,498	0	−14,464
Exchange differences	21	1,367	2,311	51	3,750
Transfers within PPE	0	−41	41	0	0
Balance at 31 Dec 2010	**29,370**	**548,686**	**642,946**	**75,610**	**1,296,612**
Accumulated depreciation					
Balance at 1 Jan 2009	**0**	**−202,610**	**−298,462**	**0**	**−501,072**
Depreciation	0	−20,953	−45,523	0	−66,476
Disposals	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**
Balance at 1 Jan 2010	**0**	**−220,936**	**−329,322**	**0**	**−550,258**
Depreciation	0	−20,691	−50,126	0	−70,817
Disposals	0	567	12,374	0	12,941
Exchange differences	0	−782	−1,235	0	−2,017
Balance at 31 Dec 2010	**0**	**−241,842**	**−368,309**	**0**	**−610,151**
Carrying amount					
Balance at 1 Jan 2009	**29,097**	**297,214**	**262,430**	**46,509**	**635,250**
Balance at 31 Dec 2009	**29,253**	**300,078**	**269,803**	**50,012**	**649,146**
Balance at 1 Jan 2010	**29,253**	**300,078**	**269,803**	**50,012**	**649,146**
Balance at 31 Dec 2010	**29,370**	**306,844**	**274,637**	**75,610**	**686,461**

Based on the contracts that had been signed in connection with the ongoing investments, the Group accounted for EUR 36,751 thousand of future liabilities in 2010 resulting from acquisition of property, plant and equipment.

In 2010 no borrowing costs refer to the item of property, plant and equipment.

14. Intangible assets

in EUR thousand	31 Dec 2010	31 Dec 2009
Goodwill	42,644	42,644
Trademark	42,403	42,403
Concessions, patents, licences, trademarks and similar rights	33,077	35,302
Intangible assets under construction	4,691	6,232
Total intangible assets	**122,815**	**126,581**

MOVEMENT OF INTANGIBLE ASSETS

in EUR thousand	Goodwill	Trademark	Concessions, patents, licences, trademarks and similar rights	IA under construction	Total
Cost of purchase					
Balance at 1 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
Transfers 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**
Balance at 1 Jan 2010	**42,644**	**42,403**	**74,199**	**6,232**	**165,478**
Additions	0	0	0	7,250	7,250
Transfer from IA under construction	0	0	8,540	−8,540	0
Disposals	0	0	−2,268	−254	−2,522
Exchange differences	0	0	143	3	146
Balance at 31 Dec 2010	**42,644**	**42,403**	**80,614**	**4,691**	**170,352**
Accumulated amortisation					
Balance at 1 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
Transfers from property, plant and equipment	0	0	2	0	2
Balance at 31 Dec 2009	**0**	**0**	**−38,897**	**0**	**−38,897**
Balance at 1 Jan 2010	**0**	**0**	**−38,897**	**0**	**−38,897**
Amortisation	0	0	−10,904	0	−10,904
Disposals	0	0	2,246	0	2,246
Exchange differences	0	0	18	0	18
Balance at 31 Dec 2010	**0**	**0**	**−47,537**	**0**	**−47,537**
Carrying amount					
Balance at 1 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**
Balance at 1 Jan 2010	**42,644**	**42,403**	**35,302**	**6,232**	**126,581**
Balance at 31 Dec 2010	**42,644**	**42,403**	**33,077**	**4,691**	**122,815**

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, considered as Europe's biggest generic market. According to macroeconomic projections and summaries of European Commission reports, Germany is forecasted to record a far higher growth than the Eurozone average which is expected to achieve a 2-percent growth. As a result of the optimistic prognosis for Germany and the expected launch of the added-value Krka products, we have planned an average 5-percent growth in sales values for the period 2011-2015, which is considered as the basis for calculation. As for calculating the cost, the profitability generated in 2010 was taken into account as well as the fact that constant pressure for price-cutting shall continue. The said calculation applied the 8.60-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.

15. Loans

in EUR thousand	31 Dec 2010	31 Dec 2009
Long-term loans	**4,312**	**4,064**
– long-term loans	4,312	4,064
Short-term loans	**1,227**	**2,213**
– portion of long-term borrowing due next year	940	802
– short-term loans	285	1,407
– short-term interest receivable	2	4
Total loans	**5,539**	**6,277**

In conformity with internal acts the controlling company as well as some Group companies extended long-term housing loans to its employees. Loans bear the annual interest rate, which equals the contractually agreed rate set by the Minister of Finance in accordance with provisions of the Corporate Income Tax Act that defines the interest rate for related parties. In 2010 the said rate ranged between 1.994% and 2.350%. The loan related repayment period must not exceed 15 years.

16. Investments

in EUR thousand	31 Dec 2010	31 Dec 2009
Non-current investments	**5,238**	**5,658**
– financial assets available for sale	5,238	5,658
Current investments, including derivatives	**653**	**834**
– instruments held for trading	93	145
– other current investments	560	689
Total investments	**5,891**	**6,492**

EUR 885 thousand of financial assets available for sale refer to investments made in Slovenia (2009: EUR 969 thousand), whereas EUR 4,353 thousand to investments made abroad (2009: EUR 4,689 thousand).

Other current investments refer to Slovenian mutual funds in the amount of EUR 287 thousand (2009: EUR 241 thousand) and assets under management in the amount of EUR 273 thousand (2009: EUR 268 thousand). In 2009, the item of other current investments also include EUR 180 thousand of bills received for repayment of receivables.

The change of fair value is recognised through profit or loss.

MOVEMENT OF FINANCIAL ASSETS AVAILABLE FOR SALE

in EUR thousand	Financial assets available for sale
Balance at 1 Jan 2009	**6,343**
Purchase	1
Change to fair value	–686
Balance at 31 Dec 2009	**5,658**
Change to fair value	–420
Balance at 31 Dec 2010	**5,238**

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.

17. Deferred tax assets and deferred tax liabilities

	Assets		Liabilities		Assets – liabilities	
in EUR thousand	2010	2009	2010	2009	2010	2009
Intangible assets, and property, plant and equipment	410	30	15,429	15,938	–15,019	–15,908
Financial assets available for sale	0	0	442	526	–442	–526
Inventories	2,296	917	3,597	220	–1,301	697
Receivables/liabilities	5,461	1,483	0	1,979	5,461	–496
Provisions for lawsuits	9,800	9,799	0	0	9,800	9,799
Provisions for retirement benefits	9,029	9,156	0	1	9,029	9,155
Transfer of tax loss	509	1,007	0	–242	509	1,249
Total	**27,505**	**22,392**	**19,468**	**18,422**	**8,037**	**3,970**

in EUR thousand	Balance at 1 Jan 2009	Recognised in profit or loss	Translation reserve	Recognised in compre-hensive income	Balance at 31 Dec 2009	Recognised in profit or loss	Translation reserve	Recognised in compre-hensive income	Balance at 1 Jan 2010
Investments, intangible assets, and property, plant and equipment	**–14,966**	–776	–166	0	**–15,908**	516	373	0	**–15,019**
Financial assets available for sale	**–696**	0	0	170	**–526**	0	0	84	**–442**
Inventories	**–795**	1,418	74	0	**697**	–454	–1,544	0	**–1,301**
Receivables/ liabilities	**28**	–635	111	0	**–496**	7,034	–1,077	0	**5,461**
Provisions for lawsuits	**19,459**	–9,660	0	0	**9,799**	0	1	0	**9,800**
Provisions for retirement benefits	**9,459**	–267	0	–37	**9,155**	–263	137	0	**9,029**
Transfer of tax loss	**3,009**	–1,539	–221	0	**1,249**	–984	244	0	**509**
Total	**15,498**	**–11,459**	**–202**	**133**	**3,970**	**5,849**	**–1,866**	**84**	**8,037**

18. Inventories

in EUR thousand	31 Dec 2010	31 Dec 2009
Material	84,463	58,036
Work in progress	48,263	47,076
Products	74,823	59,421
Merchandise	21,794	17,113
Total inventories	**229,343**	**181,646**

The write down of inventories to net realisable value amounted to EUR 2,165 thousand (2009: EUR 3,180 thousand), whereas the write-off of inventories amounted to EUR 8,745 thousand (2009: EUR 8,745 thousand).

19. Trade and other receivables

in EUR thousand	31 Dec 2010	31 Dec 2009
Short-term trade receivables	368,780	305,572
Other short-term receivables	33,906	29,334
Total receivables	**402,686**	**334,906**

Allowances for and write-offs of receivables recorded within financial expenses amounted to EUR 4,159 thousand in the reporting period (2009: EUR 1,534 thousand).

SHORT-TERM TRADE RECEIVABLES				
in EUR thousand	Gross value	Allowances for doubtful and disputable receivables	Net value at 31 Dec 2010	Net value at 31 Dec 2009
Domestic customers	14,244	314	13,930	13,518
Foreign customers	368,649	13,799	354,850	292,054
Total trade receivables	**382,893**	**14,113**	**368,780**	**305,572**

32% of trade receivables were secured in the reporting period and 18% in 2009.

OTHER SHORT-TERM RECEIVABLES

Other receivables refer mostly to receivables due by the state, in particular arising from VAT refund.

20. Cash and cash equivalents

in EUR thousand	31 Dec 2010	31 Dec 2009
Cash in hand	61	90
Bank balances	7,728	13,321
Total cash and cash equivalents	**7,789**	**13,411**

21. 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 1,662,281 own shares, i.e. 4.7% of the share capital value. The number of own shares in this reporting period remained unchanged if compared to 2009.

At the 14th Annual Meeting held on 2 July 2009, the shareholders adopted a resolution authorising the controlling company's 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 that 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 equity holders of the parent 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.

35,661 own shares were repurchased in 2010.

REPURCHASE OF OWN SHARES IN 2010	Number of shares	Average share price (in EUR)	Value of own shares (in EUR thousand)
Balance at 31 December 2009	**1,626,620**		**19,489**
Repurchase in 2010			
26 November 2010	1,378	62.31	86
29 November 2010	77	62.65	5
30 November 2010	1,069	62.93	67
1 December 2010	1,279	63.24	81
2 December 2010	1,758	63.16	111
6 December 2010	2,459	63.53	157
7 December 2010	2,459	63.02	155
8 December 2010	3,459	63.05	219
9 December 2010	3,061	63.11	194
10 December 2010	2,274	63.39	144
13 December 2010	2,898	63.25	184
14 December 2010	1,669	63.63	106
15 December 2010	1,504	63.66	96
16 December 2010	3,399	63.44	216
17 December 2010	2,153	63.32	137
20 December 2010	2,624	63.32	167
21 December 2010	2,141	62.95	135
Total repurchase of own shares in 2010	**35,661**	**63.23**	**2,260**
Balance at 31 December 2010	**1,662,281**		**21,749**

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 123,252 thousand indicating an increase over the reporting period by EUR 2,260 thousand as a result of additional reserves which were formed for the purchase of own shares by the Company. 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 21,749 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 2010 and remained unchanged compared to the previous financial year.

Statutory reserves amounted to EUR 27,184 thousand 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 the previous period **the fair value reserve** decreased by EUR 337 thousand and as at 31 December 2010 amounts to EUR 1,767 thousand. The total change results from the decrease of fair value of available-for-sale investments (by EUR 421 thousand) and the increase of EUR 84 thousand referring to the related deferred tax effect.

