KRKA

Growing through dialogue. Every day. 2012 ANNUAL REPORT

Krka Group highlights

6%

increase in sales revenues in 2012

EUR 282 MIO

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

48.5%

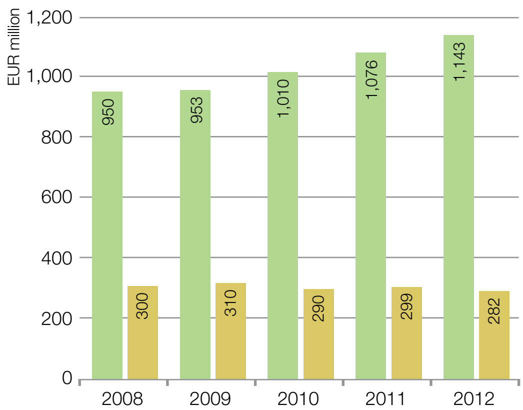
new products

EUR 160 MIO

profit for the year

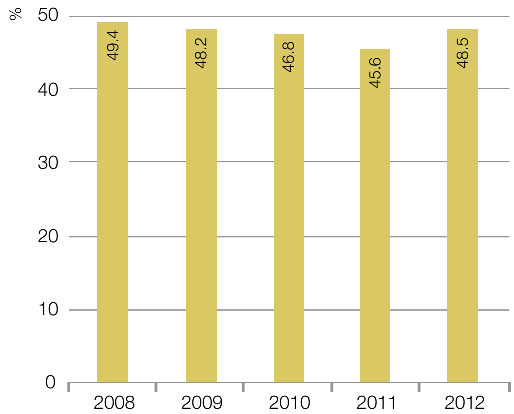
EUR 1,771 million market capitalisation

Revenues and earnings before interest, tax, depreciation and amortisation (EBITDA)



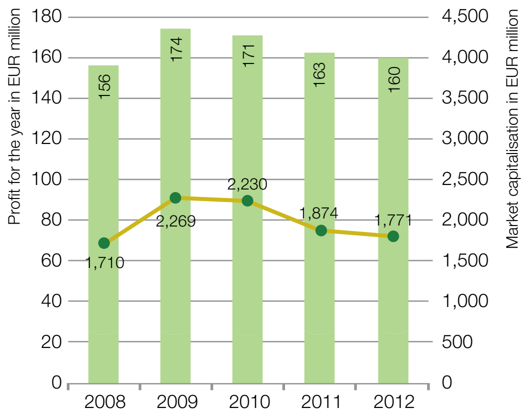
Revenues
EBITDA

The proportion of new products in Sales



** The new products proportion includes products launched on individual markets in the past five years.*

Profit for the year and market capitalisation



Profit for the year
Market capitalisation at year-end

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 lawsuits related to intellectual property rights (EUR 91.4 million) over the new provisions relating to a European Commission procedure (EUR 47.5 million).

Krka Group financial highlights

EUR thousand	2012	2011	2010	2009	2008
Revenues	1,143,301	1,075,627	1,010,021	953,038	949,920
EBIT[1]	192,308	211,561	208,134	233,643	228,683
EBITDA	282,276	298,747	289,855	310,318	300,292
Profit for the year	159,839	162,735	170,918	173,685	155,891
Non-current assets (year-end)	926,000	863,865	848,847	810,086	812,352
Current assets (year-end)	700,748	670,162	639,357	530,946	458,684
Equity (year-end)	1,240,521	1,139,754	1,053,327	920,369	783,296
Non-current liabilities (year-end)	145,362	155,093	202,709	237,834	257,526
Current liabilities (year-end)	240,865	239,180	232,168	182,829	230,214
R&D costs	101,102	92,932	90,924	88,283	84,746
Investments	153,288	109,713	115,449	90,274	146,367
RATIOS	**2012**	**2011**	**2010**	**2009**	**2008**
EBIT margin	16.8%	19.7%	20.6%	24.5%	24.1%
EBITDA margin	24.7%	27.8%	28.7%	32.6%	31.6%
Profit margin (ROS)	14.0%	15.1%	16.9%	18.2%	16.4%
ROE[2]	13.4%	14.8%	17.3%	20.4%	21.3%
ROA[3]	10.1%	10.8%	12.1%	13.3%	13.0%
Liabilities/Equity	0.311	0.346	0.413	0.457	0.623
R&D costs/Revenues	8.8%	8.6%	9.0%	9.3%	8.9%
NUMBER OF EMPLOYEES	**2012**	**2011**	**2010**	**2009**	**2008**
Year-end	9,461	8,948	8,569	7,975	7,602
Average	9,197	8,789	8,328	7,816	7,294
SHARE INFORMATION	**2012**	**2011**	**2010**	**2009**	**2008**
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]	4.80	4.85	5.06	5.14	4.61
Dividend per share in EUR	1.50	1.40	1.10	1.05	0.91
Closing price at end of period in EUR	50.00	52.90	62.95	64.04	48.27
Price/Earnings ratio (P/E)	10.41	10.91	12.44	12.46	10.46
Book value in EUR[5]	35.02	32.17	29.73	25.98	22.11
Price/Book value (P/B)	1.43	1.64	2.12	2.46	2.18
Market capitalisation in EUR thousand (31 December)	1,771,306	1,874,042	2,230,074	2,268,689	1,710,019
EXCHANGE RATES	**2012**	**2011**	**2010**	**2009**	**2008**
USD (average)	1.285	1.392	1.326	1.395	1.471
USD (31 December)	1.319	1.294	1.328	1.434	1.392

[1] *The difference between operating income and expense*
[2] *Profit for the year / Average shareholders' equity in the year*
[3] *Profit for the year / Average total assets in the year*
[4] *Profit for the year attributable to equity holders of the parent / Average number of shares issued in the year exclusive of treasury shares*
[5] *Equity as at 31 December 2012 / Total shares issued*

Every day. Every week. Every year.

In 2012, Krka's long tradition of charity and volunteering turned into several days of uninterrupted organised action.

In April 2012, Krka in Slovenia lived and breathed for charity and volunteering for one week.

In six days nearly 600 Krka employees reached out their hands to elderly townspeople and children with special needs, provided assistance, and offered moments of relaxation and joy. They received a lot in return: happiness and gratitude in the eyes of the protégées.

At the end of the year we for the first time conferred recognition awards on Krka's most visible and committed volunteers for their dedicated volunteering in the community.

The week marked the year, even though the spirit of volunteering is generally present in Krka. Every day.

Achievements of the Krka Group.
Important information on business operations of the Krka Group.

Growing through dialogue

Thanks to good and open interpersonal relationships, we perform well and fulfil our mission. We understand living a healthy life as growing through dialogue. We all benefit from that: Krka and our environment.

Stringent economic conditions put reciprocity and interaction with the community to the test.

In the year of good business results and numerous investments in development we focused on yet another long-term investment: charity, which is a part of the Krka culture and roots.

Numerous Krka employees engage in voluntary work, enriching themselves and the community.

For detailed information, please refer to chapters: Marketing and sales, Research and development, Responsibility to employees, Social corporate responsibility, and Responsibility to our natural environment.

Contents

Listening to your heart

Krka's volunteers joined forces with Karitas and Slovenian Red Cross charity organisations. We collected two and a half tonnes of clothing and goods, and prepared 750 food packages. Our work created a value much higher than numbers can portray. We did not forget animals living in shelters, and collected almost 800 kilograms of pet food for them.

Jože Colarič, President of the Management Board and Chief Executive

Statement by the President of the Management Board

Dear Shareholders, Business Partners and Employees,

Last business year was challenging. Considering our performance results I believe it was successful. Our work is made easier by our own development and marketing skills, modern production facilities, and good and reliable employees.

We are pleased that for the first time in its 58-year history the Krka Company exceeded the one-billion euro mark in sales last year, while Krka Group sales reached this threshold for the third time. Total sales increased by 6% and sales of products and services amounted to EUR 1.143 billion. As a result, operating profit reached just over EUR 192 million and profit for the year EUR 160 million.

The countries of Region East Europe were Krka's largest and fastest growing market last year. Having recorded a sales growth of 25% there, we were particularly successful in the Russian Federation, where we generated more than one fifth of all revenues. Krka has an advantage because Russian customers have known us for decades and because we have been present there as a local manufacturer for years. Very good operating results were also recorded in other countries of the Region, which grew by 24% and contributed 31% to total Krka Group sales.

In Region Central Europe we generated one fourth of our total sales. The largest market in terms of sales value was Poland, where we have our own production facilities and where, after a decrease in 2011, sales went up again last year. Sales growth was also recorded in the Baltic countries and Slovakia. In Hungary, however, due to the reforms of the health care system our sales declined, and overall sales in the Region fell by two percentage points compared to the year before.

Representing 23% of overall sales, Region West Europe and Overseas Markets was our third largest sales region. Our presence there has strengthened considerably in recent years due to our own marketing and sales companies. The newly-established companies in France, Italy and Spain began their operations in 2012. Owing to our own marketing network and the vertically integrated business model, which controls the development, production as well as marketing of pharmaceuticals, we achieved a 5% sales growth also in these markets, which tend to be subject to severe price pressures.

Contributing 13% of total Krka sales, another important sales region is Region South-East Europe, which comprises the countries of former Yugoslavia except Slovenia, and Romania, Bulgaria and Albania. We have encountered slightly extended payment terms as well as other challenges in the Region. These markets, however, have a potential and Krka is a well-known name, which is why we again recorded rising sales last year there.

In the domestic market we remain the leading supplier of medicines. The sales of products, health resort and tourist services generated in Slovenia account for approximately 8% of Krka Group sales. Slovenia is an important market for Krka, as this is where our production, investment, research and development, and employment activities are concentrated.

Krka's core business is the production and sales of prescription pharmaceuticals, which represented over 82% of our total sales in 2012 followed by non-prescription product sales accounting for almost 11%, veterinary product sales for nearly 4%, and sales of health resort and tourist services for 3% of total sales.

In 2012 the Krka Group allocated over EUR 153 million to investments, which is the most in the last ten years, when more than EUR 100 million on average was invested every year in order to increase and modernise the development and production capacities. More than 20 investment projects are currently in progress in the Krka Group, of which the solid dosage forms production plant, Notol 2, is of particular significance. It is the largest investment in Krka's history and will increase our production capacity nearly by half. This is in line with our plans to produce and sell well over the current 10 billion tablets, capsules and other products.

In any industry, including pharmaceutical, new products are the starting point for marketing and sales. Over 170 are currently in the pipeline at Krka, and will be released to markets in the years to come. As much as 48% of our sales in 2012 were generated by products launched in the last five years. We have been allocating approximately 9% of annual sales to research and development in recent years.

In 2012 Krka continued to strengthen what are traditionally good relations with domestic and foreign investors, presented its success story and took part in several events in financial centres at home and around the world. Since April 2012 Krka's share has been listed on the Warsaw Stock Exchange, where in September trading began. At the end of the year Krka had over 68,000 shareholders with international investors in particular, increasing their share during the year. Our dividends are stable with suitable yields for investors.

Many business and personal stories are connected with Krka. In 2012 we again raised considerable funds for the environment in which we operate. We allocate most of the funds to health care and sports, which go hand in hand when *living a healthy life*, as our slogan suggests. We also make significant donations to humanitarian causes and culture. I am convinced, however, that the most important contribution to fulfilling our corporate social responsibility is the new jobs that we create every year, thereby increasing prosperity for people.

We are facing numerous uncertainties in most of our markets. However, due to Krka's continual organic growth, new products and financial strength, I consider the operations of 2012 to be amongst the soundest so far, providing a good platform for future growth.

Jože Colarič
President of the Management Board
and Chief Executive

Jože Lenič MSc, President of the Supervisory Board

2012 Report of the Supervisory Board

Dear Shareholders,

At the six Supervisory Board meetings and ten Supervisory Board committee meetings in 2012, the Board diligently and responsibly monitored Krka's operations throughout the year, keeping under review the opinions of the external expert public about Krka, strengthening the good practice of Supervisory Board operations, and performing other supervisory tasks pursuant to the legislation, good practice and internal acts.

The work of the Supervisory Board

The Krka Supervisory Board consisted of nine members in 2012, four women and five men, aged 42 to 70, who are experts in pharmacy, chemistry, economics, engineering, organisational science and management. Shareholder representatives of the Board included Jože Lenič MSc, President of the Supervisory Board, Matjaž Rakovec, Deputy President of the Supervisory Board, Prof. Julijana Kristl PhD, Vincenc Manček, Mojca Osolnik Videmšek and Assoc. Prof. Sergeja Slapničar PhD, while the employee representatives were Franc Šašek, Deputy President of the Supervisory Board, Mateja Vrečer PhD and Tomaž Sever MSc.

The work and decision-making of the Supervisory Board is based on observations of how well Krka is reaching its objectives at the Company and Group level. Meetings offer an opportunity for the members of the Board to voice their opinions and critique, striving to reconcile views in order to pass unanimous resolutions.

Members attend meetings regularly. Apart from one member who was absent twice and another member who was absent once, both on justifiable grounds, all members attended all Board meetings in 2012. Twice the Board was joined by the certified auditors of KPMG Slovenija, whereas Board meetings are usually only attended by the members of the Supervisory Board and Management Board and by the Secretary to the Supervisory Board.

In the 44 items on its agenda in 2012 the Supervisory Board discussed Krka's past operations, plans for 2013, investments in the Krka Group and new products. It monitored financial and regulatory risks, was informed of the operations in the major areas of business, followed expert opinions about Krka and the operations of its competition, and kept up to date with the new developments in the company and its business environment.

The topics that the Supervisory Board members discussed most in 2012 include:

Annual Report Within the statutory time frame the Supervisory Board thoroughly examined the 2011 report of the Company and the Group, and discussed the auditor's report. The auditor KPMG Slovenija found the financial statements, which form a part of the Annual Report, to give a true and fair view of the financial position of Krka and the entire Group, their operations results, profit and loss account, and changes in equity. The Board held an interview with the auditor and had no comments to its work and the report. The Board also compiled and adopted a report on its work in 2011, and together with the Management Board drew up the Krka Statement of Compliance with the Corporate Governance Code.