Compared to 2009 the translation reserve increased by EUR 1,816 thousand and as of the reporting date amounted to EUR –7,960 thousand. The aforesaid growth 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 equity holders of the parent in the amount of EUR 171,025 thousand. The decrease, on the other hand, is a result of allocation of accumulated profit to dividend payout (EUR 37,179 thousand) as confirmed by the 15th Annual Meeting held on 17 June 2010, of an additional formation of statutory reserves (EUR 5,000 thousand), as well as additional reserves for own shares formed for the related purchase by the controlling company in 2010 (EUR 2,260 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 82 thousand (2009: EUR 162 thousand).

DIVIDENDS PER SHARE

As for 2010 the gross dividend per share amounted to EUR 1.10 per share (2009: EUR 1.05).

NON-CONTROLLING INTERESTS WITHIN EQUITY

Balance of non-controlling interests within equity includes the non-controlling interest in the company Golf Grad Otočec. In 2010 the non-controlling interest within equity declined due to the loss for 2010 recorded at EUR 107 thousand.

22. Earnings per share

Basic earnings per share amounted to EUR 5.06 in 2010 and showed a decline of 1.6% compared to the previous year's result (2009: EUR 5.14). The calculation of earnings per share took account of the net profit for the period attributable to the equity holders of the parent in the amount of EUR 171,025 thousand (2009: EUR 173,766 thousand). The weighted average number of shares was accounted for in the calculation for both years i.e. 33,797,418 for shares for 2010 and EUR 33,799,500 for 2009. Own shares 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.

23. Borrowings

in EUR thousand	31 Dec 2010	31 Dec 2009
Long-term borrowings	**67,214**	**105,113**
– borrowings from domestic banks	67,071	104,828
– borrowings from foreign banks	143	285
Short-term borrowings	**57,910**	**51,084**
– current portion of long term borrowings	37,899	38,622
– borrowings from domestic banks	18,500	10,000
– borrowings from foreign banks	0	415
– borrowings from other entities	317	378
– interest payable	1,194	1,669
Total borrowings	**125,124**	**156,197**

LONG-TERM BORROWINGS						
			31 Dec 2010		31 Dec 2009	
in EUR thousand	Currency	Maturity	Par value	Carrying amount	Par value	Carrying amount
Borrowing from domestic bank	EUR	2011	40,000	3,636	40,000	10,909
Borrowing from domestic bank	EUR	2012	25,000	10,000	25,000	15,000
Borrowing from domestic bank	EUR	2012	79,000	39,500	79,000	55,300
Borrowing from domestic bank	EUR	2012	8,025	991	8,025	2,097
Borrowing from foreign bank	EUR	2012	1,000	286	1,000	429
Borrowing from domestic bank	EUR	2014	30,000	26,700	30,000	30,000
Borrowing from domestic bank	EUR	2014	30,000	24,000	30,000	30,000
Total long-term borrowings			**213,025**	**105,113**	**213,025**	**143,735**

The Group raised no new long-term borrowings in 2010.

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 2009	Formation	Utilisation	Reversal	Balance at 31 Dec 2010
Provisions for retirement benefits and anniversary bonuses	53,958	5,823	–4,466	0	55,315
Other provisions	53,446	162	–13	–21	53,574
– provisions for lawsuits	49,000	15	0	0	49,015
– other provisions	4,446	147	–13	–21	4,559
Total provisions	**107,404**	**5,985**	**–4,479**	**–21**	**108,889**

Emission coupons (2009: EUR 22 thousand) and other deferred revenue (2009: EUR 110 thousand), which were recorded within provisions in the financial statements for 2009, have been reposted and disclosed within deferred revenue in 2010. The applicable 2009 data have been adjusted accordingly.

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.

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 4.50% in the reporting period (2009: 4.25%) 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% (2009: 1.6%) and career promotion i.e. 2% (2009: 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.

25. Deferred revenue

in EUR thousand	Balance at 31 Dec 2009	Deferred revenue received	Reversal of deferred revenue	Balance at 31 Dec 2010
Grants received for the Beta plant in Šentjernej	169	0	–44	125
Grants received for the health resorts Dolenjske and Šmarješke Toplice and Golf Grad Otočec	5,584	0	–308	5,276
Grants by the European Regional Development Fund	30	0	–4	26
Grants by the European Fund – development of new technologies (FBD project)	385	867	–326	926
Properties, plant and equipment received for free	595	9	–13	591
Emission coupons	22	21	–21	22
Other deferred revenue	110	90	–28	172
Total deferred revenue	**6,895**	**987**	**–744**	**7,138**

Emission coupons and other deferred revenue which were recorded within provisions in the financial statements for 2009, have been reposted and disclosed within deferred revenue in 2010. The applicable 2009 data have been adjusted accordingly.

FBD project is partly funded by the European Union (European Regional Development Fund). The project is carried out in scope of Operational programme for strengthening regional development potentials for period 2007-2013; Priority axis 1: Competitiveness and Research Excellence: main type of activity 1.1.: Improvement of competitiveness and research excellence.

The recorded amounts of deferred revenue are decreased by the proportionate share of depreciation of assets to which the grants refer and by any other types of expenses incurred.

26. Trade payables

in EUR thousand	31 Dec 2010	31 Dec 2009
Payables to domestic suppliers	42,365	31,900
Payables to foreign suppliers	48,525	40,078
Payables from advances	496	522
Total trade payables	**91,386**	**72,500**

27. Other current liabilities

in EUR thousand	31 Dec 2010	31 Dec 2009
Accrued contractual discounts on products sold to other customers	34,943	20,643
Payables to employees – gross wages, other charges	27,405	24,428
Other	10,710	12,479
Total other current liabilities	**73,058**	**57,550**

28. Contingent liabilities

in EUR thousand	31 Dec 2010	31 Dec 2009
Guarantees issued	2,704	6,448
Other	2,164	874
Total contingent liabilities	**4,868**	**7,322**

As for the guarantees issued the highest value refers to the Customs Administration of the Republic of Slovenia (EUR 1,600 thousand). The item 'Other' includes the affected property in Serbia (EUR 620 thousand).

29. Financial instruments

Long-term stability of the Group's performance is managed by means of active risk management policies as presented in detail under 'Risk management' within the Business Report. 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 2010 for hedging the Company'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. The following status was shown as at the reporting date:

in EUR thousand	Notes	31 Dec 2010	31 Dec 2009
Financial assets available for sale	16	5,238	5,658
Financial assets at fair value through profit or loss		653	834
Loans	15	5,539	6,277
Receivables	19	402,686	334,906
– thereof trade receivables		368,780	305,572
Cash and cash equivalents	20	7,789	13,411
Total		**421,905**	**361,086**

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 2010	31 Dec 2009
Slovenia	32,973	35,046
South-East Europe	76,958	65,957
East Europe	157,903	126,150
Central Europe	70,256	51,699
West Europe and overseas markets	70,135	62,331
Total	**408,225**	**341,183**

32% of trade receivables were secured in the reporting period and 18% in 2009.

AGEING STRUCTURE OF LOANS AND RECEIVABLES AS AT THE REPORTING DATE				
in EUR thousand	Gross value 2010	Allowance 2010	Gross value 2009	Allowance 2009
Not past due receivables	387,887	6,390	314,115	2,255
Past due 20 days	3,925	54	7,173	85
Past due 21 to 50 days	7,174	285	6,596	219
Past due 51 to 180 days	14,657	1,337	10,288	688
More than 180 days	8,746	6,098	14,184	7,926
Total	**422,389**	**14,164**	**352,356**	**11,173**

MOVEMENT OF ALLOWANCES FOR RECEIVABLES		
in EUR thousand	2010	2009
Balance at 1 January	**11,173**	**10,520**
Formation of allowance	4,106	1,511
Write-off of receivables	–619	–304
Reversal of impairment	–822	–185
Collection of bad debts	0	–157
Exchange differences	326	–212
Balance at 31 December	**14,164**	**11,173**

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 2010 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 2010						
		Contractual cash flows				
in EUR thousand	Carrying amount	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	106,260	109,897	21,957	17,967	43,243	26,730
Short-term borrowings from banks	18,545	18,555	5,555	13,000	0	0
Other short-term borrowings	319	320	278	42	0	0
Trade and other payables	174,258	174,258	174,258	0	0	0
Total non-derivative financial liabilities	**299,382**	**303,030**	**202,048**	**31,009**	**43,243**	**26,730**
Total derivatives	**0**	**0**	**0**	**0**	**0**	**0**
Total	**299,382**	**303,030**	**202,048**	**31,009**	**43,243**	**26,730**

MATURITY OF FINANCIAL LIABILITIES AS AT 31 DECEMBER 2009						
		Contractual cash flows				
in EUR thousand	Carrying amount	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	145,295	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**

FOREIGN CURRENCY RISK

Exposure to foreign currency risk

	31 Dec 2010					
in EUR thousand	EUR	USD	PLN	HRK	RUB	RON
Trade receivables	109,365	18,520	46,501	30,736	123,353	31,069
Borrowings from banks	−125,124	0	0	0	0	0
Trade payables	−74,522	−10,667	−1,779	−316	−1,210	−667
Gross financial position exposure	**−90,281**	**7,853**	**44,721**	**30,420**	**122,143**	**30,402**
Estimated sales	593,270	28,417	134,507	42,620	194,059	29,972
Estimated purchases	−479,600	−118,000	−26,900	−13,500	−71,600	−3,085
Gross exposure	**113,670**	**−89,583**	**107,607**	**29,120**	**122,459**	**26,872**
Net exposure	**23,389**	**−81,730**	**152,329**	**59,540**	**244,602**	**57,274**

	31 Dec 2009					
in EUR thousand	EUR	USD	PLN	HRK	RUB	RON
Trade receivables	89,629	26,175	32,196	31,740	101,315	19,626
Borrowings from banks	−156,197	0	0	0	0	0
Trade payables	−57,483	−10,848	−1,726	−171	−162	0
Gross financial position exposure	**−124,051**	**15,327**	**30,470**	**31,569**	**101,153**	**19,626**
Sales	547,342	22,519	130,155	40,173	183,548	38,710
Purchases	−452,466	−111,296	−25,361	−12,760	−67,549	−2,910
Gross exposure	**94,876**	**−88,777**	**104,794**	**27,413**	**115,999**	**35,800**
Net exposure	**−29,175**	**−73,449**	**135,263**	**58,982**	**217,153**	**55,426**

Estimated sales and purchases stated in the 2010 schedule ground on the Company's business plan for 2011, whereas sales and purchases stated in the 2009 schedule take account of the Company's actual sales and purchases made in 2010.

SIGNIFICANT FOREIGN EXCHANGE RATES	Average exchange rate*		Final exchange rate*	
	2010	2009	2010	2009
USD	1.33	1.39	1.33	1.43
PLN	4.00	4.33	3.97	4.12
HRK	7.29	7.34	7.39	7.31
RUB	40.27	44.13	40.54	43.50
RON	4.21	4.24	4.29	4.23

* Number of local currency's units for 1 euro

The above-stated exchange rates 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% percent increase of the euro value in respect of currencies stated as at 31 December 2010 or 31 December 2009 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 2009 analysis was prepared on the same basis.

	Impact on the profit or loss	
in EUR thousand	2010	2009
USD	809	727
PLN	−1,508	−1,339
HRK	−590	−584
RUB	−2,422	−2,150
RON	−567	−549

A 1% decrease of the euro value in respect of currencies stated as at 31 December 2010 or 31 December 2009 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	2010	2009
Financial instruments at fixed interest rate	**3,914**	**11,233**
Financial assets	5,731	12,603
Financial liabilities	−1,817	−1,370
Financial instruments at variable interest rate	**−122,113**	**−153,124**
Financial assets	0	34
Financial liabilities	−122,113	−153,158

Analysis of sensitivity of the financial instruments' 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 flows' 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 2010 by EUR 1,221 thousand (2009: EUR 1,531 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 2009.