Interim results The Supervisory Board regularly reviewed the first-quarter, half-year and nine-month reports of the Krka Company and the Group, and was informed about the performance results of comparable companies.

Supervising the operations of subsidiaries in the Krka Group The Supervisory Board was informed of the business model of all large subsidiaries, their results and other relevant aspects of their operations in 2011.

Long-term and short-term operations plans of the Krka Group The Supervisory Board discussed the Krka Group and Krka Company operations plan for 2013.

Convening and holding the Annual General Meeting Together with the Management Board, the Supervisory Board drew up the agenda and contents for the AGM as well as made a proposal for the distribution of accumulated profit. The Board proposed to the AGM that it discharge the Management and Supervisory Boards from liability for 2011, and proposed that Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana be appointed the Company's auditors for 2012.

Investments The Management Board regularly informs the Supervisory Board about all the Group's major investments. When discussing interim operations reports in 2012, the Board was informed of the progress made in Krka Group investment projects, especially the largest ones, like Notol 2, Krka-Rus 2, Sinteza 1 and Farma GRS. The Board also discussed investments in new indication areas. In 2012 this was oncology.

Risks The Supervisory Board discussed the Risk Register, a comprehensive list of risks faced by the Group, along with risk assessments and the related measures. The Board was informed of the state of claims lodged against Krka and its subsidiaries by other pharmaceutical companies, and of the Audit Committee report on managing financial risk in the Krka Group, with special emphasis on credit risk.

Business trends in the pharmaceutical industry The Supervisory Board was informed of the findings of 12 business analyses of Krka performed by investment banks, dealing especially with forecasts, operations analyses and the fair value of Krka.

Benchmarking the performance of Krka with comparable companies When monitoring and supervising a company's performance results, it is useful to have information about comparable companies. Twice during the year the Supervisory Board therefore compared Krka Group performance results with seven selected international pharmaceutical companies focusing especially on sales data, sales structure by regions and product groups, margins, cost structure, structure of the statement of financial position, ratios related to Krka's share, and other frequently used financial ratios.

Areas of current interest The Supervisory Board considers all relevant areas of business when reviewing interim reports and the annual report and a few times a year additionally examines selected topics. In 2012 the Board closely examined the life cycle of Krka's most important products and Krka's activities in the area of oncology. It also devoted a lot of attention to human resources, taking under review the employee development project, the Krka Group organisational climate report, and the Works Council report on worker participation in management.

The work and remuneration of the Management Board The Supervisory Board appointed Danica Novak Malnar member of the Management Board – Worker Director for the period from 1 January 2013 to 31 December 2015. The Supervisory Board regularly monitored the work of the Management Board, and particularly closely twice during the year when setting the variable amount of the members' performance bonuses pursuant to the Rules. A performance bonus model was created that considers quantitative and qualitative indicators. Quantitative indicators primarily include sales growth (also in relative terms in view of comparable companies), increase in cash flows from operations, operating profit and return on equity. Qualitative indicators include activities in new indication areas, the implementation of new requirements related to quality, regulatory and other areas, entry into new markets, new product launches, as well as social corporate responsibility, Krka's reputation, investor relations and public relations.

Shares and shareholding structure Each quarter the Supervisory Board reviewed the report on the acquisition of treasury shares, the current shareholding structure and the Company's share price. The Board adopted the revised Rules on Trading in Financial Instruments, which stipulate trading for persons with access to insider information, and was acquainted with the calendar of closed trading windows for 2012.

Strengthening the good practice of Supervisory Board operations In 2012 the Supervisory Board performed a periodic self-assessment according to the methodology of the Directors' Association of Slovenia for the second consecutive time. The Board adopted an action plan until the next self-assessment in 2013, and implemented the activities from the last year's action plan. In December members took part in an educational event organised in cooperation with the Directors' Association of Slovenia, and learned about new developments in corporate governance legislation. Throughout the year the Management Board reported on additional topics which the Supervisory Board marked as important in its self-evaluation report. Consistent with good practice, Board members filled out a questionnaire on the conflict of interests as stipulated by the Corporate Governance Code. Krka posted their statements on the Company's website.

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

Krka's events The members of the Supervisory Board attended events organised by Krka. The most prominent were the Annual General Meeting, the traditional annual Krka Prizes ceremony honouring the undergraduate and postgraduate student research work, and the Krka Evening of Culture.

The work of Supervisory Board committees

Supervisory Board committees discuss specialised areas of business on which they report and provide advice to the Supervisory Board. The decision-making remains within the powers of the Supervisory Board. Pursuant to the legislation and good practice, the Supervisory Board appointed the Audit Committee and the Human Resource Committee, which deal in detail with accounting and finance, and human resource issues.

Audit Committee

The Audit Committee is presided over by Mojca Osolnik Videmšek. In 2012 the Committee met five times and discussed 24 agenda items.

The Committee invited the President of the Management Board, the President of the Supervisory Board, the member of the Management Board in charge of accounting and controlling, and the Head of Internal Audit to all its meetings. One meeting was additionally attended by the Krka Finance Director acting as the rapporteur, while the representatives of the auditor KPMG Slovenija acted as rapporteurs when reviewing the annual report.

The topics which the Audit Committee discussed most often in 2012 include:

Annual Report The Audit Committee considered the Krka Company and the Krka Group 2011 Annual Report, the auditor's report and the Supervisory Board report for 2011, and proposed to the Supervisory Board to adopt them.

Accounting policies and audit Upon reviewing each interim report and the annual report, the Committee examined whether the accounting principles used to present the Company's operations had changed. In 2012 they did not. The Committee was also kept up to date with significant financial and accounting aspects of operations reports. Consistent with good practice, the president and member of the Committee met with auditors from Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana and proposed areas of business which needed to be closely examined in the regular operations audit for 2012.

Interim results The Audit Committee discussed interim reports of the Krka Company and the Krka Group, and reported to the Supervisory Board, primarily in regard to accounting and finance.

Internal auditing The Audit Committee also closely considered internal auditing at Krka. It discussed and gave its consent to the report on the work of Internal Audit in 2011, the report on the work of Internal Audit for January–June 2012, and the Internal Audit plan for 2013. The Committee also reviewed the Internal Audit report on implementation of the external auditor's recommendations, and its self-evaluation report for 2011.

Co-operation with the external auditor At the meeting with external auditor Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana, the president and member of the Committee were informed of the planned course of the 2012 audit, especially with respect to the composition of the audit team, their methods of work, the planned activities and schedule. The Committee proposed to the auditor the areas of business to be closely examined in the operations audit for 2012, and thereafter regularly monitored the implementation of external audit procedures.

Risks The Audit Committee gained a detailed insight into the management of financial risk at the Group level, especially with respect to credit risk, and discussed the Company's updated Risk Register, a comprehensive list of risks faced by the Group. It reported to the Supervisory Board on both matters.

Annual General Meeting The Audit Committee discussed the appointment of the auditor for the 2012 financial year, and suggested to the Supervisory Board to propose Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana to the Annual General Meeting.

Human Resource Committee

Presided over by Mateja Vrečer, the Human Resource Committee met five times in 2012 and discussed 16 agenda items. The President of the Management Board, the President of the Supervisory Board and the Management Board member in charge of accounting and controlling were invited to all meetings, while the other members of the Supervisory Board joined occasionally.

Management Board remuneration The Human Resource Committee examined the Management Board performance bonus model. It proposed to the Supervisory Board to adopt the updated Rules on Determining Management Board Performance Bonuses and the Management Board Remuneration Policy. The Supervisory Board adopted both documents. The Committee also proposed to the Supervisory Board the amount of the performance bonus that the President and members of the Management Board be awarded for their work in 2011 and in the first half of 2012.

Assessment of the work of the Management and Supervisory Boards

Pursuant to the legislation and good practice, in particular the Corporate Governance Code and the guidelines of the Slovenian Directors' Association, the Supervisory Board comprehensively monitored Krka's management and operations throughout 2012. The entire Management Board attended all Supervisory Board meetings. In particular the President reported on each agenda item in great detail and answered any questions asked by the Supervisory Board members, while the other members of the Management Board also regularly participated by providing clarifications related to their areas of expertise. Communication between the President of the Management Board and the President of the Supervisory Board extended beyond meetings.

Supervisory Board members had at their disposal all the necessary data, reports and information they required, while the Management Board prepared more detailed or additional reports at their request. Materials were distributed approximately one week before the meetings, thus allowing time to prepare for discussions. Krka's specialist services organised meetings of the Supervisory Board, regularly implemented technical improvements and provided other due support.

The Supervisory Board regularly monitored the work of the Management Board in 2012 and assessed it upon each discussion of interim results. These were compared with the competitors' results. The Supervisory Board also regularly monitored analysts' reports on Krka. The body examined the work of the Management Board in greater detail twice last year, when setting the amount of their performance bonuses. The bonuses were based on an evaluation of their performance according to a structured model. President and all members of the Management Board were fully committed to best possible performance of the Company and the Group and to meeting the set objectives. Performance results were good. Cooperation between the Management Board and Supervisory Board was exemplary throughout the year.

The Supervisory Board's self-assessment showed that its performance was in line with the highest standards in nearly all areas. Compared with the Board's previous self-assessment, the average mark in 2012 was 5% higher. The Supervisory Board also regularly monitors conflicts of interests. Consistent with the recommendations of the Corporate Governance Code, the members filled out statements on independence, which Krka posted publicly and which show that over a half of the Board, i.e. seven out of the nine members, are independent. Should a conflict of interests nevertheless be identified, the Rules of Procedure of the Supervisory Board stipulate that the Supervisory Board may resolve the matter by preventing a particular member to vote on an agenda item. We encountered one instance of a conflict of interests in 2012, when a member of the Board abstained from voting in the matter of taking out liability insurance, because one of the bidders was the company in which he is president of the management board.

Of the EUR 237,318 allocated the work of the Supervisory Board and its committees in the annual plan, EUR 232,014 was spent. With respect to the area of supervision, Krka paid EUR 7,000 of membership fees and EUR 1,170 for the presentation of corporate legislation novelties in 2012, both to the Slovenian Directors' Association, but no other expenses, for example for other professional services, were incurred.

Approval of the Annual Report and proposal for the appropriation of the 2012 accumulated profit

The Supervisory Board discussed the 2012 Annual Report at two meetings and additionally at the Audit Committee meeting. Auditors of the certified auditing company Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana presented their reports at all the above mentioned meetings.

The Supervisory Board first considered the **draft Annual Report** at its 17th regular meeting of 13 March 2013, when certified auditors described the audit procedure in detail, answered the questions by the Supervisory Board members, and informed the Board that no significant deviations were found during the audit.

Members of the Supervisory Board received the **proposed clean copy of the Annual Report** on 27 March 2013 and reviewed it at their 18th regular meeting of 3 April 2013. On the same day all the materials relating to the Annual Report were also reviewed at the Audit Committee meeting, and the Committee and Supervisory Board heard reports from certified auditors.

After having considered the draft and proposed clean copy of the Annual Report, the auditor's report and the Audit Committee's review, the Supervisory Board found that the Management Board's Annual Report is a true reflection of events and provides comprehensive information on operations in 2012, and that it elaborated on the information the Supervisory Board regularly received during the financial year. As it had no comments or reservations, the Supervisory Board unanimously approved the Annual Report at its meeting of 3 April 2013. **With this, the Annual Report was formally adopted in accordance with Article 282 of the Companies Act and Krka's Articles of Association**.

By approving the Annual Report, the Supervisory Board also approved the **proposal for the appropriation of accumulated profit**. In 2012 the Krka Company recorded **EUR 154,614,689.72** of profit, of which **EUR 13,071,354.61** was appropriated to reserves for treasury shares, and **EUR 25,000,000.00** to other revenue reserves. The remaining **EUR 116,543,335.11** of profit and **EUR 61,387,123.85** of retained earnings together comprise accumulated profit, which on 31 December 2012 amounted to **EUR 177,930,458.96**.

The Management Board and Supervisory Board propose that the General Meeting appropriate accumulated profit as follows:

- **EUR 1.61** gross per share, totalling **EUR 53,246,586.54**, for dividends,
- **EUR 62,341,936.21** for other revenue reserves,
- **EUR 62,341,936.21** for retained earnings.

This proposal has been drawn up considering the number of treasury shares on 3 April 2013, when the Krka Supervisory Board confirmed the 2012 Annual Report and together with the Management Board drafted a proposal for the distribution of accumulated profit. Since the number of treasury shares is subject to change, the exact number of ex-dividend shares will be declared on the day of the Annual General Meeting. The total amount to be allocated for dividends, other revenue reserves and retained earnings will be adjusted accordingly.

Conclusion

In the present times, marked by economic challenges, companies are continuously striving to improve their operations, searching for and implementing good practice solutions, and examining whether their responses and operations are adequate. Investor expectations have remained as high as before, while quality governance and supervision have become the competitive advantage which reassures investors that companies are managed well and transparently. Krka has singled out partnership and trust as two of its most important values. It pursues them in relation to investors by operating without major deviations and fluctuations, transparently, by upholding fair relations with all stakeholders, and by pursuing a stable dividend policy. Also in 2012 Krka's operations once again been financially sound, successful and trustworthy.

Jože Lenič MSc
President of the Supervisory Board

ID card of the Krka Group

Data on the controlling company

Krka, d. d., Novo mesto	
Registered office	Šmarješka cesta 6, 8000 Novo mesto, Slovenia
Telephone	+386 (0)7 331 21 11
Fax	+386 (0)7 332 15 37
E-mail	info@krka.biz
Website	www.krka.si
Core business	Production of pharmaceutical preparations
Business clarification code	21.200
Year established	1954
Registration entry	1/00097/00, District Court of Novo mesto
Tax number	82646716
VAT number	SI82646716
Company ID number	5043611
Share capital	EUR 59,126,194.28
Total number of shares issued	35,426,120 ordinary registered no-par value shares

On 31 December 2012 the Krka Group consisted of the controlling company, Krka d. d., Novo mesto, two subsidiaries in Slovenia, Terme Krka, d. o. o., Novo mesto and Farma GRS, d. o. o., and 25 subsidiaries outside Slovenia. Farma GRS is the 100% owner of two additional micro companies. The Group is engaged in the development, production, marketing and sale of human health products (prescription pharmaceuticals and non-prescription products), animal health products, and health resort and tourist services.