A detailed schedule of long-term and short-term borrowings is presented below.

LONG-TERM BORROWINGS

in EUR thousand	31 Dec 2010	31 Dec 2009
Long-term borrowings	105,113	143,735
– short-term portion of long-term borrowings	37,899	38,622
Average balance of long-term borrowings	124,424	128,506
Interest paid (financial year)	3,071	3,528
Other cost of raising long-term borrowings	0	68
Average interest rate of long-term borrowings (financial year)	2.48%	2.80%
Maturity in three years or less	88%	82%
Maturity in more than three years	12%	18%
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 2010	31 Dec 2009
Short-term borrowings including short-term portion of long-term borrowings	56,716	49,415
– from banks	56,399	49,037
– from other entities	317	378
Short-term borrowings exclusive of short-term portion of long-term borrowings	18,817	10,793
Average balance of short-term borrowings (financial year)	14,805	39,087
Interest paid (financial year)	494	1,505
Other cost of raising short-term borrowings	30	34
Average cost of short-term borrowings (financial year)	3.54%	3.94%
Currency structure of short-term borrowings		
– euro	100%	100%
Structure of short-term borrowings in terms of interest rates:		
– variable	90%	93%
– fixed	10%	7%

FAIR VALUE

in EUR thousand	2010 Carrying amount	2010 Fair value	2009 Carrying amount	2009 Fair value
Long-term loans	4,312	4,312	4,064	4,064
Financial assets available for sale	5,238	5,238	5,658	5,658
Short-term loans	1,227	1,227	2,213	2,213
Current investments	653	653	834	834
– instruments held for trading	93	93	145	145
– other current investments	560	560	689	689
Trade and other receivables	402,688	402,688	334,906	334,906
Cash and cash equivalents	7,789	7,789	13,411	13,411
Borrowings	–125,124	–129,408	–156,197	–161,578
Trade and other payables	–174,260	–174,260	–131,745	–131,745
Total	**122,523**	**118,239**	**73,144**	**67,763**

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 2010 published by Abanka. The yield-to-maturity of these papers was recorded at 0.869% (2009: 1.360%).

Financial instruments

The schedule illustrates the classification of financial instruments in terms of their fair value. Hence, the financial instruments form three levels, 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 2010 Level 1	31 Dec 2010 Level 2	31 Dec 2010 Level 3	31 Dec 2009 Level 1	31 Dec 2009 Level 2	31 Dec 2009 Level 3
Financial assets available for sale	3,679	0	1,559	4,067	0	1,591
Instruments held for trading	93	0	0	145	0	0
Other current investments	560	0	0	509	0	180
Total	**4,332**	**0**	**1,559**	**4,721**	**0**	**1,771**

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.

30. Transactions with related parties

DATA ON GROUPS OF PERSONS

As at the year-end, members of the Management Board of the Company held 37,050 of shares in the Company, representing a 0.105% of the total equity (i.e. 0.110 of voting rights), and the Managing Directors of subsidiaries held 4,665 of shares or 0.013% of the total equity (i.e. 0.014 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 2010.

EMOLUMENTS OF GROUPS OF PERSONS

in EUR thousand	2010	2009
Management Board members in the controlling company and managers of subsidiaries	3,709	3,471
Members of the Supervisory Board/Management Boards	114	110
Persons employed under individual employment contracts	18,989	23,037
Total emoluments of groups of persons	**22,812**	**26,618**

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 31 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 2010	31 Dec 2009	2010	2009
Members of the Management Board	9	21	19	5
Members of the Supervisory Board/Management Boards (employee representatives)	0	0	0	0
Persons employed under individual employment contracts	108	253	31	69
Total loans to groups of persons	**117**	**274**	**50**	**74**

The loans granted to the above-mentioned persons were used for housing purposes.

31. 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 2010	Share capital 31 Dec 2010	Currency	Number of employees at 31 Dec 2010	Number of employees at 31 Dec 2009
Controlling company					
KRKA, d. d., Novo mesto	100%	59,126,194	EUR	4,533	5,260
Subsidiaries					
Terme Krka, d. o. o., Novo mesto	100%	14,753,239	EUR	675	679
KRKA-FARMA d. o. o., Zagreb, Croatia	100%	143,027,200	HRK	178	168
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	37,000	RON	204	180
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	111,080	RSD	49	58
KRKA-FARMA DOOEL, Skopje, Macedonia	100%	49,060,618	MKD	24	24
KRKA FARMA, d. o. o., Sarajevo, Bosnia and Herzegovina	100%	20,000	BAM	1	1
OOO KRKA-RUS, Istra, Russian Federation	100%	1,111,374,765	RUB	176	154
OOO KRKA FARMA, Sergijev Posad, Russian Federation	100%	3,874,800	RUB	1,210	49
TOV KRKA UKRAINA, Kiev, Ukraine	100%	100,000	UAH	0	0
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	100%	17,490,000	PLN	791	764
KRKA ČR, s. r. o., Prague, Czech Republic	100%	100,000	CZK	195	187
KRKA Magyarország Kft, Budapest, Hungary	100%	44,880,000	HUF	128	148
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10,000	EUR	109	100
UAB KRKA LIETUVA, Vilnius, Lithuania	100%	34,000	LTL	80	0
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650,000	EUR	175	168
KRKA Sverige AB, Stockholm, Sweden	100%	150,000	SEK	4	3
KRKA Pharma GmbH, Vienna, Austria	100%	36,500	EUR	19	16
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10,000	EUR	18	16
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 2010 the subsidiary Terme Krka held a share of 63.10% in the company Golf Grad Otočec, d. o. o.

32. Educational structure of employees

	2010		2009	
	Headcount	Share (in %)	Headcount	Share (in %)
PhD	86	1.0	80	1.0
MSc	231	2.8	193	2.5
University education	3,929	47.2	3,723	47.6
Higher professional education	749	9.0	630	8.1
Vocational college education	248	3.0	233	3.0
Secondary school education	1,658	19.9	1,543	19.7
Skilled workers	1,269	15.2	1,241	15.9
Unskilled workers	158	1.9	173	2.2
Total (average for the period)	**8,328**	**100.0**	**7,816**	**100.0**

33. Transactions with audit firms

The annual fee for auditing the Group amounted to EUR 399 thousand.

34. Events after the reporting period

Three events as presented below occurred in the period between the end of the reporting year and 15 March 2011.

In February 2011, Krka started work in the Russian Federation on the construction of a new solid dosage pharmaceutical production plant, which will support the flexible and modular development of production capacity in several phases. The investment is worth EUR 135 million, and consolidates Krka's status as a domestic pharmaceutical producer in Russia. Production will start in 2013.

Krka and its partners Metronik, Iskra Pio and the Dolenjska and Bela Krajina Chamber of Commerce and Industry successfully applied for EU grants for research and development investments. New research and development and production plant will be built at the Ločna location, which will function within the Krka Group as a subsidiary, Farma GRS, d. o. o. The value of the entire project is EUR 45 million, for which Krka will receive a grant of EUR 10.3 million, while the three partners will together receive EUR 0.3 million.

On 2 March 2011 Krka received a decision from Helsinki District Court in the patent dispute between Merck Frosst Canada Limited, Merck Sharp & Dohme B.V. and MSD Finland OY (MSD) and Krka, d. d., Novo mesto and its subsidiary Krka Sverige AB due to alleged infringement of two MSD patents protecting manufacturing processes in Finland for the active pharmaceutical ingredient montelukast. In the proceedings which began in 2009, the Helsinki District Court found that the procedure used by Krka to produce the active ingredient montelukast did not violate MSD's patented procedures.

These events did not affect the 2010 financial statements of the 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 (KRKA Group), which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 financial position of the KRKA Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Other matters

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.

Borut Šterbenc, B.Sc.Ec.
Certified Auditor

Marjan Mahnič, B.Sc.Ec.
Certified Auditor
Partner

Ljubljana, 15 March 2011

KPMG Slovenija, d.o.o.
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FINANCIAL STATEMENTS OF KRKA, D. D., NOVO MESTO

STATEMENT OF FINANCIAL POSITION			
in EUR thousand	Notes	31 Dec 2010	31 Dec 2009
Assets			
Property, plant and equipment	13	513,683	485,653
Intangible assets	14	29,752	29,683
Investments in subsidiaries	15	227,409	227,585
Deferred tax assets	18	19,162	18,977
Long-term loans	16	12,206	17,080
Non-current investments	17	5,029	5,449
Other non-current assets		168	167
Total non-current assets		**807,409**	**784,594**
Inventories	19	163,974	138,612
Trade and other receivables	20	423,042	346,881
Short-term loans	16	49,686	34,711
Current investments, including derivatives	17	653	654
Cash and cash equivalents	21	1,547	7,487
Total current assets		**638,902**	**528,345**
Total assets		**1,446,311**	**1,312,939**
Equity			
Share capital	22	59,126	59,126
Own shares	22	–21,749	–19,489
Reserves	22	167,193	160,270
Retained earnings	22	853,584	732,103
Total equity		**1,058,154**	**932,010**
Liabilities			
Long-term borrowings	24	66,800	103,836
Provisions	25	101,632	100,079
Deferred revenue	26	2,668	1,344
Deferred tax liabilities	18	442	526
Total non-current liabilities		**171,542**	**205,785**
Trade payables	27	109,553	88,534
Short-term borrowings	24	57,189	49,458
Income tax liabilities		8,635	0
Other current liabilities	28	41,238	37,152
Total current liabilities		**216,615**	**175,144**
Total liabilities		**388,157**	**380,929**
Total equity and liabilities		**1,446,311**	**1,312,939**

INCOME STATEMENT			
in EUR thousand	Notes	2010	2009
Revenues	6	932,366	850,119
Production cost of goods sold		–369,242	–339,090
Gross profit		**563,124**	**511,029**
Other operating income	7	6,267	96,656
Distribution expenses		–228,306	–260,831
R&D costs		–84,514	–82,999
Administrative expenses		–56,829	–52,220
Operating profit		**199,742**	**211,635**
Financial income	11	10,637	12,160
Financial expenses	11	–6,982	–10,139
Net financial income		**3,655**	**2,021**
Profit before tax		**203,397**	**213,656**
Income tax expense	12	–37,477	–42,844
Profit for the period		**165,920**	**170,812**
Basic earnings per share (in EUR)	**23**	**4.91**	**5.05**
Diluted earnings per share (in EUR)	**23**	**4.91**	**5.05**

STATEMENT OF COMPREHENSIVE INCOME			
in EUR thousand	Notes	2010	2009
Profit for the period	**22**	**165,920**	**170,812**
Other comprehensive income for the period:			
Changes in fair value of financial assets available for sale	22	–421	–686
Deferred tax effect – change in fair value of financial assets available for sale	22	84	170
Total other comprehensive income for the period		**–337**	**–516**
Total comprehensive income for the period		**165,583**	**170,296**

STATEMENT OF CHANGES IN EQUITY

in EUR thousand	Share capital	Own shares	Reserves: Share premium	Reserves: Legal reserves	Reserves: Statutory reserves	Reserves: Fair value reserves	Retained earnings: Other revenue reserves	Retained earnings: Net profit for the period	Retained earnings: Net profit carried forward	Total equity
Balance at 1 Jan 2010	**59,126**	**–19,489**	**120,992**	**14,990**	**22,184**	**2,104**	**570,354**	**103,812**	**57,937**	**932,010**
Profit for the period	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**165,920**	**0**	**165,920**
Other comprehensive income for the period										**0**
Changes in fair value of financial assets available for sale	0	0	0	0	0	–421	0	0	0	–421
Deferred tax effect – changes in fair value of financial assets available for sale	0	0	0	0	0	84	0	0	0	84
Total other comprehensive income for the period	**0**	**0**	**0**	**0**	**0**	**–337**	**0**	**0**	**0**	**–337**
Total other comprehensive income for the period	**0**	**0**	**0**	**0**	**0**	**–337**	**0**	**165,920**	**0**	**165,583**
Transactions with owners recorded in equity										**0**
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	52,000	–52,000	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	0	–103,812	103,812	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	0	62,285	0	–62,285	0
Formation of reserves for own shares	0	0	2,260	0	0	0	0	–2,260	0	0
Repurchase of own shares	0	–2,260	0	0	0	0	0	0	0	–2,260
Dividends paid	0	0	0	0	0	0	0	0	–37,179	–37,179
Total transactions with owners recorded in equity	**0**	**–2,260**	**2,260**	**0**	**5,000**	**0**	**114,285**	**–163,072**	**4,348**	**–39,439**
Balance at 31 Dec 2010	**59,126**	**–21,749**	**123,252**	**14,990**	**27,184**	**1,767**	**684,639**	**106,660**	**62,285**	**1,058,154**

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 1 Jan 2009	**59,126**	**−19,489**	**120,992**	**14,990**	**17,184**	**2,620**	**450,417**	**108,130**	**43,233**	**797,203**
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 effect – 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**

STATEMENT OF CASH FLOWS			
in EUR thousand	Notes	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		**165,920**	**170,812**
Adjustments for:		**99,740**	**97,253**
– amortisation/depreciation	13,14	60,735	58,795
– exchange differences		–75	114
– investment income		–3,479	–12,533
– investment expense		1,497	3,001
– interest expense and other financial expense		3,585	5,032
– income tax	12	37,477	42,844
Operating profit before changes in net operating current assets		**265,660**	**268,065**
Change in trade receivables		–84,198	–83,135
Change in inventories		–25,362	31,328
Change in operating debts (liabilities)		21,019	15,297
Change in provisions		1,553	–39,031
Change in deferred revenue		1,324	292
Change in other current liabilities		4,004	2,962
Income taxes paid		–20,992	–50,229
Cash generated from operations		**163,008**	**145,549**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		2,462	2,605
Dividends received	11	9	13
Proportionate profit of subsidiaries	11	429	9,436
Proceeds from sale of property, plant and equipment		2,101	7,800
Purchase of intangible assets	14	–5,961	–7,417
Purchase of property, plant and equipment	13	–85,864	–74,906
Acquisition of subsidiaries and a share of minority interest without obtained assets	15	176	–2,533
Long-term loans		–6,043	–17,967
Proceeds from repayment of long-term loans		7,795	5,720
Acquisition of non-current investments		–36	–65
Proceeds from sale of non-current investments		35	205
Payments in connection with current investments and loans		–11,578	–3,092
Payments in connection with derivative financial instruments	11	0	–1,034
Net cash used in investing activities		**–96,475**	**–81,235**
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		–4,056	–6,544
Repayment of long-term borrowings	24	–37,373	–28,072
Acquisition of long-term borrowings		0	60,000
Repayment/Acquisition of short-term borrowings		8,539	–47,083
Dividends paid		–37,097	–35,327
Repurchase of own shares	22	–2,260	0
Net cash used in financing activities		**–72,247**	**–57,026**
Net increase/decrease in cash and cash equivalents		**–5,714**	**7,288**
Cash and cash equivalents at beginning of period		7,487	294
Effect of exchange rate fluctuations on cash held		–226	–95
Net cash and cash equivalents at end of period		**1,547**	**7,487**

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 financial statements

STATEMENT OF COMPLIANCE

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

The financial statements of the Company were approved by the Management Board on 18 February 2011.

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 25 Measurement of defined benefit obligations,
- Note 25 Provisions for lawsuits and contingent liabilities,
- Note 30 Valuation of financial instruments.

2. Significant accounting policies

The Company applies the same accounting policies in all periods presented in the accompanying financial statements.

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 CURRENCIES

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.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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 initially recognised 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

Non-current 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 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

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, 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, but usually transfer occurs when the product has left the Company'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.

DEFERRED REVENUE

Deferred revenue referring to government grants is initially recognised when there is reasonable assurance that it will be received and that the Company will comply with the conditions associated with the grants. Deferred revenue that compensates the Company for expenses incurred is recognised in profit or loss on a systematic basis in the same periods in which the revenue is recognised. Revenue that compensates the Company for the cost of an asset is recognised in profit or loss on a systematic basis over the useful life of the asset.

FINANCIAL INCOME AND EXPENSES

Financial income comprises interest income on funds invested, dividend income, gains on the disposal of 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 Eastern 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 2010, and have thus not been applied in preparing the financial statements are presented below:

1. Revised IAS 24 Related Party Disclosure (effective for annual periods beginning on or after 1 January 2011)

   The amendment exempts government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption.

   The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel).

   Revised IAS 24 is not relevant to the Company's financial statements as the Company is not a government-related entity and the revised definition of a related party is not expected to result in new relations requiring disclosure in the financial statements.

2. Amendment to IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011)

   The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required.

   The amendments to IFRIC 14 is not relevant to the Company's financial statements as the Company does not have any defined benefit plans with minimum funding requirements.

3. IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010)

   The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a 'debt for equity swap' are consideration paid in accordance with IAS 39.41.

   The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognized in profit or loss.

   The Company did not issue equity to extinguish any financial liability during the current period. Therefore, the Interpretation will have no impact on the comparative amounts in the Company's financial statements for the year ending 31 December 2010. Further, since the Interpretation can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the Interpretation will have.

4. Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods 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.

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 30 (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 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. 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 individual markets continued in 2010 and resulted in an increase of total trade receivables. The quality of trade receivables in terms of the aging structure and the assessed risk remained basically unchanged.

No significant receivable write-offs due to default have been recorded in the reporting period. Detailed information on credit risk exposure is presented in the note 'Financial instruments'.

The credit control for the Company is conducted by the Finance Department.

LIQUIDITY RISK

The solvency of the Company remained at an optimum level in 2010 which is mostly attributable to a strong cash flow from operations and low indebtedness. This further enabled financing under most favourable conditions and terms.

Based on its high credit standing and solvency, Krka attained far more favourable interest rates in 2010 for short-term and long-term loans than it is common for companies in Slovenia.

The liquidity risk is managed on a centralised basis. Future cash requirements are established on a weekly basis. Possible cash deficits are secured in advance by banks based on agreed-upon credit lines, while occasional cash surplus is allocated to short-term bank deposits.

Liabilities associated with debt servicing decreased in 2010 and represented a low liquidity risk. Values of contractual cash flows arising from financial liabilities in terms of maturity are presented in the note 'Financial instruments' (Liquidity risk).

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.

As for all above stated foreign currencies the Company records excess of assets over liabilities.

The value of items expressed in US dollars declined significantly as most of the markets started to conduct their transactions in local currencies or the euro. Accordingly, the US dollar exchange rate is no longer considered to have a major direct impact on the Company's exchange differences.

No derivatives were used in 2010 for hedging against currency risk. As a result of the Eurozone debt crisis and consequently the weak euro value, the exchange rates were quite favourable for the Company for most of 2010.

First half of 2010 recorded a strong appreciation of individual currencies which resulted in high exchange differences. They gradually decreased over the year and by the end of 2010 the Company recorded exchange gains. More information relating to the currency risk is provided within the financial statements under the note 'Financial instruments'.

INTEREST RATE RISK

By the end of 2010 the Company recorded five long-term borrowings with a 6-month EURIBOR reference rate. No new borrowings were raised in the reporting period.

As the annual instalments are regularly repaid, the exposure to interest rate risk has decreased in comparison to total borrowings in 2009. More information relating to the interest rate risk is provided within the financial statements under the note 'Financial instruments'.

2010 recorded a low level of interest rates, which however slightly increased in the last few months. The difficult financial situation prevailed in 2010 as well as expectations regarding low interest rates, hence no interest rate hedge instruments were applied in 2010.

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. It defined return on equity as one of the key ratios, namely as a relation between the generated net profit and the average value of the equity. For the past five years, the average return on equity (ROE) was recorded at 20.0%.

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.

At the 14th Annual Meeting held on 2 July 2009, the shareholders adopted a resolution authorising the Management Board of the Company 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 of 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 Meeting took place.

35,661 own shares were repurchased in 2010.

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 terms of the Company's geographical segments. Revenues generated on segments are presented by the geographical location of customers.

SEGMENT REPORTING

in EUR thousand	European Union		South-East Europe		East Europe		Other markets		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Revenues	**569,816**	**558,640**	**88,950**	**80,179**	**253,163**	**198,378**	**20,437**	**12,922**	**932,366**	**850,119**
Revenues from reversal of provisions and other operating income	6,267	93,104	0	0	0	0	0	3,552	6,267	96,656
Operating profit	**161,689**	**178,045**	**18,553**	**16,627**	**19,167**	**12,963**	**333**	**4,000**	**199,742**	**211,635**
Interest income	2,156	2,479	0	0	278	131	0	0	2,434	2,610
Interest expense	−3,480	−4,857	0	0	0	0	0	0	−3,480	−4,857
Net financial income	**2,234**	**1,328**	**349**	**191**	**992**	**471**	**80**	**31**	**3,655**	**2,021**
Income tax expense	−30,337	−36,043	−3,481	−3,366	−3,596	−2,624	−63	−811	−37,477	−42,844
Profit for the period	**133,586**	**143,330**	**15,421**	**13,452**	**16,563**	**10,810**	**350**	**3,220**	**165,920**	**170,812**
Capital expenditure	91,824	82,324	0	0	0	0	0	0	91,824	82,324
Depreciation of property, plant and equipment	43,948	42,390	2,798	2,697	7,709	7,462	411	396	54,866	52,945
Amortisation of intangible assets	3,587	3,844	560	552	1,594	1,365	128	89	5,869	5,850
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Total assets	**1,101,437**	**1,046,955**	**73,163**	**68,156**	**258,786**	**187,780**	**12,925**	**10,048**	**1,446,311**	**1,312,939**
Total liabilities	**237,223**	**250,321**	**37,031**	**35,927**	**105,395**	**88,891**	**8,508**	**5,790**	**388,157**	**380,929**

Segments within the financial statements differ from the sales regions presented in the Company's Business Report. The stated segments are earmarked for the management and correspond to the manner of the Company's management. In the Business Report, the sales are presented in terms of regions and groups of products, considering the management within sales and marketing.

As for the Company's structure of revenues, more than 10% was generated with the subsidiary Krka Polska (11.8%).