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

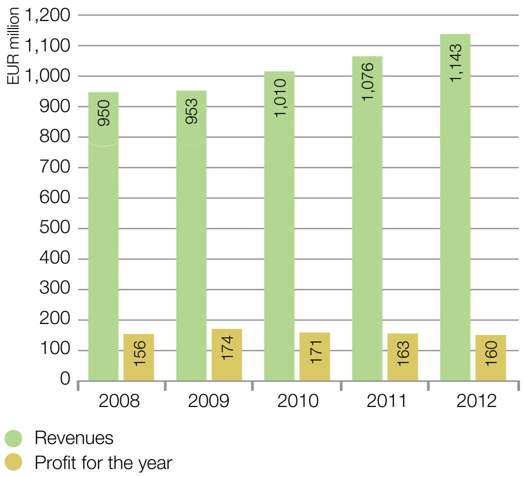
Terme Krka, d. o. o., Novo mesto is engaged in health resort and tourist services. It operates through the following branches, all spa resorts: Terme Dolenjske Toplice, Terme Šmarješke Toplice, Hoteli Otočec, Hotel Krka in Novo mesto, and Talaso Strunjan. Terme Krka d. o. o. is also the majority owner of Golf Grad Otočec d. o. o.

In September 2012 Krka founded a subsidiary in Kazakhstan, which is 100%-owned by the controlling company. Another subsidiary was founded in December in Belgium. It is 95%-owned by the controlling company, while the remaining 5% are held by Krka's French subsidiary.

Krka Group business model

Krka is one of the world's leading generic pharmaceutical companies. It is headquartered in Slovenia and has 59 years of experience in the industry.

Revenues and profit for the last five years, in EUR million



Krka has a leading position in its domestic market. Its presence is also significant in generic pharmaceuticals markets of:

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

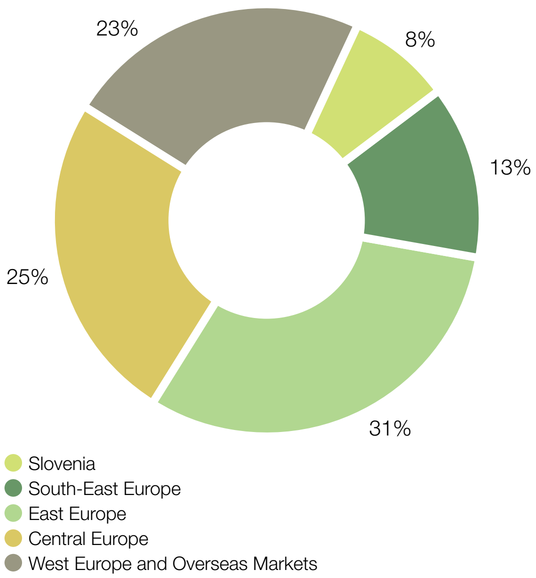
In recent years Krka has built up its presence in the markets of Western Europe, especially Germany, France, the UK, the Nordic countries, the Benelux, Italy, Portugal and Spain.

In the midst of the largest development and investment period to date

Approximately 20 investment projects totalling EUR 500 million were in progress in the Krka Group in 2012. They will increase the Group's production capacity by 40%, and raise the annual production volume from 12 to 17 billion of tablets and capsules.

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

Sales by Region in 2012



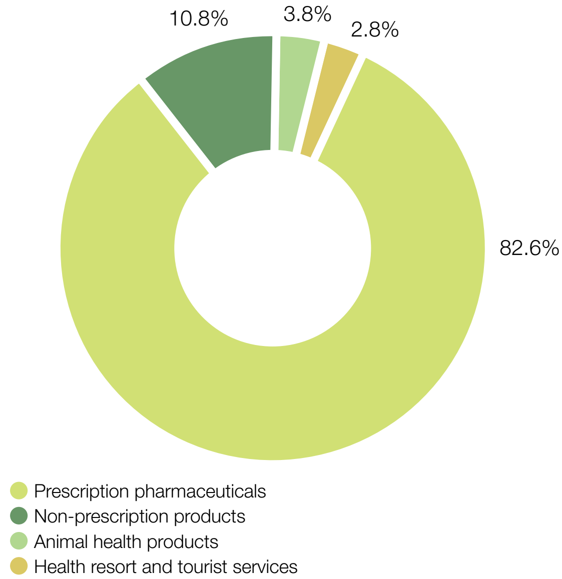
OPERATIONAL FOCUS

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

We focus on generic prescription pharmaceuticals marketed under Krka's own brands. In the future we will continue to focus on marketing and on developing our own marketing and sales networks through founding companies or purchasing local pharmaceutical companies in selected markets. Our objective is to strengthen the market position of the Krka Group in Europe and in the markets of Central Asia as well as to enter new high-potential markets.

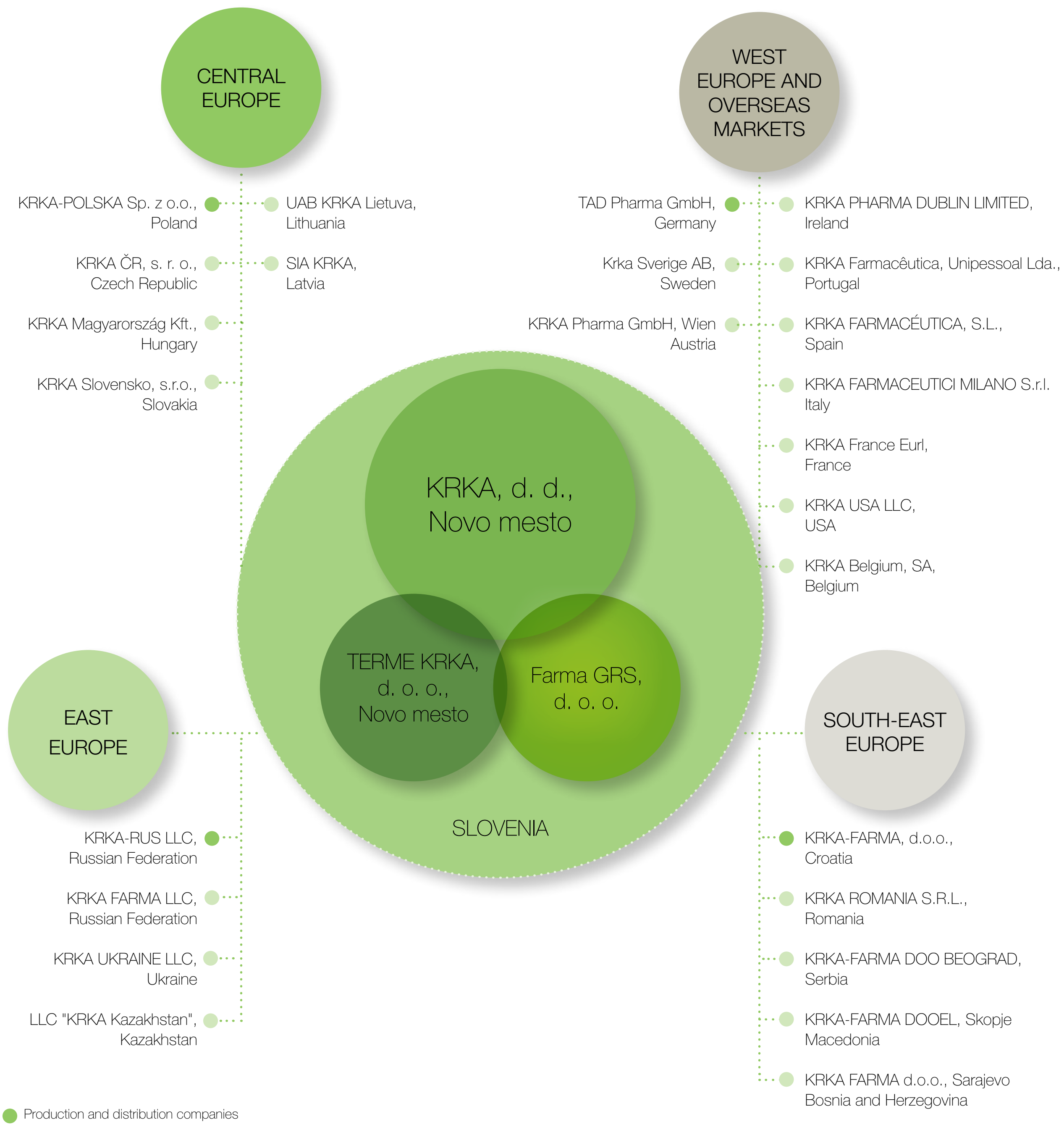
In order to increase the competitive advantage of our product portfolio and maintain a high proportion of vertically integrated products, Krka has been allocating 8 to 9% of its revenues to research and development. A large proportion of our total revenues is generated from the sales of new products, i.e. products launched on different markets over the past five years. We will continue to invest in research and development as there are over 170 new Krka products in the pipeline.

Sales by product group in 2012



Krka Group organisation chart

The chart includes companies in operation on 1 January 2013.



- Production and distribution companies
- Health resort and tourist services company
- Other subsidiaries outside Slovenia
- EU project: research and development company

Please see http://www.krka.biz/en/about-krka/whos-who-in-krka/organisational-structure/ for further information.

Overview of significant events

January

- A research conducted by the renowned business magazine Harvard Business Review ranks the Krka Group among the world's ten elite companies with stable sales growth every year in the period 1999–2009.
- Construction of the Chemicals development centre begins at Krka's main location. The facility is part of the Farma GRS company and will set up the infrastructure for developing new products and processes in the areas of pharmaceutical chemistry and technology.
- Krka successfully passes the 16th audit of its integrated management system, conducted by the Slovenian Institute of Quality and Metrology.

February

- Readers of the Slovenian magazine *Nedeljski dnevnik* declare Krka's President of the Management Board and Chief Executive Jože Colarič the 2011 Slovene of the Year.

March

- Krka receives a recognition award for becoming a finalist in the 2011 edition of the *Zlata nit* (Golden Thread) media research project and the employer-of-the-year campaign, organised by the Slovenian media company *Dnevnik*, as well as a special recognition award for a steadily growing employer.
- Krka successfully passes the verification of a new production line for veterinary products in the solid dosage forms production plant, which confirms that the production of our products complies with the EU good manufacturing practice.

April

- On 11 April 2012 Krka's shares are additionally listed on the Warsaw Stock Exchange.
- At the Slovenian HR Congress in Portorož, the Slovenian Human Resource Association presents Krka with a recognition award for contributing to the sustainable development of human resources and for our supporting the Association's development and operations.
- In the Russian Federation Krka wins the *Platinum Ounce* for Perineva (perindopril) in the category Launch of the Year.
- In Poland we receive the *Złoty Otis* (Golden Otis) for our Septolete plus spray.
- We organise the socially responsible campaign Krka's week of charity and volunteering. Under the slogan *Charity Is Also a Part of Us* it unites approximately 600 employees in doing various charity activities.

May

- At the 24th Forum of Excellence and Craftsmanship organised by the Novo mesto Faculty of Organisation Studies and the Economists' Association of Dolenjska and Bela krajina, Krka receives an award for being the organisation that hired the most new employees in 2012 and that thus contributed to increasing the employment rate in the Dolenjska region.
- At the *Polish Pharmacy Day*, Atoris (atorvastatin) wins a gold and Zalasta (olanzapine) a silver medal for product efficacy, safety, ease of administration and innovation, and for its year-long presence in the Polish market.
- The Beta plant successfully passes an inspection by the Agency for Medicinal Products and Medical Devices of the Republic of Slovenia (JAZMP), and its GMP certificate is renewed.

June

- The research conducted by marketing agency Kline & Partner again ranks Krka one of the most renowned Slovenian companies.
- Krka begins building the new solid dosage forms production plant Notol 2 – the largest investment in Krka's history.

July

- Krka's 17th Annual General Meeting takes place.
- Based on her candidacy for Worker Director representing the interests of employees in relation to human resource and social issues, the Krka Works Council re-elects employee representative Danica Malnar Novak for another term-in-office, starting on 1 January 2013.
- Krka receives two golden awards from the Chamber of Commerce of Dolenjska and Bela krajina: for the solid multiunit pharmaceutical form of the medicine treating Alzheimer's disease, and for developing the technology for the production of the active pharmaceutical ingredient and its formulation for the treatment of hypercholesterolemia. Farma GRS innovators win a silver medal for their development of a new crystalline formulation of an active substance.
- Construction of the Sinteza 1 plant begins in Krško, Slovenia. It will increase our API and intermediates production capacity.

August

- The Pharmaceutical Development Pilot Plant successfully passes a JAZMP inspection, and its GMP certificate is renewed.

and awards in 2012

September

- At the 2012 Investors' Week, Krka receives the *Shareholders' Friendly Company* award from Euroshareholders and the PanSlovenian Shareholders' Association.
- At the *ARC (Annual Report Competition) Awards International*, a competition honouring outstanding achievements in annual reports of profit and non-profit organisations from around the word, Krka wins the gold award in the category of non-English reports for the presentation of its business story in the 2011 Annual Report.
- Krka's employees, the authors of the solid multiunit dosage form of the medicine treating Alzheimer's disease, receive the *Gold Innovation Award* from the Chamber of Commerce and Industry of Slovenia.
- At the 42nd Krka Prizes ceremony for secondary school students, they receive awards for their research projects.
- Sterile products production successfully passes an inspection partly carried out by inspectors from Canada under the Mutual Recognition Agreement, and its GMP certificate is renewed.

October

- Krka passes an audit of our integrated management system, carried out by the Slovenian Institute of Quality and Metrology. Krka's ISO 9001, ISO 14001, HACCP, BS OHSAS 18001 and ISO/IEC 27001 certifications are renewed.
- At the 42nd Krka Prizes ceremony for graduate and postgraduate students, junior researchers receive awards for their research projects.

November

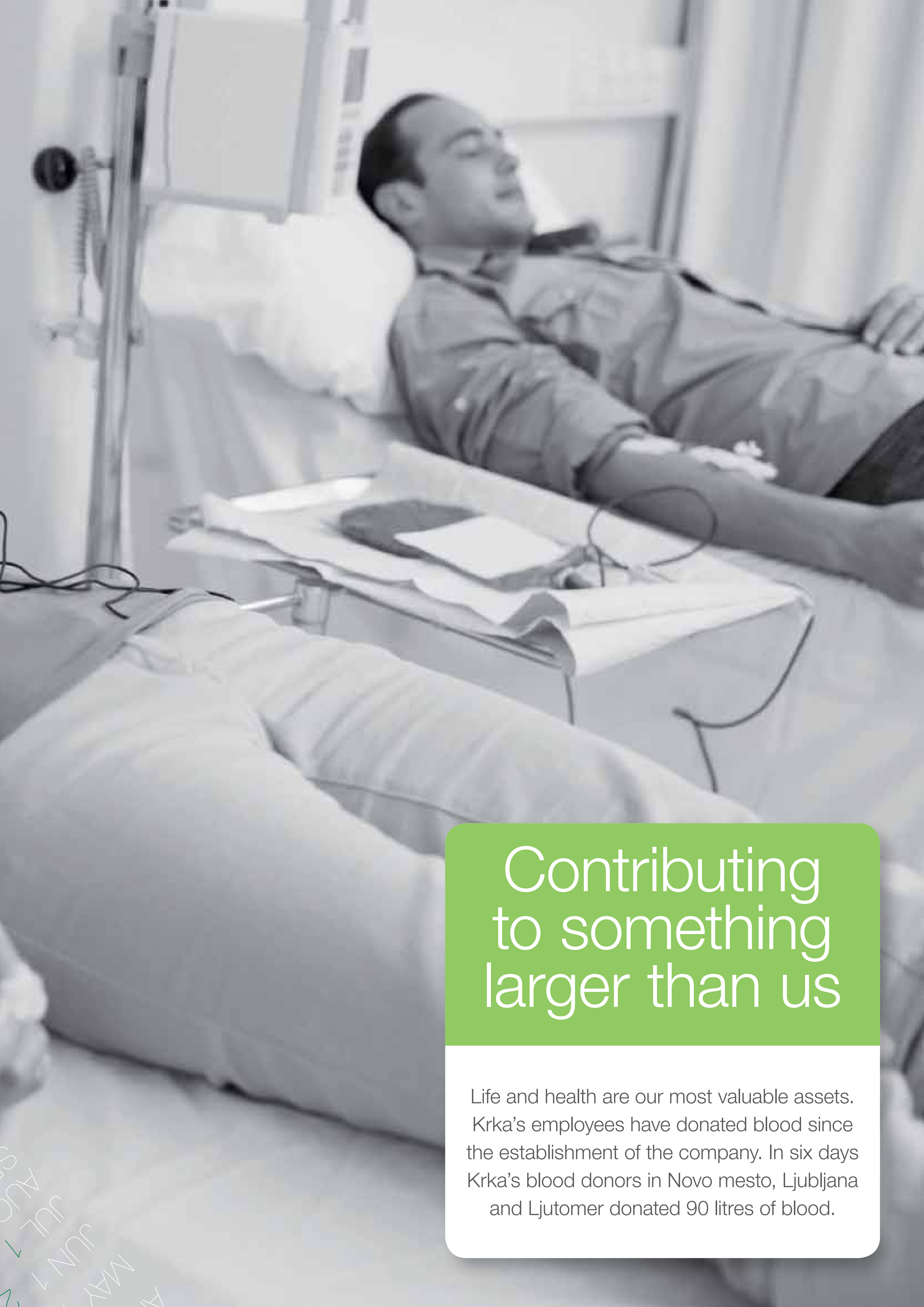
- The Slovenian business daily *Finance* awards Krka a prize for the best portrayal of risk management in our 2011 Annual Report.
- At the corporate education and training conference *Izobraževalni management 2012* (Managing Education and Training), Krka receives the *TOP Izobraževalni management* recognition award as it again becomes one of the top ten companies that invest the most into employee knowledge, education and training, and that systematically strive for it.
- The Bršljin plant successfully passes a JAZMP inspection, and its GMP certificate is renewed.

December

- The Ljubljana Stock Exchange awards Krka the sixth consecutive Portal prize for pursuing exemplary IR and CG practices.

Events after the accounting period

- At the end of January, Krka received the judgement by the Court of Appeal of Helsinki about the patent litigation filed by Merck Frosst Canada Limited, Canada, Merck Sharp & Dohme B. V., the Netherlands and MSD Finland Oy, Finland against Krka, d. d., Novo mesto and its subsidiary Krka Sverige AB. The dispute arose due to an alleged infringement of two MSD patents protecting manufacturing processes in Finland for the active pharmaceutical ingredient montelukast. The Court of Appeal of Helsinki upheld the appeal of MSD and reversed the decision of the court of first instance and decided that Krka did not prove its manufacturing processes for the active ingredient montelukast had not violated the patent-protected MSD process in Finland. Krka was ordered to pay MSD damages in the amount of EUR 629,737.20 with interest accrued from 31 December 2010. Krka filed an extraordinary appeal at the Supreme Court of Finland against the decision of Court of Appeal of Helsinki.
- Krka received a judgement of the Supreme Court of Slovenia by which it dismissed the request for audit filed by Merck Frosst Canada Limited in the litigation about an alleged patent infringement related to the active substance montelukast and confirmed the judgement of the Higher Court in Ljubljana of 10 May 2012.
- In the first three months of 2013 the Krka Company repurchased 45,967 treasury shares. At the end of March 2013, Krka held 2,353,706 treasury shares, which is 6.644% of the Company's share capital.



Contributing to something larger than us

Life and health are our most valuable assets. Krka's employees have donated blood since the establishment of the company. In six days Krka's blood donors in Novo mesto, Ljubljana and Ljutomer donated 90 litres of blood.

Corporate Governance Statement

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

The Company's governing bodies are:

- The Annual General Meeting,
- The Supervisory Board, and
- The Management Board.

Annual General Meeting

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

The Management Board convenes the Krka Annual General Meeting once a year, issuing notice at least 30 days before it is to take place. Access to the full materials for each AGM is available at the Company's registered office from the day the AGM 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 AGM and vote, as do their representatives and proxies.

At the Annual General Meeting, the Management Board provides shareholders with all the information they require to assess the content of the agenda, taking into account all legal or other restrictions on the disclosure of information.

The 17th AGM of the Krka Company was held on 5 July 2012, where shareholders:

- Received information about the 2011 Annual Report and about Management and Supervisory Board remuneration, about the auditor's report, and about the report of the Supervisory Board on its verification and approval of the 2011 Annual Report,
- Adopted the resolution on the appropriation of accumulated profit for 2011,
- Discharged the Management Board and Supervisory Board from liability in 2011,
- Appointed the auditor for 2012.

The resolutions adopted by the 17th AGM were published in the *Delo* newspaper, in the SEOnet information dissemination system and on the Krka website (http://www.krka.biz/en/media-centre/press-releases/17th-annual-general-meeting-of-krka-d-d-novo-mesto/5067/).

According to the financial calendar for 2013, this year's Annual General Meeting will take place on 4 July. The call for the AGM, along with the proposed resolutions, location of the meeting and eligibility conditions will be published in the Ljubljana Stock Exchange SEOnet system, in the Warsaw Stock Exchange ESPI system, in the *Delo* newspaper, and on the Krka website.

Supervisory Board

The Supervisory Board supervises Company operations and how business is managed, and selects and appoints members of the Management Board. The Supervisory Board meets at least four times a year, usually after each quarter.

Its **composition** is stipulated by the Company's Articles of Association. It is composed of nine members, six are elected by the Annual General Meeting, and three employee representatives are elected by the Krka Works Council. The President of the Supervisory Board is always elected by the Board members appointed by the AGM. Supervisory Board members are appointed for a five-year term and may be reappointed. Since the term-in-office of the previous Board came 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.

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

THE CURRENT SUPERVISORY BOARD WAS ELECTED IN 2010 FOR A FIVE-YEAR TERM.

The **salaries, reimbursement and other benefits** of Supervisory Board members do not directly depend on the Company's performance and are disclosed in the Financial Report, in the Note entitled Related Party Transactions. Consistent with good

Sitting left to right: Assoc. Prof. Sergeja Slapničar PhD, Jože Lenič MSc, Mojca Osolnik Videmšek, Franc Sašek. Standing left to right: Matjaž Rakovec, Mateja Vrečer PhD, Vincenc Manček,Tomaž Sever MSc and Prof. Julijana Kristl PhD.

practice, members of the Supervisory Board not only receive meeting attendance fees, but also earn fixed payments for the function. The amounts are specified in the resolutions of the 16th AGM.

Members of the Supervisory Board report any acquisition or disposal of company shares to the Company and competent institutions, and Krka publishes this information. Under Related Party Transactions in the Financial Report we are disclosing how many Krka **shares** are held by members of the Supervisory Board.

Members of the Supervisory Board pursue the Company's objectives in their work, and must subordinate any personal interests or interests of third parties to them. All members of the Krka Supervisory Board have completed the C3 survey of the Slovenian Corporate Governance Code, which is available on the Krka website. The Supervisory Board members' conduct in case of **conflicts of interest** is defined in the amended Rules of Procedure of the Supervisory Board, available at http://www.krka.biz/en/for-investors/documents/corporate-governance-documents/.

The composition and operations of the Supervisory Board and its committees in 2012 are presented in the Supervisory Board report.

SHAREHOLDER REPRESENTATIVES

Jože Lenič MSc
President of the Supervisory Board

Jože Lenič MSc, born in 1965, is 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 Member of the National Assembly of the Republic of Slovenia. He has also worked as a consultant to the Management Board of SKB banka. He has acted as the President of the Management Board of Kapitalska družba for years. From December 2003 to June 2005 he was the 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 the 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, the Slovenian Insurance Association, and several Zavarovalnica Triglav subsidiaries.

Matjaž Rakovec
Deputy President of the Supervisory Board

Matjaž Rakovec born in 1964, is 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 for Anga, d. o. o., both in Ljubljana. In 1994 he started work for the Ljubljana regional unit of Zavarovalnica Triglav, d. d., as Assistant 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 2012 he obtained the Slovenian Directors' Association Certificate. Since 2010 he has been President of the Board of Directors for Lovćen osiguranje a. d., Podgorica, Montenegro, President of the Supervisory Board of Triglav BH Osiguranje, d. d., and from 2011 President of the Board of Directors in Triglav INT, holdinška družba, d. d. He is also a member of the Managers' Association of Slovenia, 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 Audit Committee

Mojca Osolnik Videmšek, born in 1966, is 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 the Deputy Head of Office, before taking over as the 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 the Director of the Prime Minister's Office.

In February 2003 she started working for Nova Ljubljanska banka (NLB), as the 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 Deputy 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.

She is the Deputy President of the Management Committee of the Slovenian Directors' Association. She has been a supervisory board member for Kapitalska družba, d. d., Ljubljana for one term-in-office and a supervisory board member for Krka, d. d., Novo mesto. She is the chairperson or member of supervisory bodies and audit committees in several companies of the NLB Group.

Assoc. Prof. Sergeja Slapničar PhD

Associate Professor Sergeja Slapničar PhD, born in 1971, is 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 an Associate Professor the Head of the Accountancy and Auditing, and chair and supervisor for several subjects.

She is a member of the auditing committees at NLB banka, Telekom Slovenije and Mercator, and the President of the Report Committee required by Article 609 of the Companies Act to examine the exchange rates used in ownership transformation 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 published numerous scientific and academic works, and has been a member of the Council of Experts at the Agency for the Public Oversight of Auditing.

Vincenc Manček

Vincenc Manček, born in 1943, is 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 Deputy Chief Executive of Krka from 2001 until his retirement in March 2010.

He underwent the 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, d. d., Novo mesto 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, a health institution and public companies in Slovenia and Croatia. He is currently a supervisory board member for TPV d. d., Novo mesto.

Prof. Julijana Kristl PhD

Professor Julijana Kristl PhD, born in 1953, is 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 36 years of service she has successfully carried out numerous scientific, teaching and management tasks. She was the Deputy Dean and later on the Head of the Chair of Pharmaceutical Technology, before serving as Dean of the Faculty of Pharmacy for two terms. Since 2005 she has been the Vice-Rector at the University of Ljubljana, in charge of education, enrolment and quality.

Her research work is focused on modern active substance delivery systems, nanotechnology and biomaterials. She is a member of different national councils, the Slovenian Pharmaceutical Society, the Slovenian Biophysical Society, the president of the Society of Experts for Controlled Release of Bioactive Compounds, and a member of many notable international organisations — the USA-based Controlled Release Society, the UK-based Academy of Pharmaceutical Sciences, the France-based Association de pharmacie galenique industriel (International Society of Drug Delivery Sciences and Technology), and a 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 international scientific journals with impact factor ranking, and what is more, due to her great visibility and reputation in the scientific community she frequently evaluates doctoral dissertations and research projects at foreign universities and agencies.

Her expertise covers the planning, development and assessment of medicinal products, and she also has experience in obtaining marketing authorisations.

EMPLOYEE REPRESENTATIVES

Franc Šašek
Deputy President of the Supervisory Board

Franc Šašek, born in 1967, is a graduate in organisational science. He started working for Krka in 1984. Until 2000 he worked as a technologist, as Head of Technical and Technological Preparations Department and as Head of Section. Since 2001 he has performed the tasks of a senior specialist employee member within Engineering and Technical Services, working on maintenance and project management. As the 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 during its 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.