6. Revenues

in EUR thousand	2010	2009
Revenues from the sale of products	829,894	766,589
Revenues from the sale of services	5,092	11,906
Revenues from the sale of material and merchandise	97,295	71,533
Other revenues	85	91
Total revenues	**932,366**	**850,119**

7. Other operating income

in EUR thousand	2010	2009
Reversal of provisions and deferred revenue	620	90,080
Profit from the sale of property, plant and equipment and intangible assets	556	373
Other operating income	5,091	6,203
Total other operating income	**6,267**	**96,656**

8. Costs by nature

in EUR thousand	2010	2009
Cost of goods and material	261,697	208,535
Cost of services	242,036	205,882
Employee benefits cost	168,323	175,321
Amortisation/Depreciation	60,735	58,795
Formation of provisions for lawsuits	0	47,500
Other operating expenses	17,458	20,436
Total costs	**750,249**	**716,469**
Change in the value of inventories	−11,358	18,671
Total	**738,891**	**735,140**

9. Employee benefits cost

in EUR thousand	2010	2009
Gross wages and salaries and continued pay	128,574	136,565
Social security contributions and payroll tax	26,260	22,673
Retirement benefits and anniversary bonuses	5,785	8,333
Other employee benefits cost	7,704	7,750
Total employee benefits cost	**168,323**	**175,321**

Other employee benefits cost primarily includes the vacation bonuses and travel allowances.

Compulsory pension and disability insurance (comprising both the employee's and the employer's contribution) payable in 2010 amounted to EUR 31,230 thousand. Additional pension insurance amounted to EUR 4,478 thousand.

10. Other operating expenses

in EUR thousand	2010	2009
Grants and assistance for humanitarian and other purposes	1,545	1,973
Environmental levies	2,112	1,326
Other taxes and levies	4,085	3,771
Loss in the sale of property, plant and equipment and intangible assets	1,445	1,776
Write-offs and allowances for inventories	6,323	7,464
Other costs	1,948	4,126
Total other operating expenses	**17,458**	**20,436**

11. Financial income and financial expenses

in EUR thousand	2010	2009
Exchange differences	7,713	0
Interest income	2,434	2,610
Change in fair value of investments through profit or loss	52	101
Dividend income	438	9,449
Total financial income	**10,637**	**12,160**
Exchange differences	0	–2,984
Interest expense	–3,480	–4,857
Change in fair value of investments through profit or loss	–53	0
Expense from derivative financial instruments, thereof:	0	–1,225
– outflows	0	–1,035
– changes in fair value	0	–190
Other expenses	–104	–175
Impairment and write-off of receivables	–3,345	–898
Total financial expenses	**–6,982**	**–10,139**
Net financial income	**3,655**	**2,021**

12. Income tax expense

ADJUSTMENT TO EFFECTIVE TAX RATE		
in EUR thousand	2010	2009
Income tax	37,662	33,088
Deferred tax	−185	9,756
Total income tax	**37,477**	**42,844**
Profit before tax	203,397	213,656
Income tax calculated using the 20-percent tax rate (21-percent for 2009)	40,679	44,869
Tax exempt expenses	2,253	22,714
Tax incentives	−5,373	−3,993
Revenue decreasing the tax base	−82	−20,746
Total income tax expenses	**37,477**	**42,844**
Effective tax rate	**18.4%**	**20.1%**

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.

13. Property, plant and equipment

in EUR thousand	31 Dec 2010	31 Dec 2009
Property	17,283	17,228
Plant	201,335	198,409
Equipment	223,746	222,710
PPE under construction	71,319	47,306
Total property, plant and equipment	**513,683**	**485,653**

As for the reporting period the largest Company's investment (EUR 40,102 thousand) was the construction of a plant for production of solid pharmaceutical forms (OTO), while EUR 9,546 thousand were invested in 2009. EUR 8,879 thousand were invested in the construction of the research and control centre no. 3 (2009: EUR 1,525 thousand), EUR 3,178 thousand for the expansion of the packaging warehouse (2009: EUR 245 thousand), EUR 2,685 thousand for the FBD project (2009: EUR 757 thousand) and EUR 2,436 thousand for the expansion of fluid materials warehouse (2009: EUR 79 thousand). EUR 5,149 thousand were earmarked for information technology and telecommunications projects (2009: EUR 3,645 thousand) and EUR 3,519 thousand for infrastructural projects (2009: EUR 1,960 thousand).

MOVEMENT OF PROPERTY, PLANT AND EQUIPMENT (PPE)					
in EUR thousand	Property	Plant	Equipment	PPE under construction	Total
Cost of purchase					
Balance at 1 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	–251	–460	–20,282	0	–20,993
Transfer to intangible assets	0	0	–2	0	–2
Balance at 31 Dec 2009	**17,228**	**353,408**	**506,605**	**47,306**	**924,547**
Balance at 1 Jan 2010	**17,228**	**353,408**	**506,605**	**47,306**	**924,547**
Additions	0	0	0	85,864	85,864
Capitalisation – transfer from PPE under construction	220	18,255	43,376	–61,851	0
Disposals	–165	–791	–12,845	0	–13,801
Transfers within PPE	0	–51	51	0	0
Balance at 31 Dec 2010	**17,283**	**370,821**	**537,187**	**71,319**	**996,610**
Accumulated depreciation					
Balance at 1 Jan 2009	**0**	**–139,483**	**–258,275**	**0**	**–397,758**
Depreciation	0	–15,696	–37,249	0	–52,945
Disposals	0	180	11,629	0	11,809
Balance at 31 Dec 2009	**0**	**–154,999**	**–283,895**	**0**	**–438,894**
Balance at 1 Jan 2010	**0**	**–154,999**	**–283,895**	**0**	**–438,894**
Depreciation	0	–15,061	–39,805	0	–54,866
Disposals	0	558	10,275	0	10,833
Transfers within PPE	0	16	–16	0	0
Balance at 31 Dec 2010	**0**	**–169,486**	**–313,441**	**0**	**–482,927**
Carrying amount					
Balance at 1 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**
Balance at 1 Jan 2010	**17,228**	**198,409**	**222,710**	**47,306**	**485,653**
Balance at 31 Dec 2010	**17,283**	**201,335**	**223,746**	**71,319**	**513,683**

Based on the contracts that had been signed in connection with the ongoing investments, the Company accounted for EUR 36,711 thousand of future liabilities resulting from acquisition of property, plant and equipment as at the reporting date.

In 2010 no borrowing costs refer to the item of property, plant and equipment.

14. Intangible assets

in EUR thousand	31 Dec 2010	31 Dec 2009
Concessions, patents, licences, trademarks and similar rights	25,375	25,871
Intangible assets under construction	4,377	3,812
Total intangible assets	**29,752**	**29,683**

Intangible assets refer to software and registration documentation for new drugs.

MOVEMENT OF INTANGIBLE ASSETS (IA)

in EUR thousand	Concessions, patents, licences, trademarks and similar rights	IA under construction	Total
Cost of purchase			
Balance at 1 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
Transfer from PPE	2	0	2
Balance at 31 Dec 2009	**54,447**	**3,812**	**58,259**
Balance at 1 Jan 2010	**54,447**	**3,812**	**58,259**
Additions	0	5,960	5,960
Transfer from IA under construction	5,395	–5,395	0
Disposals	–25	0	–25
Balance at 31 Dec 2010	**59,817**	**4,377**	**64,194**
Accumulated amortisation			
Balance at 1 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**
Balance at 1 Jan 2010	**–28,576**	**0**	**–28,576**
Amortisation	–5,869	0	–5,869
Disposals	3	0	3
Balance at 31 Dec 2010	**–34,442**	**0**	**–34,442**
Carrying amount			
Balance at 1 Jan 2009	**25,019**	**3,118**	**28,137**
Balance at 31 Dec 2009	**25,871**	**3,812**	**29,683**
Balance at 1 Jan 2010	**25,871**	**3,812**	**29,683**
Balance at 31 Dec 2010	**25,375**	**4,377**	**29,752**

15. Investments in subsidiaries

MOVEMENTS OF INVESTMENTS IN SUBSIDIARIES IN 2010	
in EUR thousand	Investments in subsidiaries
Cost of purchase at 1 Jan 2010	**227,585**
Establishment of new companies	9
Refund of subsequent payments	–185
Balance at 31 Dec 2010	**227,409**
Carrying amount at 1 Jan 2010	**227,585**
Carrying amount at 31 Dec 2010	**227,409**

MOVEMENTS OF INVESTMENTS IN SUBSIDIARIES IN 2009	
in EUR thousand	Investments in subsidiaries
Cost of purchase at 1 Jan 2009	**225,054**
Establishment of new companies	20
Subsequent payments	2,511
Balance at 31 Dec 2009	**227,585**
Carrying amount at 1 Jan 2009	**225,054**
Carrying amount at 31 Dec 2009	**227,585**

INTERESTS IN SUBSIDIARIES				
	Share in equity	Share capital	Value of share – carrying amount	
in EUR thousand	31 Dec 2010	31 Dec 2010	31 Dec 2010	31 Dec 2009
Terme Krka, d. o. o., Novo mesto, Slovenia	100%	14,753	45,407	45,407
KRKA-FARMA d. o. o., Zagreb, Croatia	100%	19,366	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	1,279
KRKA-FARMA DOOEL, Skopje, Macedonia	100%	805	802	802
KRKA FARMA, d. o. o., Sarajevo, Bosnia and Herzegovina	100%	10	10	10
OOO KRKA-RUS, Istra, Russian Federation	100%	27,412	33,019	33,019
OOO KRKA FARMA, Sergiev Posad, Russian Federation	100%	96	492	492
TOV KRKA UKRAINA, Kiev, Ukraine	100%	10	9	0
KRKA-POLSKA, Sp. z o. o., Warsaw, Poland	100%	4,411	18,697	18,697
KRKA ČR, s. r. o., Prague, Czech Republic	100%	4	3,403	3,403
KRKA Magyarország Kft, Budapest, Hungary	100%	161	1,288	1,473
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10	1,610	1,610
UAB KRKA LIETUVA, Vilnius, Lithuania	100%	10	10	10
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650	97,000	97,000
KRKA Sverige AB, Stockholm, Sweden	100%	17	16	16
KRKA Pharma GmbH, Vienna, Austria	100%	37	2,344	2,344
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10	2,266	2,266
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1	1	1
KRKA USA, LLC, Wilmington, USA	100%	8	8	8
Total			**227,409**	**227,585**

In 2010, the representative office Kiev in Ukraine was transformed into a subsidiary TOV KRKA UKRAINA, Kiev, Ukraine, whose sole owner is Krka d.d.

16. Loans

in EUR thousand	31 Dec 2010	31 Dec 2009
Long-term loans	**12,206**	**17,080**
– long-term loans to subsidiaries	8,210	13,272
– long-term loans to other entities	3,996	3,808
Short-term loans	**49,686**	**34,711**
– the short-term portion of a long-term loan that will mature within a year	3,998	690
– short-term loans to subsidiaries	45,302	33,678
– short-term loans to other entities	160	88
– short-term interest receivables	226	255
Total loans	**61,892**	**51,791**

Long-term loans to other entities comprise long-term loans that are extended by the Company to its employees in accordance with internal acts of the Company. These loans are used for housing. 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 2010 the interest rate ranged between 1.994% and 2.350%. The repayment period must not exceed 15 years.

LOANS GRANTED TO SUBSIDIARIES INCLUDING RELATED SHORT-TERM INTEREST RECEIVABLES

in EUR thousand	31 Dec 2010	31 Dec 2009
Long-term loans to subsidiaries	**8,312**	**13,416**
KRKA ROMANIA S.R.L., Bucharest, Romania	2,448	2,506
OOO KRKA FARMA, Sergiev Posad, Russian Federation	5,017	2,612
UAB KRKA LIETUVA, Vilnius, Lithuania	830	50
TAD Pharma GmbH, Cuxhaven, Germany	17	8,248
Short-term loans to subsidiaries	**48,701**	**33,785**
Terme Krka, d. o. o., Novo mesto, Slovenia	45,424	33,785
TAD Pharma GmbH, Cuxhaven, Germany	1,629	0
OOO KRKA FARMA, Sergiev Posad, Russian Federation	1,648	0
Total loans to subsidiaries	**57,013**	**47,201**

17. Investments

in EUR thousand	31 Dec 2010	31 Dec 2009
Non-current investments	**5,029**	**5,449**
– financial assets available for sale	5,029	5,449
Current investments, including derivatives	**653**	**654**
– instruments held for trading	93	145
– other current investments	560	509
Total investments	**5,682**	**6,103**

EUR 677 thousand of financial assets available for sale refer to investments made in Slovenia (2009: EUR 761 thousand), whereas EUR 4,352 thousand to investments made abroad (2009: EUR 4,688 thousand).