He underwent training for the supervisory board and management board members at the Slovenian Directors' Association in 2009. He was elected as president of the Krka Works Council for the 2009 to 2013 term and took office as a member of the Supervisory Board on 21 June 2009.

Mateja Vrečer PhD
President of the Supervisory Board's Human Resource Committee

Mateja Vrečer PhD was 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 the proposed new products, and after their approval led the whole project in Slovenia from marketing authorisation to launch. From 1997 she worked in quality management as a deputy director of Quality Management, and since 2007 she has been the Head of International Quality Assurance. In September 2011 she was appointed Director of Quality Management.

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

Tomaž Sever MSc

Tomaž Sever MSc was 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 in 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 an employee representative since the 2005–2009 term. On 21 June 2009 he was re-elected for another five-year term-in-office.

Management Board

The Management Board has the following **tasks**:

- To manage the Company and make independent and direct business decisions,
- To adopt the Krka Group development strategy,
- To ensure adequate risk management, and
- To act with the care of a conscientious and honest manager and protect business secrets.

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

The Management Board **consists** of five members:

- President of the Management Board,
- Three members, and
- Worker Director, who represents the interests of 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 reappointment.

The **Management Board's operational function and distribution of duties** is defined by the Rules of Procedure of the Management Board. Its prevailing approach is to coordinate opinions and make decisions by consensus. In line with the Rules of Organisation and the Rules of Procedure of the Management Board, Management Board members also have executive management tasks. Every member is in charge of a number of organisational units, which enables direct cooperation between the Management Board and the Company's executive directors, while at the same time Management Board members act as direct heads of some of these organisational units.

The Company has the following bodies to 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 Krka's experts from various areas. They prepare corporate policies and strategies for individual areas, and share certain decision-making responsibilities relating to the implementation of annual plans.

The **payment, reimbursement and other benefits** of Management Board members are defined in work contracts drawn up between the Supervisory Board and each Management Board member. The Rules Defining the Bonus Element of Management Board Remuneration are adopted by the Supervisory Board, and it is the Supervisory Board that defines the bonus for each Management Board member. In line with the Corporate Governance Code, the Supervisory Board had adopted a **Management Board Remuneration Policy** in 2010. The Supervisory Board adjusts and updates both documents as required depending on the business situation, the last time in May 2012.

Krka Management Board members are remunerated **in cash**. All payments to Management Board members are set out in the Financial Report, in the Note entitled Related Party Transactions, where also **shareholdings** of Management Board members are disclosed.

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 notify other members of the Management Board. Members of the Krka Management Board are not members of supervisory bodies of companies outside the Krka Group.

MANAGEMENT BOARD MEMBERS

Jože Colarič
President of the Management Board and Chief Executive

Jože Colarič was 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 the 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 six-year term-in-office, starting on 1 January 2010

Aleš Rotar PhD
Member of the Management Board and Director of Research and Development

Aleš Rotar PhD was 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 working 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 reappointed him to the Management Board for a further six-year term-in-office, starting on 1 January 2010.

Zvezdana Bajc
Member of the Management Board and Director of Accounting and Controlling

Zvezdana Bajc was 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, to 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 reappointed her to the Management Board for a further six-year term-in-office, starting on 1 January 2010.

Vinko Zupančič PhD
Member of the Management Board and Director of Product Supply

Vinko Zupančič PhD was 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 six-year term, starting on 1 January 2010.

Danica Novak Malnar
Member of the Management Board — Worker Director and Head of Pharmaceutical Production

Danica Novak Malnar was 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 Department since 1999. She was first appointed to the Management Board as Worker Director in 1998, and was reappointed in 2003 and again in 2007. Due to the results she has produced, and the trust and respect she has earned from her colleagues, she was reappointed as worker director yet again in 2012. Her term-in-office began at the beginning of 2013 and expires at the end of 2015.

Governance of the Krka Group

Krka's development is based on its business in Slovenia and international markets, and it expands through organic growth and acquisitions. The Krka Group consists of the controlling company Krka, d. d., and subsidiaries in Slovenia and abroad. In principle, all subsidiaries are 100%-owned by Krka.

Krka's companies operate in compliance with the local legislation, internal rules and operating instructions adopted by the controlling company's Management Board.

Standard rules on governance, organisation and operations apply equally to all companies of the Krka Group. The controlling company defines the strategic and operational objectives for all individual Group subsidiaries, and monitors how the set plans are being implemented. To ensure better integration of the subsidiaries within the Group and enhance their supervision, the controlling company's Management Board represents their annual general meeting of shareholders. Management Board members also function as the members of supervisory boards, monitoring committees, or boards of directors of the subsidiaries, for which they do not receive additional payments.

By applying the principle of functional leadership, where the business function in the controlling company manages the business function in the subsidiary, Krka 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 experts from Krka are in daily contact with their colleagues from 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.

In accordance with the annual plan, 13 regular internal audits were carried out in 2012 under the **COSO** (Committee of Sponsoring Organizations of the Treadway Commission) **ERM** (Enterprise Risk Management) methodology. Internal audit work plans and reports are adopted and approved by the Management Board and the Audit Committee of the Supervisory Board.

INTERNAL AUDITS ARE CONDUCTED IN LINE WITH THE COSO ERM METHODOLOGY.

The COSO ERM methodology is globally recognised and provides a basis for comprehensive risk management. Internal auditors use the COSO ERM 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 according to the aforesaid methods in the areas of sales, chemical development, environmental protection and media supply, human resources, securing receivables, documentary and finance control, and information technology. Regular internal audits were also carried out in three subsidiaries and two representative offices abroad. In line with the Standards, internal auditors also carried out consultancy work.

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. Improvements, however, were possible, and series of recommendations were made, categorised by individual level of risk, whereupon their realisation was verified regularly.

WE CONTRIBUTE TO COMPREHENSIVE RISK MANAGEMENT.

Internal auditors also work with external auditors, certified information system auditors and the Audit Committee of the Supervisory Board, to which they report directly.

Internal controls and risk management related to financial reporting

Internal controls are guidelines and procedures that the Krka Group has put in place and implements at every level of operation to manage risk relating to financial reporting. The purpose of internal controls is to ensure 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 increase 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 the ledgers with the actual balance, separation of record-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 financial statements of the controlling company and the consolidated financial statements of the Krka Group are audited by the auditing company Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana. As part of its audit, the external auditor reports its findings to the Management Board, the Supervisory Board and the Supervisory Board Audit Committee.

Transactions between the Krka Company and the auditing company Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana, as well as transactions between the Group companies and other auditing companies are disclosed under Transactions with the Audit Firm in the Notes to the Financial Statements.

Statement of Compliance with the Corporate Governance Code

The Management Board and Supervisory Board of Krka, tovarna zdravil, d. d., Novo mesto hereby state that in 2012 individual members of the Management Board and Supervisory Board, as well as the Management Board and the Supervisory Board as bodies of a public limited company, complied with the principles of corporate governance for listed companies and worked to ensure their implementation within the company.

Krka complies with all the provisions of the Slovenian Corporate Governance Code effective from 8 December 2009, as drawn up and adopted unanimously by the Ljubljana Stock Exchange, the Slovenian Directors' Association and the Managers' Association of Slovenia, and as published on the website www.ljse.si.

We also comply with the majority of the provisions of the Code of Best Practice for Warsaw Stock Exchange Listed Companies. Non-compliance is explained in a separate document, posted in the information dissemination system of the Warsaw Stock Exchange.

Novo mesto, 11 April 2013

Jože Colarič
President of the Management Board and Chief Executive

Jože Lenič MSc
President of the Supervisory Board

The Krka Group development strategy

In 2011 the Management Board adopted the Krka Group development strategy for the strategic period from 2012 to 2016. We measure how well our strategic objectives are realised with benchmarks. These are determined for three levels: the entire Group, each product group and each business function.

The Management Board monitors performance at the Group level, while the relevant committees monitor performance at the level of product and service groups as well as business functions. The key principle in monitoring performance criteria is increasing competitiveness, both of the entire Group and of each company individually.

The strategy will be revised for the strategic period from 2014 to 2018 by the autumn of 2013.

Key strategic objectives by 2016
Report an average annual sales growth of at least 6%.
In addition to the organic growth, expand through mergers and acquisitions and long-term partnerships.
Have new products account for at least one third of total sales.
Strengthen the competitive advantage of the product portfolio by maintaining vertical product integration and by launching selected products as the first generic pharmaceuticals on the selected key markets.
Increase cost efficiency in products.
Improve asset efficiency.
Strengthen innovation across all business functions.
Maintain independence.

Key strategies by 2016
Prioritise focus on European markets and the markets of Central Asia.
Strengthen pharmaceutical and chemical activities, especially in the range of prescription pharmaceuticals for the three key therapeutic areas (pharmaceuticals for cardiovascular diseases, pharmaceuticals for alimentary and metabolic diseases, and pharmaceuticals for diseases of the central nervous system), and non-prescription products for selected therapeutic areas.
Develop generic pharmaceuticals and prepare their marketing authorisation documentation prior to the expiry of the product patent for the original medicine.
Strengthen the professional and cost synergy within the Krka Group, and maximise the competitive advantages offered by the business environments of Krka companies outside Slovenia.
Ensure permanent supply of incoming materials and optimise supply by aiming at constant reduction of purchasing prices.
Strengthen the internationalisation of all business functions by implementing English and Russian as the key communication tools in the Krka Group.
Maintain the economic, social, and environmental responsibility to the surroundings in which we operate.
Reduce the impact of financial risks and economic hazards for the operations of the Krka Group.
Pursue the policy of moderate dividend increases.
Operate in accordance with the principles of business excellence and thereby strengthen the identity and positive public image of the Krka Group.

Business objectives of the Krka Group for 2013
The product and service sales target is EUR 1,202 million.
East Europe will be Krka's largest sales region and the Russian Federation will remain its most important individual market.
Sales outside Slovenia are expected to account for 92% of total sales.
Prescription pharmaceuticals will remain the most important product group, accounting for over 82% of total sales.
Profit is planned at the level of the profit for 2012.
At the end of 2013 the Group will employ over 10,000 employees (up 6%), of which more than half will be employed abroad.
EUR 182 million has been allocated to investments, primarily for expanding and modernising of production, research and development capacities and infrastructure.

Macroeconomic forecast for 2013

In 2013 most countries are expected to implement austerity measures and economic uncertainty to continue. Thanks to Krka's well-established brands and planned marketing activities, we nevertheless expect the conditions on our target markets to be favourable enough to reach the set business objectives.

Macroeconomic forecasts for 2013 in figures

Country	Pharmaceuticals market growth (%)	Pharmaceuticals market value (EUR million) wholesale	FX rate (currency/EUR)
Slovenia	–3	515	Euro zone
Croatia	–5	685	7.50–7.55
Romania	5	2,800	4.55–4.65
Russian Federation	9–10	15,500	39.4–41.1
Ukraine	10–12	2,700–2,900	10.9–11.7
Poland	0	5,000	4–4.15
Hungary	–5	1,844	290–300
Czech Republic	–5	1,950	24.60–25.10
Western Europe	0	175,000	Euro zone

Source for pharmaceuticals market forecasts: internal estimates.
Source for FX rate forecasts: bank reports.

The macroeconomic forecasts set out below are mainly summarised from the projections of external analysts.

SLOVENIA

In 2013 we expect economic conditions in Slovenia to be stringent. Domestic demand will continue to decrease, while gross investments will present a significant two-digit percentage reduction during the year. As a result of downward economic trends of Slovenia's main trade partners, imports are projected to stagnate as well. This indicates that the gross domestic product (GDP) will further decline.

IN 2013 WE EXPECT ECONOMIC UNCERTAINTY IN MOST MARKETS.

In 2013 we expect the value of the Slovenian pharmaceuticals market to decrease by 3%, to approximately EUR 515 million.

CROATIA

The registered unemployment level of approximately 20% remains the country's key economic and social challenge, while the weak domestic and foreign demand is leading to a further reduction in industrial production. Increasing costs of borrowing, the restructuring of state-run shipyards' debts, and an increase of funds allocated to the EU budget are likely to raise budget requirements despite austerity measures. This will cause the need for stricter austerity measures in other areas. In mid 2013 Croatia is expected to enter the European Union and benefit from the advantages of the single market. Once the administrative infrastructure is in place, Croatia can begin drawing EU funds and launching new investment projects. The kuna is expected to depreciate slightly, to up to EUR 7.55 per euro.

The value of the Croatian pharmaceuticals market is expected to decrease by 5% in 2013, to around EUR 685 million.

ROMANIA

The European Commission has forecast a recovery for Romania in 2013, albeit just a modest one. Last year political uncertainty especially in the second half of 2012 and the great damage caused by the record drought had a negative impact on domestic consumers and on international investors and lenders. Following the general elections in December and in view of the expected further cooperation with the International Monetary Fund, however, political stability in the country has increased and the economic outlook improved. Due to the expected stable central bank monetary policy and relatively stable international capital movements, no major volatility of the exchange rate is expected, although slight depreciation will continue.

Economic conditions in the pharmaceuticals market will grow even more stringent and pressures to lower prices will persist. The value of the Romanian pharmaceuticals market is expected to increase by 5% in 2013, to approximately EUR 2.8 billion.

RUSSIAN FEDERATION

The Russian Federation reported favourable 2012 economic results. It recorded an economic growth of approximately 4% in real terms, raised average wages notably as unemployment went down (it is now approximately one half lower than in the EU member states), saw a high single-digit increase in investments, and ended the year with a balanced budget. International monetary reserves also increased. Exports, however, were weak because the economic growth of Russian trade partners slowed down. This, however, was counterbalanced by the high single-digit growth of domestic demand driven mainly by wage and employment growth. These favourable trends are expected to continue in 2013. The value of the rouble will continue to depend mainly on oil prices and foreign investment tends in the Russian Federation, while on average the outlook is good.

The Russian pharmaceuticals market is expected to grow 9 to 10% in 2013, to around EUR 15.5 billion, and will be one of Krka's fastest growing markets.

UKRAINE

Economic conditions and the expectations for 2013 are moderately optimistic despite energy-related, political and other challenges. The economy is projected to grow by a few per cent, which is an enviable result notwithstanding the low starting point. One of the more important challenges and potential risks to the growth of the pharmaceuticals market is further implementation of the restrictive measures that Ukraine introduced in 2012 in relation to the regulation of its pharmaceuticals market. The exchange rate is forecast to be relatively unstable, and even significant depreciation may be anticipated.

We expect the Ukrainian pharmaceuticals market to be one of the fastest growing markets in 2013. Its growth rate is expected to reach from 10 to 12%, and its value EUR 2.7 to 2.9 billion.

POLAND

Despite the country's persistent decline in economic activity, Poland is the only EU member state that has preserved the economic growth since the onset of the global financial crisis. The government is tackling the slowdown in economic activity with vast investments and research and development incentives. In addition to this, the central bank is implementing a stimulating monetary policy, so favourable economic development is expected to continue. With 38 million inhabitants Poland is one of the largest markets among Central and Eastern EU member states, and despite a slowdown in growth of net foreign capital inflows it has preserved its popularity with international investors and credit rating agencies. No major changes are projected for the złoty exchange rate.

The value of the Polish pharmaceuticals market is expected to remain unchanged in 2013, and is estimated at approximately EUR 5 billion.

HUNGARY

After having recorded the economic growth the year before, Hungary slipped back into recession in 2012. This was caused mainly by a reduction in domestic demand, investments at the historical low and one of the worst harvests due to the drought. In addition to all this, exports declined as well. Political uncertainty also in relations with the European Union, the uneven and further increasing taxation together with the population's decreasing purchasing power and investments in decline are set to create a demanding economic situation in 2013 as well. The European Commission projects a more noticeable growth only in 2014. The exchange rate is forecast to stay at up to 300 forint per euro.

It is estimated that the Hungarian pharmaceuticals market will decrease by 5% in 2013 to approximately EUR 1.84 billion.

CZECH REPUBLIC

The Czech Republic is one of the least indebted EU member states. Its government bonds are currently the Central European equivalent of German bonds. Despite fiscal stability the country has been in recession for the second time in the last four years. Due to good exports results, especially in the automotive industry, however, the situation remains manageable. We expect the Czech krona's exchange rate to remain stable.

The Czech pharmaceuticals market will decrease by 5% in 2013, to just under EUR 2 billion.

WESTERN EUROPE

After a year of weak economic activity, when most EU and Eurozone countries witnessed stagnation or modest economic growth, we expect a very diverse rebound dynamics in the different countries in 2013. At the EU and Eurozone level the growth is projected to climb slightly above zero, while the low single-digit growth is expected to return only in 2014. On account of increasing concerns over the amount of the US public debt, and at the same time due to the uncertain outcomes of the debt crisis in the European Union, the euro-dollar exchange rate is expected to be volatile.

The value of the pharmaceuticals market in 2013 will remain at the 2012 level, amounting to approximately EUR 175 billion. In most of the markets we expect a considerable increase in the market shares of generic pharmaceuticals in terms of volume. Due to the continuing pressures to lower prices, however, the increase in value will not match the increase in volume.

Risk management

In an increasingly uncertain business environment, risk management is an important success factor as it ensures stable operations without major deviations and fluctuations. By applying the principle of functional leadership, where the business function in the controlling company manages and supervises the same business function in all subsidiaries, we manage risk comprehensively throughout the Krka Group, monitor exposure to different types of risk, and adopt measures to manage those risks. We therefore once again consider to have managed risks successfully in the past year.

Managing diverse risks demands diverse approaches. At Krka, operational risks are managed by the organisational units whose work is related to specific types of risk, while financial risks are managed centrally by the controlling company.

Risk management is based on the Risk Register, a complete list of risks and corrective measures at the Group level, and on the business continuity management system, which includes scenarios of unexpected circumstances and potential incidents along with the solutions for maintaining our key processes operational and uninterrupted.

IN NOVEMBER 2012 THE SLOVENIAN BUSINESS DAILY FINANCE AWARDED KRKA A PRIZE FOR THE BEST PORTRAYAL OF RISK MANAGEMENT IN OUR 2011 ANNUAL REPORT.

The key improvements made in 2012 in the area of risk management in particular include the implementation of business continuity management of key processes, several improvements following the U.S. Food and Drug Administration audit, the ISO 27001-compliant information security system, and various other improvements, which collectively represent a significant contribution to reducing risks in many areas.

OPERATIONAL RISK			
Risk area	**Description of risk**	**Risk management method**	**Exposure**
Research and development	Risks related 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
Marketing and sales	Risks related to sales markets and adequacy of marketing processes	Responding to changing business conditions in sales markets, and adapting the sales and marketing activities in those markets	Moderate
Intellectual property protection	Risks related to intellectual property rights of third parties or unjustified use of Krka's intellectual property	Monitoring patent processes, consistent respect for the intellectual property of others, and forming provisions for potential damages	Moderate
Quality assurance	Risks related to adequacy of incoming materials for the production process, adequate quality of the production and development process, and the quality of finished products	Precise implementation of systematically itemised quality control procedures at all development and production process milestones	Moderate
Investment projects	Risks related to decisions on investing into production and other capacity, and risks related to procedures implementing investments	Continual control of the implementation of all project phases, plan monitoring, systematic selection of contractors	Moderate
Human resources	Risks related to the provision of key and professionally competent personnel, and risks related to running the social dialogue with employees	Systematic work with key personnel, remuneration system, employee development, continual education and training, measuring organisational culture and climate	Moderate
Legal matters	Risks related to providing all operating processes with adequate legal support	Including Legal Affairs into all company's legal issues, cooperation with external legal experts	Moderate
Environmental protection	Risks of emitting hazardous substances	Continuous control of emissions and separation of non-compliant water and solvents	Moderate

BUSINESS CONTINUITY			
Risk area	**Description of risk**	**Risk management method**	**Exposure**
Availability of critical resources to provide for the production and sale of key products	Unplanned halts and unavailability of key resources to provide for the production and sale of key products (employees, buildings and equipment, materials, utilities, information)	Business continuity management system, business impact analysis, requirement for availability of critical resources and services, risk analysis for each area; measures to reduce consequences and improve process resilience against disturbance	Moderate
Product supply	Risks related to the timely supply of finished products and effective utilisation of production capacity	Diligent supply chain planning, and provision of adequate production capacity	Moderate
Quality assurance	Risk of losing the pharmaceutical manufacturing licence	Diligent compliance with regulatory demands, and implementation of all GMP measures into the company's critical processes	Moderate
Technical services	Risks related to the adequate supply of production 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
Information technology	Risk of business process disruption due to disruption in information resources	Independent security checks and preventive measures to rectify disruption; threat assessment and security plan	Moderate
Employees	Risk of accident or injury in the workplace, risks related to unplanned longer absences	Measures based on workplace risk assessments, employee interchangeability	Moderate
Protection of property	Danger of alienation and destruction of property	Threat assessments and security plan	Moderate

FINANCIAL RISK			
Risk area	**Description of risk**	**Risk management method**	**Exposure**
Foreign exchange risk	Risk of unfavourable exchange rate movements	Tracking financial markets, managing open positions, hedging with appropriate financial instruments if required	Moderate
Interest rate risk	Risk of 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	Calculating credit ratings, restricting maximum exposure to individual customers, active management of receivables, hedging of payments with first-rate bank instruments, insurance of accounts receivable/payable by a credit insurance company	Moderate
Liquidity	Risk of lacking liquid assets to settle financial and operating liabilities	Agreed credit lines and planned liquidity requirements	Low
Risk of damage to property	Risk of damage to property due to natural disasters and other accidents	Systematic threat assessments, taking measures in line with fire prevention studies, and arranging appropriate insurance	Moderate
Risk of claims for damages and civil actions	Risks of claims for damages by third parties due to loss events caused accidentally by the company's activities, property or products placed on the market	Insurance for civil, employer and ecological liability, product liability insurance, and clinical trials liability	Moderate
Risk of financial losses due to business interruption	Financial damage related to the interruption of production because of damage to property	Insurance of labour costs, amortisation and depreciation, other business costs and operating profit, and technical and organisational measures to reduce the impact of business interruption	Low

Operational risks

RESEARCH AND DEVELOPMENT RISK

Krka's finished products must be of high quality, safe and efficacious. The required properties must be confirmed by relevant studies and data. Risks in this area include research and development risks, technological and technical risks. We mitigate them by introducing contemporary approaches and methods, and by utilising in-house as well as acquired knowledge and experience in the research and development field.

By updating processes, introducing modern technologies and adjusting to regulatory demands we reduce these risks in the early stages of development. The vertically integrated model of development and production allows us to control the entire development and production process from raw materials to the finished product.

Regulatory risk management, which is related to changes in the legislation and its interpretation, begins in the early stages of development of a new product and lasts throughout its life cycle. Krka assesses its development solutions for each product and planned content of marketing authorisation documentation together with regulatory bodies by using official consulting mechanisms. We also participate in drafting legislative amendments via the working groups of various industry associations. This reduces the risk of encountering potential problems or even failure during procedures to acquire and extend marketing authorisations.

SALES AND MARKETING RISK

Krka sells its products in over 70 countries around the world, conducting business in a variety of different geopolitical and macro-economic conditions as well as legal and competitive environments. It is therefore exposed to different sales and marketing risks of varied intensities.

Our key advantages over the competition remain rapid response to changed business conditions, and fast adjustment of sales and marketing activities to markets. Both with our in-house services and the use of independent data sources, we continually monitor market conditions (particularly competing generic producers and the local pharmaceutical industry), the legal frameworks of pharmaceuticals marketing, systemic pricing arrangements, and government reimbursements for pharmaceuticals (in some countries partly based on statutory co-funding by medicine suppliers; the so-called clawback requirement).

We devote particular attention to the risks related to individual market environments and economies (the greatest is related to currency movements), and risks associated with each customer, particularly the risk of their insolvency or bankruptcy, risks related to payment terms, and other risks related to complying with contractual provisions. We continually monitor market conditions, analyse them, and adjust payment terms if necessary, systematically monitoring the satisfaction levels of direct and indirect customers. We monitor sales at the primary level (sales to direct consumers, mostly wholesalers) and at the secondary level (wholesalers' sales to final consumers, mainly pharmacies), optimising supply across the entire distribution chain.

Individual therapeutic groups and products within those groups are regularly evaluated for their market potential. We use a range of external data sources to monitor global and regional trends, and conduct our own market research and analyses. The efficiency of our marketing strategies and tactics is regularly monitored with performance indicators, and marketing activities are also overseen systematically. We have introduced cyclical planning and analysis of marketing activities and investments, with a particular focus on organising and supervising the work of employees in the marketing network. Our employees are regularly trained, and we regularly check their qualifications, skills and how well they are acquainted with working instructions. In marketing our products, we consistently abide by the legislation and ethical norms.

INTELLECTUAL PROPERTY RISK

Respect for the intellectual property rights of third parties, particularly patent-based rights, is one of the basic principles of Krka Group operations. We therefore start the development of a new product with an analysis of the scope of property rights related 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 our own 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.

In cases where we assess that patents have been granted to third parties without grounds, meaning that the subject of a patent is not actually an invention (the solution is not new or does not include an inventive step), and where such patents represent a potential obstacle to our work, we use the legal remedies available to cancel such patents. This prevents holders of such patents from filing actions against us for infringement. Should, despite these measures, a patent holder consider Krka to have infringed its rights, and take legal action against us, we form appropriate provisions for potential damages.

If we assess that the results of our research work are new and innovative, we apply for patent protection.

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

QUALITY ASSURANCE RISK

Krka monitors quality assurance risk in all production companies in the Group from three aspects: product quality risk, product safety risk, and risk to Group operations. We use generally known methods to evaluate risk, and implement them in line with Part III requirements of the EU Good Manufacturing Practice Guide (Q9 Quality Risk Management).

Product quality is defined in the development stage of a product and specified in the marketing authorisation documentation. We follow standard procedures and requirements throughout the production process, from the purchase of incoming materials to production and to final quality control, and thereby ensure that pharmaceutical product production complies with relevant quality standards and the products' marketing authorisation documentation.

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

- Particular attention is paid to the adequate quality of incoming materials, and with the aid of risk analyses we categorise material and supplier-related risks, producing plans and requirements for supplier and contractor approval.
- The qualification and validation procedures of equipment, production premises, production environment, processes, cleaning; calibration of instruments; and maintenance procedures ensure the adequacy of our production and control equipment and production premises. In this way we prevent undesirable influences on the production process and product quality.
- Monitoring and documenting all processes and procedures, along with implementing controls are of the utmost importance in product quality assurance. We therefore we regularly examine, overhaul and upgrade them, and ensure that any necessary process changes are implemented correctly.
- Regular training of our employees in quality and work procedures ensures that we comply with the standard procedures governing the production and control of pharmaceuticals.
- The controls of production processes, intermediate products, bulk products, finished products and the production environment ensure product compliance and conformity with requirements.
- In the event of non-compliant products (defective items, complaints), there are control mechanisms, tests and investigations of the cause, as well as preventive and corrective measures in place in order to prevent future non-compliance.

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

We regularly and systematically review the quality assurance system in every Krka Group production unit by means of both external (agency inspections and partner audits) as well as internal (internal audits) verification. Where required, we introduce improvements and thus continually upgrade the quality system and effectively manage quality-related risk.

INVESTMENT PROJECT RISK

Investment project risk primarily includes risks related to planning investments and their value, the purchase of equipment, work execution, schedules and changes to the original plan. We mitigate these risks by having in place a system for selecting contractors, which we verify regularly. We supervise all execution phases ourselves. We control contractual documentation for compliance in terms of legal provisions and accounting. We examine whether potential changes are justified and what impact they would have on costs and schedules. We consistently monitor costs, both regular costs as well as those that arise due to ex-post changes to a project.