Other current investments refer to Slovenian mutual funds in the amount of EUR 287 thousand (2009: EUR 241 thousand) and assets under management in the amount of EUR 273 thousand (2009: EUR 268 thousand). The change of fair value is recognised through profit or loss.

MOVEMENT OF FINANCIAL ASSETS AVAILABLE FOR SALE

in EUR thousand	Financial assets available for sale
Balance at 1 Jan 2009	**6,134**
Increase	1
Change to fair value	–686
Balance at 31 Dec 2009	**5,449**
Balance at 1 Jan 2010	**5,449**
Change to fair value	–420
Balance at 31 Dec 2010	**5,029**

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.

18. Deferred tax assets and deferred tax liabilities

	Assets		Liabilities		Assets – liabilities	
in EUR thousand	2010	2009	2010	2009	2010	2009
Financial assets available for sale	0	0	442	526	–442	–526
Receivables	1,010	557	0	0	1,010	557
Provisions for lawsuits	9,800	9,800	0	0	9,800	9,800
Provisions for retirement benefits	8,352	8,620	0	0	8,352	8,620
Total	**19,162**	**18,977**	**442**	**526**	**18,720**	**18,451**

in EUR thousand	Balance at 1 Jan 2009	Recognised in profit or loss	Recognised in com-prehensive income	Balance at 1 Jan 2009	Recognised in profit or loss	Recognised in com-prehensive income	Balance at 31 Dec 2010
Financial assets available for sale	−696	0	170	−526	0	84	−442
Receivables	597	−40	0	557	453	0	1,010
Provisions for lawsuits	19,460	−9,660	0	9,800	0	0	9,800
Provisions for retirement benefits	8,675	−55	0	8,620	−268	0	8,352
Total	28,036	−9,755	170	18,451	185	84	18,720

19. Inventories

in EUR thousand	31 Dec 2010	31 Dec 2009
Material	70,254	47,744
Work in progress	42,790	41,677
Products	46,731	42,399
Merchandise	4,199	6,792
Total inventories	**163,974**	**138,612**

The write down of inventories to net realisable value amounted to EUR 709 thousand (2009: EUR 1,163 thousand), whereas the write-off of inventories amounted to EUR 5,614 thousand (2009: EUR 6,301 thousand).

20. Trade and other receivables

in EUR thousand	31 Dec 2010	31 Dec 2009
Short-term receivables due from subsidiaries	238,952	171,298
Trade receivables	166,472	155,310
Receivables due from other entities	17,618	20,273
Total trade and other receivables	**423,042**	**346,881**

SHORT-TERM RECEIVABLES DUE FROM SUBSIDIARIES		
in EUR thousand	31 Dec 2010	31 Dec 2009
KRKA-FARMA d. o. o., Zagreb, Croatia	28,752	31,586
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	7,885	6,062
KRKA-FARMA DOOEL, Skopje, Macedonia	5,839	4,672
OOO KRKA-RUS, Istra, Russian Federation	48,248	24,601
OOO KRKA FARMA, Sergiev Posad, Russian Federation	105,127	64,688
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	31,146	31,980
TAD Pharma GmbH, Cuxhaven, Germany	6,220	3,004
KRKA Sverige AB, Stockholm, Sweden	4,278	3,443
KRKA Pharma GmbH, Vienna, Austria	618	492
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	687	716
Receivables due from other Group companies	152	54
Total short-term receivables due from subsidiaries	**238,952**	**171,298**

TRADE RECEIVABLES DUE FROM CUSTOMERS OTHER THAN GROUP COMPANIES				
in EUR thousand	Gross value	Allowances for doubtful and disputable receivables	Net value at 31 Dec 2010	Net value at 31 Dec 2009
Domestic customers (other than Group companies)	12,856	130	12,726	9,519
Foreign customers (other than Group companies)	161,895	8,149	153,746	145,791
Total trade receivables	**174,751**	**8,279**	**166,472**	**155,310**

The receivable write-offs and allowances for receivables that are disclosed among financial expense amounted to EUR 3,345 thousand in 2010 and EUR 898 thousand in 2009.

9% of trade receivables due from customers other than Group companies were secured (2009: 14%).

RECEIVABLES DUE FROM OTHER ENTITIES

Receivables due from other entities in the amount of EUR 17,618 thousand refer mostly to receivables arising from VAT and receivables arising from advances.

As at 31 December 2010, the Company recorded EUR 1,639 thousand of advances for property, plant and equipment (2009: EUR 1,666 thousand), EUR 131 thousand of advances for services (2009: EUR 637 thousand), and EUR 317 thousand of advances for inventories (2009: EUR 116 thousand).

21. Cash and cash equivalents

in EUR thousand	31 Dec 2010	31 Dec 2009
Cash in hand	8	10
Bank balances	1,539	7,477
Total cash and cash equivalents	**1,547**	**7,487**

22. 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 2010 the Company recorded 1,662,281 own shares i.e. 4.7% of the share capital value.

At the 14th Annual 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 of the Krka Group. Furthermore, the purchase price must not exceed 30-fold the earnings per share held by the equity holders of the parent 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 Meeting took place.

35,661 own shares were repurchased in 2010.

REPURCHASE OF OWN SHARES IN 2010

	Number of shares	Average share price (in EUR)	Value of own shares (in EUR thousand)
Balance at 31 December 2009	**1,626,620**		**19,489**
Repurchase in 2010			
26 November 2010	1,378	62.31	86
29 November 2010	77	62.65	5
30 November 2010	1,069	62.93	67
1 December 2010	1,279	63.24	81
2 December 2010	1,758	63.16	111
6 December 2010	2,459	63.53	157
7 December 2010	2,459	63.02	155
8 December 2010	3,459	63.05	219
9 December 2010	3,061	63.11	194
10 December 2010	2,274	63.39	144
13 December 2010	2,898	63.25	184
14 December 2010	1,669	63.63	106
15 December 2010	1,504	63.66	96
16 December 2010	3,399	63.44	216
17 December 2010	2,153	63.32	137
20 December 2010	2,624	63.32	167
21 December 2010	2,141	62.95	135
Total repurchase of own shares in 2010	**35,661**	**63.23**	**2,260**
Balance at 31 December 2010	**1,662,281**		**21,749**

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 123,252 thousand; compared to 2009, it increased by EUR 2,260 thousand due to additional formation of reserves for own shares arising from the repurchase of own shares in 2010. 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 21,749 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 2010 and remained unchanged.

Statutory reserves amounted to EUR 27,184 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 2009 **the fair value reserve** decreased by EUR 337 thousand and as at 31 December 2010 amounts to EUR 1,767 thousand. The total change results from the decrease of fair value of available-for-sale investments (by EUR 421 thousand) and the increase of EUR 84 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 165,920 thousand. The decrease, on the other hand, is a result of allocation of accumulated profit to dividend payout (EUR 37,179 thousand) as confirmed by the 15th Annual Meeting held on 17 July 2010, of an additional formation of statutory reserves (EUR 5,000 thousand) and of an additional formation of reserves for own shares due to the repurchase of own shares in 2010 (EUR 2,260 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, i.e. EUR 82 thousand (2009: EUR 162 thousand).

DIVIDENDS PER SHARE

As for the reporting period the gross dividend per share amounted to EUR 1.10 per share (2009: EUR 1.05).

ACCUMULATED PROFIT

in EUR thousand	2010	2009
Compulsory appropriation of net profit		
Net profit for the period	**165,920**	**170,812**
– to cover the loss from previous periods	0	0
– allocation to legal reserves	0	0
– allocation to reserves for own shares	–2,260	0
– allocation to statutory reserves	–5,000	–5,000
Net profit after compulsory appropriation	**158,660**	**165,812**
– formation of other income reserves pursuant to a decision adopted by the Management Board and Supervisory Board	–52,000	–62,000
Surplus of net profit	**106,660**	**103,812**
Identification of accumulated profit		
– surplus of net profit	106,660	103,812
– retained earnings from previous periods	62,285	57,937
Accumulated profit	**168,945**	**161,749**

23. Earnings per share

Basic earnings per share amounted to EUR 4.91 and showed a decline of 2.8% compared to the previous year's result (2009: EUR 5.05). The calculation of earnings per share took account of the net profit for the period attributable to the majority shareholders in the amount of EUR 165,920 thousand (2009: EUR 170,812 thousand). The weighted average number of shares was accounted for in the calculation for both years i.e. 33,797,418 for shares for 2010 and 33,799,500 for shares for 2009. Own shares were eliminated from the calculation.

All shares issued by the Company are ordinary shares; hence the diluted earnings per share ratio equalled the basic earnings per share.

24. Borrowings

in EUR thousand	31 Dec 2010	31 Dec 2009
Long-term borrowings	**66,800**	**103,836**
– borrowings from domestic banks	66,800	103,836
Short-term borrowings	**57,189**	**49,458**
– short-term portion of long-term borrowings	37,036	37,373
– borrowings from Group companies	143	42
– borrowings from domestic banks	18,500	10,000
– borrowings from other entities	317	379
– interest payable	1,193	1,664
Total borrowings	**123,989**	**153,294**

LONG-TERM BORROWINGS

			31 Dec 2010		31 Dec 2009	
in EUR thousand	Currency	Maturity	Par value	Carrying amount	Par value	Carrying amount
Borrowing from domestic bank	EUR	2011	40,000	3,636	40,000	10,909
Borrowing from domestic bank	EUR	2012	25,000	10,000	25,000	15,000
Borrowing from domestic bank	EUR	2012	79,000	39,500	79,000	55,300
Borrowing from domestic bank	EUR	2014	30,000	26,700	30,000	30,000
Borrowing from domestic bank	EUR	2014	30,000	24,000	30,000	30,000
Total long-term borrowings			**204,000**	**103,836**	**204,000**	**141,209**

No new long-term borrowings were raised in 2010.

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.

25. Provisions

in EUR thousand	Balance at 31 Dec 2009	Formation	Utilisation	Balance at 31 Dec 2010
Provisions for retirement benefits and anniversary bonuses	51,079	5,785	–4,232	52,632
Provisions for lawsuits	49,000	0	0	49,000
Total provisions	**100,079**	**5,785**	**–4,232**	**101,632**

Emission coupons (2009: EUR 22 thousand) and other deferred revenue (2009: EUR 143 thousand), which were recorded within provisions in the financial statements for 2009, have been reposted and disclosed within deferred revenue in 2010. The applicable 2009 data have been adjusted accordingly.

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.

Provisions for lawsuits remained unchanged in 2010.

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 4.50% in the reporting period (2009: 4.25%) 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 mortality tables available for the local population;
- increase in wages and salaries by 1.6% attributable to inflation rate (2009: 1.6%) and by 2% attributable to career promotion (2009: 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.

26. Deferred revenue

in EUR thousand	Balance at 31 Dec 2009	Deferred revenue received	Reversal of deferred revenue	Balance at 31 Dec 2010
Grants received for the Beta plant in Šentjernej	169	0	–44	125
Grants by the European Regional Development Fund	30	0	–4	26
Grants by the European Fund – development of new technologies (FBD project)	385	867	–326	926
Property, plant and equipment received free-of-charge	595	9	–13	591
Emission coupons	22	21	–21	22
Other deferred revenue	143	1,047	–212	978
Total deferred revenue	**1,344**	**1,944**	**–620**	**2,668**

Emission coupons and other deferred revenue which were recorded within provisions in the financial statements for 2009, have been reposted and disclosed within deferred revenue in 2010. The applicable 2009 data have been adjusted accordingly.

FBD project is partly funded by the European Union (European Regional Development Fund). The project is carried out in scope of Operational programme for strengthening regional development potentials for period 2007-2013; Priority axis 1: Competitiveness and Research Excellence: main type of activity 1.1.: Improvement of competitiveness and research excellence.

The recorded amounts of deferred revenue are decreased by the proportionate share of depreciation of assets to which the grants refer and by any other types of expenses incurred.

27. Trade payables

in EUR thousand	31 Dec 2010	31 Dec 2009
Payables to subsidiaries	28,643	24,679
Payables to domestic suppliers	40,188	29,781
Payables to foreign suppliers	40,540	33,805
Payables from advances	182	269
Total trade payables	**109,553**	**88,534**

TRADE PAYABLES TO SUBSIDIARIES		
in EUR thousand	31 Dec 2010	31 Dec 2009
Terme Krka, d.o.o., Novo mesto, Slovenia	82	91
KRKA-FARMA d. o. o., Zagreb, Croatia	5,054	2,617
KRKA ROMANIA S.R.L., Bucharest, Romania	1,725	1,080
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	268	204
KRKA-FARMA DOOEL, Skopje, Macedonia	408	409
KRKA FARMA, d. o. o., Sarajevo, Bosnia and Herzegovina	13	34
OOO KRKA FARMA, Sergiev Posad, Russian federation	2,218	62
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	7,742	10,264
KRKA Magyarország Kft, Budapest, Hungary	2,280	2,127
KRKA ČR, s. r. o., Prague, Czech Republic	4,494	3,258
KRKA Slovensko, s.r.o., Bratislava, Slovakia	1,792	1,514
UAB KRKA LIETUVA, Vilnius, Lithuania	693	0
TAD Pharma GmbH, Cuxhaven, Germany	1,333	1,691
KRKA Sverige AB, Stockholm, Sweden	0	883
KRKA Pharma GmbH, Vienna, Austria	119	137
KRKA USA, LLC, Wilmington, USA	2	3
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	386	305
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	34	0
Total trade payables to subsidiaries	**28,643**	**24,679**

28. Other current liabilities

in EUR thousand	31 Dec 2010	31 Dec 2009
Accrued contractual discounts on products sold to other customers	13,138	12,910
Payables to employees – gross wages, other charges	23,777	20,970
Other	4,323	3,272
Total other current liabilities	**41,238**	**37,152**

29. Contingent liabilities

in EUR thousand	31 Dec 2010	31 Dec 2009
Guarantees issued	5,591	5,086
Other	620	620
Total contingent liabilities	**6,211**	**5,706**

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 1,600 thousand). The item 'Other' refers to the affected property in Serbia.

30. Financial instruments

Long-term stability of the Company's performance is managed by means of active risk management policies as presented in detail under 'Risk management' within the Business Report. 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 2010 for hedging the Company's exposure against foreign exchange and interest rate risks.

CREDIT RISK

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 2010	31 Dec 2009
Financial assets available for sale	17	5,029	5,449
Financial assets at fair value through profit or loss	17	653	654
Loans	17	61,892	51,791
Receivables	20	423,042	346,881
– thereof trade receivables (including subsidiaries)		405,424	326,608
Cash and cash equivalents	21	1,547	7,487
Total		**492,163**	**412,262**

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 2010	31 Dec 2009
Slovenia	77,747	65,066
South-East Europe	81,211	71,721
East Europe	194,372	142,080
Central Europe	60,844	50,164
West Europe and overseas markets	70,760	69,641
Total	**484,934**	**398,672**

9% of trade receivables due from customers other than Group companies were secured (2009: 14%).

AGEING STRUCTURE OF LOANS AND RECEIVABLES AS AT THE REPORTING DATE

in EUR thousand	Gross value 2010	Allowance 2010	Gross value 2009	Allowance 2009
Not past due receivables	444,875	1,204	346,351	1,916
Past due 20 days	7,934	31	13,066	8
Past due 21 to 50 days	13,034	178	11,097	7
Past due 51 to 180 days	17,016	1,164	21,355	89
More than 180 days	10,404	5,752	12,175	3,352
Total	**493,263**	**8,329**	**404,044**	**5,372**

MOVEMENT OF ALLOWANCES FOR LOANS AND RECEIVABLES

in EUR thousand	2010	2009
Balance at 1 January	**5,372**	**4,832**
Formation of allowance	3,291	876
Write-off of receivables charged against allowance	−345	−177
Collection of bad debts	0	−157
Exchange differences	11	−2
Balance at 31 December	**8,329**	**5,372**

LIQUIDITY RISK

Despite problems encountered in the financial markets, the liquidity risk was low in 2010 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 2010		Contractual cash flows				
in EUR thousand	Carrying amount	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	104,981	109,415	21,729	17,860	43,096	26,730
Short-term borrowings from banks	18,545	18,555	5,555	13,000	0	0
Other short-term borrowings	463	470	278	192	0	0
Trade and other payables	159,426	159,426	159,426	0	0	0
Total non-derivative financial liabilities	**283,415**	**287,866**	**186,988**	**31,052**	**43,096**	**26,730**
Total derivatives	**0**	**0**	**0**	**0**	**0**	**0**
Total	**283,415**	**287,866**	**186,988**	**31,052**	**43,096**	**26,730**

MATURITY OF FINANCIAL LIABILITIES AS AT 31 DECEMBER 2009		Contractual cash flows				
in EUR thousand	Carrying amount	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**

FOREIGN CURRENCY RISK

Exposure to foreign currency risk

	31 Dec 2010				
in EUR thousand	EUR	USD	PLN	RUB	RON
Trade and other receivables	149,753	18,381	38,905	165,035	31,069
Borrowings from banks	–123,989	0	0	0	0
Trade payables	–85,670	–10,724	–7,757	–2,158	–1,727
Gross financial position exposure	**–59,906**	**7,657**	**31,148**	**162,877**	**29,342**
Estimated sales	598,305	28,283	127,100	176,734	29,972
Estimated purchases	–479,000	–115,000	–43,500	–52,200	–9,500
Gross exposure	**119,305**	**–86,717**	**83,599**	**124,534**	**20,472**
Net exposure	**59,399**	**–79,060**	**114,747**	**287,411**	**49,814**

in EUR thousand	31 Dec 2009 EUR	USD	PLN	RUB	RON
Trade and other receivables	136,759	25,914	32,441	112,860	19,626
Borrowings from banks	−153,294	0	0	0	0
Trade payables	−64,943	−10,914	−10,248	0	−1,080
Gross financial position exposure	**−81,478**	**15,000**	**22,193**	**112,860**	**18,546**
Sales	566,262	22,274	124,067	169,852	38,711
Purchases	−460,643	−110,595	−41,826	−50,200	−9,093
Gross exposure	**105,619**	**−88,321**	**82,241**	**119,652**	**29,618**
Net exposure	**24,141**	**−73,320**	**104,434**	**232,512**	**48,164**

Estimated sales and purchases stated in the 2010 schedule are based on the Company's business plan for 2011, whereas estimated sales and purchases stated in the 2009 schedule take account of the Company's actual sales and purchases made in 2010.

SIGNIFICANT FOREIGN EXCHANGE RATES

	Average exchange rate *		Final exchange rate *	
	2010	2009	2010	2009
USD	1.33	1.39	1.33	1.43
PLN	4.00	4.33	3.97	4.12
RUB	40.27	44.13	40.54	43.50
RON	4.21	4.24	4.29	4.23

* Number of local currency's units for 1 euro

The above-stated exchange rates 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 or decrease the net profit referring to values stated below. The 2009 analysis was prepared on the same basis assuming that other remaining elements, interest rates in particular remain unchanged.

in EUR thousand	Impact on the profit or loss 2010	2009
USD	783	726
PLN	−1,136	−1,034
RUB	−2,846	−2,302
RON	−493	−477

A 1% decrease of the euro value in respect of currencies stated as at 31 December 2010 or 31 December 2009 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	2010	2009
Financial instruments at fixed interest rate	**56,725**	**55,040**
Financial assets	58,543	55,419
Financial liabilities	–1,818	–379
Financial instruments at variable interest rate	**–117,661**	**–148,770**
Financial assets	3,317	2,481
Financial liabilities	–120,978	–151,251

Analysis of sensitivity of the financial instruments' 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 flows' 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 2010 by EUR 1,177 thousand (2009: by EUR 1,488 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 2009.

A detailed schedule of long-term and short-term borrowings is presented below.

LONG-TERM BORROWINGS		
in EUR thousand	31 Dec 2010	31 Dec 2009
Long-term borrowings	103,836	141,209
– short-term portion of long-term borrowings	37,036	37,373
Average balance of long-term borrowings	122,523	125,246
Interest paid (financial year)	3,020	3,403
Other cost of raising long-term borrowings	0	68
Average interest rate of long-term borrowings (financial year)	2,46%	2,77%
Maturity in three years or less	85%	82%
Maturity in more than three years	15%	18%
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 2010	31 Dec 2009
Short-term borrowings including short-term portion of long-term borrowings	55,996	47,794
– from banks	55,536	47,373
– from other entities	460	421
Short-term borrowings exclusive of short-term portion of long-term borrowings	18,960	10,421
Average balance of short-term borrowings (financial year)	14,691	33,962
Interest paid (financial year)	439	1,355
Other cost of raising short-term borrowings	30	34
Average cost of short-term borrowings (financial year)	3.19%	4.09%
Currency structure of short-term borrowings		
– euro	100%	100%
Structure of short-term borrowings in terms of interest rates:		
– variable	90%	96%
– fixed	10%	4%

FAIR VALUE

	2010		2009	
in EUR thousand	Carrying amount	Fair value	Carrying amount	Fair value
Long-term loans	12,206	12,912	17,080	17,874
Financial assets available for sale	5,029	5,029	5,449	5,449
Short-term loans	49,686	49,686	34,711	34,711
Current investments	653	653	654	654
– instruments held for trading	93	93	145	145
– other current investments	560	560	509	509
Trade and other receivables	423,042	423,042	346,881	346,881
Cash and cash equivalents	1,547	1,547	7,487	7,487
Borrowings	–123,989	–128,257	–153,294	–158,521
Trade and other payables	–159,426	–159,426	–125,686	–125,686
Total	**208,748**	**205,186**	**133,282**	**128,849**

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 2010 published by Abanka. The yield-to-maturity of these papers was recorded at 0.869% (2009: 1.360%).

Financial instruments

The schedule illustrates the classification of financial instruments in terms of their fair value. Hence, the financial instruments form three levels, 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 2010			31 Dec 2009		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets available for sale	3,679	0	1,350	4,067	0	1,382
Instruments held for trading	93	0	0	145	0	0
Other current investments (points of mutual funds and assets under management)	560	0	0	509	0	0
Total	**4,332**	**0**	**1,350**	**4,721**	**0**	**1,382**

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.