HUMAN RESOURCE RISK

Specific attention is paid to our key personnel who are important for reaching our set objectives and are also targeted by competitors.

We plan and regularly monitor the education and development of employees while stepping up their responsibilities in the workplace and encouraging them to take on new duties and posts. Along with a range of other incentives these measures foster loyalty to the Group and reduce the possibility of these employees leaving.

The risks related to the lack of professional employees on the labour market are managed by offering scholarships to students. This approach provides us with the human resources we require to meet our strategic, development and sales plans. Due to the lack of suitably qualified workers on the labour market we systematically educate and train our employees to acquire national vocational qualifications certificates.

LEGAL RISK

Legal certainty and the legality of operations across the Krka Group are ensured by a special department. It is involved in every field of Krka's business, as required, while its particular tasks include keeping up-to-date with the legislation, drawing up and reviewing contracts, drawing up internal regulations, managing and coordinating disputes, and participating in resolving matters of dispute that occur in the course of the Group's operations.

ENVIRONMENTAL PROTECTION RISK

Certain incidents can have negative impacts on the environment, so it is important to reduce the risk of their occurrence and take effective action in case they do occur. Potential incidents are identified and evaluated at Krka, and actions and measures defined in case they occur. To reduce the probability of incidents, we use modern technology and take technical measures, conduct preventive checks and equipment maintenance, train our employees, and hold drills on how to act in the event of an incident.

We use state-of-the-art techniques in all areas of reducing impacts on the environment. No incident with an adverse effect on the environment was recorded at Krka in 2012.

Business continuity

AVAILABILITY OF CRITICAL RESOURCES TO ENSURE THE PRODUCTION AND SALES OF KEY PRODUCTS

Major emergencies and disasters that would stop the production and sales of our products could compromise the existence of the Krka Group. We assess the critical nature of processes and risks that might jeopardise their operations with the analysis of impact on operations. We take effective measures to protect employees, property and other key resources, and to prevent emergencies and disasters. We have prepared action plans and disaster relief measures in case of emergencies as well as measures to decrease direct damage, and plans to act under extraordinary circumstances until normal operations have been restored.

PRODUCT SUPPLY RISK

We constantly monitor the supply market, suppliers and prices of raw materials. We make sure that we have permanent access to the materials required for the production of finished products primarily by planning our inventories and keeping contingency stocks. Using a set of criteria we assess and select suppliers, and periodically examine them. Our main criteria for selecting contractual partners are competitive pricing and security of supply. We also conduct supplier audits and regular controls. We contract at least two suppliers of every key raw material.

The planning of raw material inventories is based on sales forecasts. Inventory levels are checked regularly, 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. To account for major disaster scenarios, our raw materials and finished products warehousing systems allow us to keep goods in several dislocated warehouses.

We follow good manufacturing practices in production processes and ensure that the production environment is suitable. By regular and preventive maintenance we ensure the reliability and high quality operation of production equipment.

We plan optimum utilisation of production capacities and measure production efficiency. Based on this we implement measures for continuous process improvement. By purchasing new equipment and making new investments we are adapting to sales demand, increasing our production capacity, and producing key products across several facilities to account for potential major disasters.

We guarantee the timely supply of finished products by keeping every phase of product supply under control. We regularly check finished product availability against planned dispatch dates.

TECHNICAL SERVICE RISK

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

We have a back-up supply of electricity, and for critical processes there is also a diesel-powered generator. We continually monitor events in the electricity market and make partial purchases. We use natural gas to provide heat energy, while our back-up fuel is extra light fuel oil, of which we keep extra stocks. Drinking water supply is provided as required by a public utility from two pumping stations.

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

Air-conditioning systems undergo appropriate preventive and planned maintenance. We have a maintenance team for immediate intervention in the event of failure, with a central control system that facilitates rapid alerts and detection of failures, and a spare parts inventory. Critical equipment is duplicated, while non-critical equipment is spread out to ensure that a single breakdown does not have a key impact on production capacity. 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 related to the reliability and availability of technical systems are mitigated through our continual monitoring of operations, implementing preventive checks, servicing, making improvements to equipment and implementing modern approaches to maintenance. Failures and breakdowns are rectified according to planned procedures and instructions. In order to remedy breakdowns expediently and effectively, we have trained our own maintenance employees and have set up an inventory of spare parts, which is regularly checked and replenished. The employees that monitor and maintain technical systems undergo regular training. Their qualifications and skills are regularly tested.

The reliability and availability of technical systems are ensured both with our own facilities and employees as well as with contracted external partners.

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

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 of the criticality of an information resource. The main information resources are individual information services and applications. Their criticality level is summarised from all infrastructural elements on which the information service or application depends. Independent security inspections of our information infrastructure are also used as a method of threat detection.

Threats and risks have been identified for all critical information resources, whereby the Management Board has approved acceptable risk levels and the measures required to eliminate unacceptable risks. To account for major disasters we keep duplicate computer capacity at backup locations, in the Disaster Recovery Centre, where back-ups of all data are stored daily.

EMPLOYEE RISK

In the area of health and safety at work, we use our own methodology to assess the probability of a specific incident and its consequences as well as any probable health implications for individual posts. Risk is assessed periodically, and security measures are taken to keep it at acceptable levels. In addition to assessing risk in a specific workplace, we also assess the risks related to individual technological procedures.

We identify key and promising employees in all processes, and if necessary, provide for their interchangeability at key positions. The method of training and recruitment in Product Supply and Sales facilitates fast exchanges of employees between similar posts in cases when a certain business unit experiences a shortage of employees due to major absences or increased work load.

PROTECTION OF PROPERTY

The exposure of our buildings and property is subject to regular and systematic assessments. Based on these assessments we have drawn up a security plan, which stipulates the technical safeguards and actions to be taken in respect of security in order to prevent incidents as well as to act accordingly in case they occur.

Financial risks

FOREIGN EXCHANGE RISK

Due to our widespread international operations, the Group is exposed to foreign exchange risk relating to the Russian rouble, Romanian leu, Polish złoty, Croatian kuna, Serbian dinar, Swedish krona, Czech koruna, Hungarian forint and Ukrainian hryvnia.

The Group statement of financial position shows a surplus of assets over liabilities in these currencies, which we consider a long currency position. The key accounting categories that make up a currency position are trade receivables and trade payables.

AT THE END OF 2012 WE PRESENTED POSITIVE NET EXCHANGE RATE DIFFERENCES.

The strengthening of the Eurozone debt crisis and its spreading to new countries was the key driver of considerable foreign exchange volatility in the first half of 2012. In the first quarter we saw strong appreciation of the Russian rouble and Polish złoty against the euro, causing the Group to report positive exchange rate differences for the quarter. In the second quarter both currencies were depreciated, and the negative trend from the beginning of the year continued for the Romanian leu as well. This to a large extent neutralised the positive exchange rate differences from the first quarter.

Due to measures aimed at ending the debt crisis, the euro strengthened in the second half of the year, and the volatility of Krka's key currencies decreased. At the end of the third quarter we again reported positive exchange rate differences, the result of the appreciation of the Russian rouble and Polish złoty. In the final quarter the effects of exchange rate movements cancelled each other out, and the Group reported positive exchange rate differences at the end of the year.

In order to decrease the impact of foreign exchange volatility on the Group's results, we entered into forward contracts at the beginning of 2012 in order to hedge a proportion of our open positions in Russian roubles. As the Russian rouble was appreciated in the first quarter, we reported a loss from forward contracts.

More information on exposure to foreign exchange risk is provided under Financial Instruments in the Financial Statements.

Value and volatility and key exchange rates

			2012				
	31 Dec 2011	31 Dec 2012	Lowest value	Highest value	Average value	Standard deviation	Coefficient of variation* (%)
RUB	41.77	40.33	38.41	41.81	39.93	0.77	1.9
HRK	7.54	7.56	7.39	7.59	7.52	0.04	0.6
RON	4.32	4.44	4.31	4.65	4.46	0.08	1.9
PLN	4.46	4.07	4.03	4.51	4.18	0.10	2.4
CZK	25.79	25.15	24.43	25.96	25.15	0.34	1.4
HUF	314.58	292.30	275.18	320.78	289.25	8.59	3.0
UAH	10.34	10.63	9.77	10.75	10.39	0.25	2.4
RSD	104.64	113.72	103.69	119.07	113.02	3.72	3.3
USD	1.29	1.32	1.21	1.35	1.28	0.03	2.5

** The coefficient of variation is the ratio between standard deviation and mean value.*

INTEREST RATE RISK

No new non-current borrowings were obtained in 2012. Regular repayments of existing non-current borrowings have reduced the Group's long-term debt to the level where market interest rate changes no longer have a decisive impact on the increase of the Group's overall financial expense.

THE IMPACT OF INTEREST RATE CHANGES ON FINANCIAL COSTS IS NEGLIGIBLE.

Values and volatility of the 6-month EURIBOR

			2012				
	31 Dec 2011	31 Dec 2012	Lowest value	Highest value	Average value	Standard deviation	Coefficient of variation* (%)
Euribor 6-month	1.62%	0.32%	0.32%	1.61%	0.83%	0.0038	46.2

** The coefficient of variation is the ratio between standard deviation and mean value.*

CREDIT RISK

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

Payment terms remained unchanged in 2012 on average, while the receivables turnover ratio improved from last year.

FOR ONE HALF OF OUR RECEIVABLES CREDIT INSURANCE COVERAGE WAS ARRANGED.

At the end of the year, for 49% of the Group's trade receivables insurance was arranged with the credit insurance company. For a proportion of our receivables bank guarantees and letters of credit were issued.

The quality of trade receivables in terms of maturity structure and assessed customer risk is estimated to have remained unchanged on average. This is confirmed both by the results of regular customer credit ratings and by the unchanged proportion of receivables hedged with first-class instruments.

Write-offs of trade receivables did not have a relevant impact on the Group's result in 2012. However, we did make additional value adjustments for receivables related to the late payments of individual customers.

More information about Krka's exposure to credit risk is provided under Financial Instruments in the Notes to the Financial Statements.

LIQUIDITY RISK

In 2012 Krka continued reporting good performance results, financing growth primarily with own funds, and recording a stable cash flow from operations. Thanks to all this, Krka further consolidated its traditionally strong financial structure and one of the best credit score ratings among Slovenian companies, and preserved the favourable financing conditions for the controlling company and subsidiaries in the Krka Group.

IN 2012 WE EVEN IMPROVED THE ALREADY HIGH SECURITY LEVEL OF PAYMENT TRANSACTIONS.

The controlling company manages liquidity risk centrally also for all subsidiaries, organises effective cash management, plans cash requirements of the Group companies, and provides them with funds. This makes the management of cash assets transparent and effective, and facilitates the most favourable possible conditions for financing at the level of the entire Group.

Krka introduced several small improvements to different areas of liquidity risk management in 2012, and in the area of payment transactions upgraded the already sophisticated electronic payments system. Thanks to this the Company reduced the recent risk increase of attempted attacks on Internet banking.

Below is a table of liquidity ratios. Their values have been stable and good.

Liquidity ratios for the Krka Group

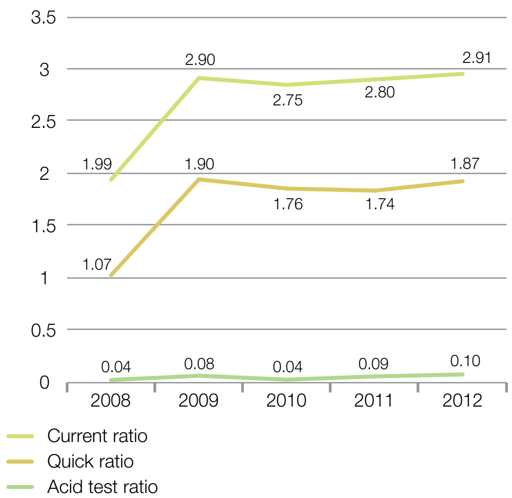
Liquidity ratios	2012	2011	2010	2009	2008	5-year average
Current ratio	2.91	2.80	2.75	2.90	1.99	2.67
Quick ratio	1.87	1.74	1.76	1.90	1.07	1.67
Acid test ratio	0.10	0.09	0.04	0.08	0.04	0.07
Receivables turnover ratio	2.83	2.71	2.77	3.35	4.55	3.24

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

Net indebtedness decreased further in 2012, thus additionally strengthening the Group's financial security. The Group could use its EBITDA to pay off all its net debt within 0.01 of a year, while its operating profit is 121-times higher than interest expenses. Both are addressed into detail in the Business Operations Analysis. The values of contracted cash flows from financial liabilities are given by maturity under Financial Instruments (Liquidity Risk) in the Notes to the Financial Statements.

Due to good performance results and low indebtedness, the liquidity risk faced by the Krka Group is low, while at the same time business partners recognise Krka as a company practising a consistent payment discipline.

Movement of liquidity ratios for the Krka Group



PROPERTY, LIABILITY AND BUSINESS INTERRUPTION INSURANCE

Consistent with the corporate insurance programme for the Krka Company and its subsidiaries abroad, insurance policies were taken out in the first half of the year from local insurers, meaning that primary policies were taken out in the European Union in line with the system of the free movement of services. When insuring its property, Krka takes into account past loss events and adjusts the amounts and scope of insurance covers to sales growth trends and to its tangible property. Each location or fire complex, where the Group's property is located, is individually assessed, both with respect to its exposure to individual risks and the possibility of mitigating those risks with fire prevention measures, as well as with respect to the probable maximum loss and business interruption. With a view to protecting the Group financially and legally with respect to civil, employer and ecological liability, companies abroad take local insurance policies as well, which ensures optimum protection.