31. Transactions with related parties

INTRAGROUP TRANSACTIONS

Transactions with Group companies in 2010 are presented below.

in EUR thousand	Sales	Expenses	Borrowings	Loans
Terme Krka, d. o. o., Novo mesto, Slovenia	231	927	143	22,522
KRKA-FARMA d. o. o., Zagreb, Croatia	44,915	21,728	0	0
KRKA ROMANIA S.R.L., Bucharest, Romania	0	9,062	0	0
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	6,299	1,747	0	0
KRKA-FARMA DOOEL, Skopje, Macedonia	10,874	1,206	0	0
KRKA FARMA, d. o. o., Sarajevo, Bosnia and Herzegovina	4	158	0	0
OOO KRKA-RUS, Istra, Russian Federation	39,828	1	0	0
OOO KRKA FARMA, Sergiev Posad, Russian Federation	92,537	50,580	0	10,205
TOV KRKA UKRAINA, Kiev, Ukraine	0	0	0	0
KRKA-POLSKA, Sp. z o. o., Warsaw, Poland	111,201	40,958	0	0
KRKA ČR, s. r. o., Prague, Czech Republic	77	15,665	0	0
KRKA Magyarország Kft, Budapest, Hungary	0	14,435	0	0
KRKA Slovensko, s.r.o., Bratislava, Slovakia	0	6,931	0	0
UAB KRKA LIETUVA, Vilnius, Lithuania	0	4,379	0	770
TAD Pharma GmbH, Cuxhaven, Germany	12,047	7,108	0	0
KRKA Sverige AB, Stockholm, Sweden	19,311	16	0	0
KRKA Pharma GmbH, Vienna, Austria	1,068	1,105	0	0
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	1,442	304	0	0
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	0	184	0	0
KRKA USA, LLC, Wilmington, USA	0	11	0	0
Total	**339,834**	**176,505**	**143**	**33,497**

* 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 16, the balance of borrowings from subsidiaries is presented in Note 24, the balance of receivables due from Group companies is presented in Note 20 and the balance of short-term operating liabilities to Group companies is presented in Note 27.

DATA ON GROUPS OF PERSONS

As at the year-end, the members of the Management Board of the Company held 37,050 shares in Krka, d. d., representing 0.105% of the total equity and 0.110% of the voting rights.

As at the reporting date, the members of the current Supervisory Board of the Company held 13,845 shares in the Company, representing 0.039% of the total equity and 0.041% 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 2010			31 Dec 2009		
	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
Aleš Rotar	12,770	0.0360	0.0378	12,770	0.0360	0.0378
Zvezdana Bajc	1,660	0.0047	0.0049	1,660	0.0047	0.0049
Vinko Zupančič	120	0.0003	0.0004	120	0.0003	0.0004
Danica Novak Malnar	0	0.0000	0.0000	0	0.0000	0.0000
Total Management Board	**37,050**	**0.1046**	**0.1097**	**37,050**	**0.1046**	**0.1097**
Supervisory Board members, representatives of owners; appointed for a period that expired on 20 June 2010						
Gregor Gomišček				320	0.0009	0.0009
Mateja Božič				0	0.0000	0.0000
Anton Rous				0	0.0000	0.0000
Draško Veselinović				60	0.0002	0.0002
Alojz Zupančič				3,265	0.0092	0.0097
Supervisory Board members, representatives of owners; appointed for a period beginning on 21 June 2010						
Jože Lenič	180	0.0005	0.0005	210	0.0006	0.0006
Julijana Kristl	230	0.0006	0.0007	230	0.0006	0.0007
Vincenc Manček	11,543	0.0326	0.0342	11,543	0.0326	0.0342
Mojca Osolnik Videmšek	452	0.0013	0.0013	452	0.0013	0.0013
Matjaž Rakovec	400	0.0011	0.0012	400	0.0011	0.0012
Sergeja Slapničar	0	0.0000	0.0000	0	0.0000	0.0000
Supervisory Board members – representatives of employees						
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	**13,845**	**0.0391**	**0.0410**	**17,520**	**0.0495**	**0.0518**
Total	**50,895**	**0.1437**	**0.1507**	**54,570**	**0.1540**	**0.1616**

Own shares were eliminated from the calculation of voting rights (1,662,281 own shares as at 31 December 2010 and 1,626,620 own shares as at 31 December 2009).

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 2010.

EMOLUMENTS OF GROUPS OF PERSONS (GROSS AMOUNTS)

in EUR thousand	2010	2009
Members of the Management Board	2,136	2,235
Members of the Supervisory Board	43	38
Persons employed under individual employment contracts	15,966	19,463
Total emoluments of groups of persons (gross amounts)	**18,145**	**21,736**

EMOLUMENTS OF THE MANAGEMENT BOARD IN 2010

	Remuneration – fixed portion			Remuneration – variable portion		Total	
in EUR thousand	Gross remuneration	Net remuneration	Net fringe benefits and other receipts	Gross	Net	Gross	Net
Jože Colarič	344	155	9	302	139	646	303
Vinko Zupančič	203	87	14	168	77	371	178
Aleš Rotar	277	121	13	236	109	513	243
Zvezdana Bajc	253	109	13	214	98	467	221
Danica Novak Malnar	128	60	6	10	5	139	71
Total emoluments of the Management Board	**1,206**	**532**	**56**	**930**	**428**	**2,136**	**1,016**

	Fringe benefits and other receipts (net)					
in EUR thousand	Manager insurance	Additional pension insurance	Other benefits	Refund of expenses	Vacation bonus	Total
Jože Colarič	5.354	2.646	0.096	0.091	0.609	8.796
Vinko Zupančič	4.287	2.646	5.948	0.685	0.618	14.184
Aleš Rotar	4.285	2.646	4.839	0.745	0.612	13.127
Zvezdana Bajc	4.316	2.646	5.008	0.824	0.613	13.407
Danica Novak Malnar	1.856	2.646	0.047	0.813	0.629	5.991
Total emoluments of the Management Board	**20.098**	**13.230**	**15.938**	**3.158**	**3.081**	**55.505**

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**	**604**	**59**	**971**	**447**	**2,235**	**1,110**

in EUR thousand	Fringe benefits and other receipts (net)					
	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**	**3.012**	**57.369**

On 1 January 2010, Mr. Vinko Zupančič was appointed member of the Management Board instead of Mr. Janez Poljanec.

Data on fringe benefits and other receipts are presented in net amounts (in thousand euros i.e. three decimals).

Other fringe benefits include the bonus referring to the use of company car for private purposes and other possible benefits. Refund of expenses includes commuting 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 2010

	Attendance fees		Travel expenses, personal income tax		Total	
in EUR thousand	Gross amount	Net amount	Gross amount	Net amount	Gross amount	Net amount
Supervisory Board members, representatives of owners; appointed for a period that expired on 20 June 2010					**0**	**0**
Gregor Gomišček	5.001	3.876	0.172	0.133	5.173	4.009
Mateja Božič	2.919	2.262	0.000	0.000	2.919	2.262
Anton Rous	2.285	1.171	0.502	0.389	2.787	1.560
Draško Veselinović	3.300	2.258	0.264	0.204	3.564	2.462
Alojz Zupančič	2.475	1.918	0.000	0.000	2.475	1.918
Supervisory Board members, representatives of owners; appointed for a period beginning on 21 June 2010						
Jože Lenič	2.243	1.739	0.100	0.077	2.343	1.816
Julijana Kristl	1.142	0.885	0.176	0.137	1.318	1.022
Vincenc Manček	1.650	1.279	0.000	0.000	1.650	1.279
Mojca Osolnik Videmšek	4.569	3.541	0.602	0.467	5.171	4.008
Matjaž Rakovec	1.142	0.885	0.000	0.000	1.142	0.885
Sergeja Slapničar	1.555	1.205	0.342	0.265	1.897	1.470
Supervisory Board members – representatives of employees						
Franc Šašek	4.791	3.713	0.000	0.000	4.791	3.713
Tomaž Sever	4.474	3.467	0.347	0.269	4.821	3.736
Mateja Vrečer	2.792	2.164	0.000	0.000	2.792	2.164
Total	**40.338**	**30.363**	**2.505**	**1.941**	**42.843**	**32.304**

LOANS GRANTED TO GROUPS OF PERSONS

	Balance		Repayments	
in EUR thousand	31 Dec 2010	31 Dec 2009	2010	2009
Members of the Management Board	9	4	4	3
Members of the Supervisory Board in the Company (employee representatives)	0	0	0	0
Persons employed under individual employment contracts	90	230	26	59
Total loans to groups of persons	**99**	**234**	**30**	**62**

The loans granted to the above-mentioned persons were used for housing purposes.

32. Educational structure of employees

	2010		2009	
	Headcount	Share (in %)	Headcount	Share (in %)
PhD	77	1.7	73	1.4
MSc	190	4.1	163	3.1
University education	1,606	34.7	2,299	44.2
Higher professional education	368	7.9	390	7.5
Vocational college education	180	3.9	168	3.2
Secondary school education	1,061	22.9	978	18.8
Skilled workers	1,061	22.9	1,031	19.8
Unskilled workers	90	1.9	103	2.0
Total (average for the period)	**4,633**	**100.0**	**5,205**	**100.0**

33. Transactions with the audit firm

The fee for the audit services performed in 2010 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 2010.

34. Events after the reporting period

Three events as presented below occurred in the period between the end of the reporting year and 15 March 2011.

In February 2011, Krka started work in the Russian Federation on the construction of a new solid dosage pharmaceutical production plant, which will support the flexible and modular development of production capacity in several phases. The investment is worth EUR 135 million, and consolidates Krka's status as a domestic pharmaceutical producer in Russia. Production will start in 2013.

Krka and its partners Metronik, Iskra Pio and the Dolenjska and Bela Krajina Chamber of Commerce and Industry successfully applied for EU grants for research and development investments. New research and development and production plant will be built at the Ločna location, which will function within the Krka Group as a subsidiary, Farma GRS, d. o. o. The value of the entire project is EUR 45 million, for which Krka will receive a grant of EUR 10.3 million, while the three partners will together receive EUR 0.3 million.

On 2 March 2011 Krka received a decision from Helsinki District Court in the patent dispute between Merck Frosst Canada Limited, Merck Sharp & Dohme B.V. and MSD Finland OY (MSD) and Krka, d. d., Novo mesto and its subsidiary Krka Sverige AB due to alleged infringement of two MSD patents protecting manufacturing processes in Finland for the active pharmaceutical ingredient montelukast. In the proceedings which began in 2009, the Helsinki District Court found that the procedure used by Krka to produce the active ingredient montelukast did not violate MSD's patented procedures.

These events did not affect the 2010 financial statements of the Company.

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., which comprise the statement of financial position as at 31 December 2010, the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the financial statements are free from material misstatement.

An audit involves performing 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 material misstatement 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 KRKA, d.d. as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Other matters

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.

Borut Šterbenc, B.Sc.Ec.	Marjan Mahnič, B.Sc.Ec.
Certified Auditor	*Certified Auditor*
	Partner

Ljubljana, 15 March 2011

KPMG Slovenija, d.o.o.
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SIGNING OF THE 2010 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 2010 annual report for the Company and the Krka Group. It is herewith adopted and confirmed by respective signatures.

Jože Colarič
President of the Management Board and Chief Executive

Aleš Rotar PhD
Member of the Management Board

Z. Bajc

Zvezdana Bajc
Member of the Management Board

Vinko Zupančič PhD
Member of the Management Board

Danica Novak Malnar
Member of the Management Board – Worker Director

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