In September Krka hosted representatives of international reinsurers. They assessed exposure to insured risks, defined cover limits for probable maximum losses, and reviewed the implementation of the recommendations given on their last visit. They found that Krka had been successfully implementing insurance programmes, abiding by recommendations and maintaining high-standard preventive measures. Thanks to all this it has ensured its long-term stable product supply and optimum financial protection.

The analysis of car insurance arrangements in the Group for the first half of 2012 showed that the introduction of the deductible in casco/hull insurance insurance and the mandatory collecting of competitive offers from insurance companies continue to generate positive results. In addition to reduced insurance premiums and fewer loss events, we have seen an increase in asset utilization and asset availability.

Investor information

Shareholder return

KRKA SHARE PRICE

EUR	2012	2011	2010	2009	2008
Year high	52.70	64.48	72.69	76.17	123.47
Year low	41.40	49.00	60.94	47.78	46.02
31 December	50.00	52.90	62.95	64.04	48.27
Annual increase (%)	–5	–16	–2	33	–61

In 2012 the Krka share price decreased by 5%. In the same period the Ljubljana Stock Exchange blue-chip index SBI TOP rose by 8%.

Krka share price performance relative to selected share indices (beginning of 2008 = 100)

In the past five years the performance of the Krka share price outstripped the blue-chip index SBITOP, while the S&P Global Healthcare index outperformed Krka in the same period.

DIVIDEND POLICY

Krka pursues a policy of stable dividend growth. Shareholders decide on the dividend proposal at the Annual General Meeting, with dividend payment commencing 60 days after the AGM.

THE CHANGED DIVIDEND POLICY WILL BRING HIGHER RETURNS TO INVESTORS.

In 2011 we changed our dividend policy and increased dividends above the average. One third of profit for the year at most is allocated to the dividend pay-out. In 2012 we appropriated 31% of the 2011 profit for dividends, and gross dividend per share increased by over 7%.

EUR	2012	2011	2010	2009	2008
Earnings per share[1] in EUR	4.80	4.85	5.06	5.14	4.61
Gross dividend per share[2] in EUR	1.50	1.40	1.10	1.05	0.91
Dividend pay-out ratio[3] (%)	31	28	21	23	23
Dividend yield[4] (%)	3.0	2.6	1.7	1.6	1.9

1 Profit for the year attributable to equity holders of the parent/Average number of shares issued in the period, excluding treasury shares
2 Dividends paid for the previous period/Average number of shares issued in the period
3 Gross dividend per share/Earnings per share from the previous period
4 Gross dividend per share/Share price as at 31 December

Share trading and shareholding

Krka shares are listed on the Prime Market of the Ljubljana Stock Exchange, and they are also traded on the Warsaw Stock Exchange. All Krka shares traded on the Ljubljana and Warsaw Stock Exchanges are of the same class, i.e. ordinary and freely transferable. Each share (except for treasury shares) represents one vote at the AGM. Krka shares are freely traded through brokerage firms and banks that are members of the Ljubljana or Warsaw Stock Exchanges.

Trading in Krka shares in the past five years

Source: The Ljubljana and Warsaw Stock Exchanges

The average daily trading volume in Krka shares on the Ljubljana Stock Exchange in 2012 was EUR 0.6 million, preserving Krka's position as the most actively traded security on the Ljubljana Stock Exchange.

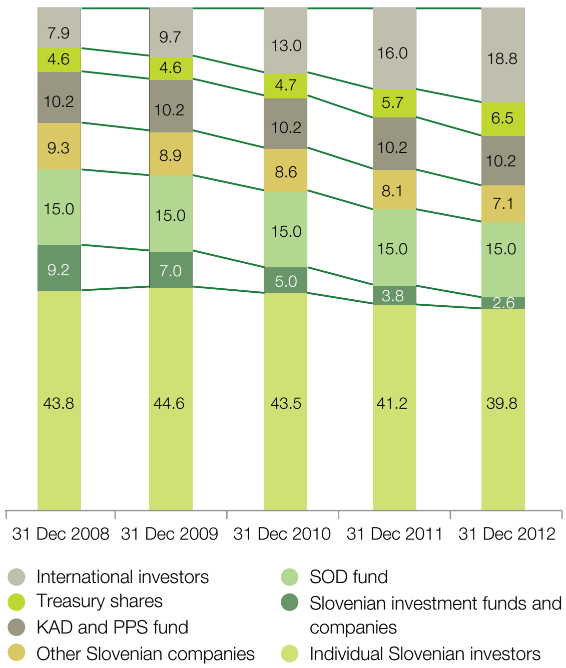
Since April 2012 Krka's shares have also been listed on the Warsaw Stock Exchange. During the first months of the listing, trading in Warsaw was scarce, but in September, October and December it rose considerably.

The 10 largest shareholders as at 31 December 2012

	Shareholder	Number of shares	Stake (%)
1	SLOVENSKA ODŠKODNINSKA DRUŽBA, D. D.	5,312,070	14.99
2	KAPITALSKA DRUŽBA, D. D.	3,493,030	9.86
3	SOCIETE GENERALE-SPLITSKA BANKA D. D.	1,205,794	3.40
4	HYPO ALPE-ADRIA-BANK D. D.	842,222	2.38
5	NEW WORLD FUND INC.	755,000	2.13
6	LUKA KOPER, D. D.	433,970	1.23
7	ZAVAROVALNICA TRIGLAV, D. D.	388,300	1.10
8	AMERICAN FUNDS INSURANCE SERIES – NEW WORLD	353,049	1.00
9	UNICREDIT BANK HUNGARY ZRT	345,413	0.98
10	UNICREDIT BANK AUSTRIA AG	342,671	0.97
		13,471,519	**38.04**

At the end of 2012 Krka had 68,026 shareholders, 6% less than at the end of 2011 when there were 72,720. International investors increased their shareholdings the most reaching almost 19% of all issued shares. The shareholdings of Slovenian state-owned funds – Slovenska odškodninska družba restitution fund and Kapitalska družba pension fund manager with its PPS fund – remained unchanged, while the other groups of Slovenian shareholders, i.e. investment funds and companies, and other companies and individuals, decreased their shareholdings.

Shareholder structure (%)

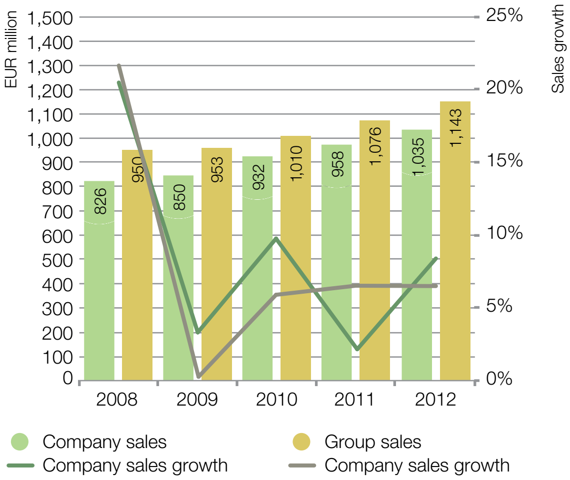


Business operations analysis

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

Sales

Sales and sales growth of the Krka Group and the Krka Company



In 2012 Krka again recorded sales growth. The Group sold EUR 1,143.3 million worth of products and services, up EUR 67.7 million, or 6%, compared to 2011.

Over the past five years, average annual sales growth has been 7.9%.

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

The Group incurred EUR 959.5 million of operating expenses, up EUR 88.3 million, or one tenth compared to 2011.

The Krka Group's operating expenses include cost of sales at EUR 467.6 million, distribution expenses at EUR 318.2 million, R&D costs at EUR 101.1 million, and administrative expenses at EUR 72.6 million. Over the last five years, the operating expenses to sales ratio has ranged from 77% in 2008 to 86% in 2009, a figure caused in part by newly formed provisions. In 2012 the operating expenses to sales ratio was 84%.

Structure of Group's operating expenses by function

The largest operating expense item is cost of sales, which increased by 12% compared to 2011. Its ratio to sales is 41%. The cost of sales is influenced by changes in the inventories of finished products.

Distribution expenses amounted to 28% of sales in 2012, up 11% compared to the previous year. The increase was recorded due to expansion of our marketing and sales network, and because certain European countries imposed taxes on marketing authorisation holders for medicines. In terms of value, the tax introduced in Romania (the so-called clawback) has had the largest impact. It requires marketing authorisation holders in the Romanian market to contribute into the public health care budget by paying quarterly amounts determined as a proportion of their sales.

R&D costs amounted to 9%, and administrative expenses to 6% of total sales. R&D costs increased by 9% compared to the previous year, while administrative costs decreased by 4%.

Financial income and expenses

EUR thousand	Krka Group 2012	Krka Group 2011	Krka Group 2010	Krka Group 2009	Krka Group 2008	Krka Company 2012	Krka Company 2011	Krka Company 2010	Krka Company 2009	Krka Company 2008
Financial income	5,418	493	7,150	885	2,577	22,431	14,046	10,637	12,160	4,852
Financial expenses	–7,227	–12,079	–3,912	–10,206	–25,627	–7,690	–11,822	–3,637	–9,241	–19,075
Net financial result	**–1,809**	**–11,586**	**3,238**	**–9,321**	**–23,050**	**14,741**	**2,224**	**7,000**	**2,919**	**–14,223**

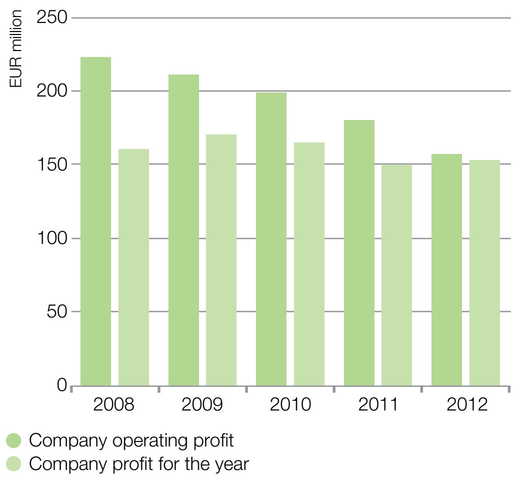
In 2012 the Group's net financial result improved compared to 2011. The improvement was due to EUR 4.1 million of positive exchange rate differences. In 2011 Krka recorded EUR 8.7 million of negative exchange rate differences.

Financial income includes EUR 1.2 million of interest income and EUR 0.1 million of income from derivative financial instruments.

Financial expenses include EUR 1.6 million of interest expenses for non-current and current borrowings, EUR 5.0 million of expenses from derivative financial instruments, and EUR 0.6 million of other financial expenses.

Operating result

Operating profit and profit for the year



The Group recorded EUR 192.3 million of operating profit, down EUR 19.3 million, or 9%, compared to 2011, while EBITDA was EUR 282.3 million, down EUR 16.5 million, or 6%.

Profit before tax was decreased by EUR 9.5 million, or 5%, and amounted to EUR 190.5 million. The Group effective tax rate was 16.1%, down 2.5 of a percentage point compared to the year before.

The Krka Group reported EUR 159.8 million of profit for the year, down EUR 2.9 million, or 2%, compared to the year before.

Assets

EUR thousand	Krka Group					Krka Company				
	2012	Share (%)	2011	Share (%)	Index 12/11	2012	Share (%)	2011	Share (%)	Index 12/11
Non-current assets	**926,000**	**56.9**	**863,865**	**56.3**	**107**	**863,442**	**55.1**	**812,668**	**55.5**	**106**
Property, plant and equipment	772,291	47.5	707,509	46.1	109	519,219	33.1	524,532	35.8	99
Intangible assets	118,507	7.3	119,082	7.8	100	29,908	1.9	29,654	2.0	101
Investments and loans	10,487	0.6	9,765	0.6	107	297,183	19.0	239,750	16.4	124
Other	24,715	1.5	27,509	1.8	90	17,132	1.1	18,732	1.3	91
Current assets	**700,748**	**43.1**	**670,162**	**43.7**	**105**	**702,843**	**44.9**	**650,780**	**44.5**	**108**
Inventories	250,751	15.4	254,229	16.6	99	190,555	12.2	193,301	13.2	99
Receivables	415,233	25.6	394,094	25.7	105	432,935	27.6	395,645	27.1	109
Other	34,764	2.1	21,839	1.4	159	79,353	5.1	61,834	4.2	128
Total assets	**1,626,748**	**100.0**	**1,534,027**	**100.0**	**106**	**1,566,285**	**100.0**	**1,463,448**	**100.0**	**107**

At the end of 2012 Krka Group assets were worth EUR 1,626.7 million, up EUR 92.7 million, or 6%, compared to the end of 2011. Non-current assets grew primarily due to the increase in property, plant and equipment, which were up EUR 64.8 million, or 9%. Among current assets, inventories were down 1%, with receivables up 5%. The proportion of non-current and current assets in total asset structure was slightly different compared to the year-end of 2011, with non-current assets up 0.6 of a percentage point to 56.9% of total assets.

Non-current assets amounted to a total of EUR 926.0 million, up 7% compared to the previous year. The largest item under non-current asset is property, plant and equipment, worth EUR 772.3 million and representing 47% of the Group's total assets. Intangible assets represent 7% of total assets.

Current assets amounted to EUR 700.7 million, up 5%. The largest item under current assets is receivables, which amounted to EUR 415.2 million, up 5% compared to 2011. Inventories decreased by 1% to EUR 250.8 million. The total value of inventories and receivables increased by 3% compared to 2011. Among other current assets, loans were up EUR 10.0 million, represented mainly by euro deposits with maturity exceeding 30 days.

Equity and liabilities

EUR thousand	Krka Group					Krka Company				
	2012	Share (%)	2011	Share (%)	Index 12/11	2012	Share (%)	2011	Share (%)	Index 12/11
Equity	1,240,521	76.3	1,139,754	74.3	109	1,232,215	78.7	1,140,485	77.9	108
Non-current liabilities	145,362	8.9	155,093	10.1	94	113,310	7.2	126,830	8.7	89
Current liabilities	240,865	14.8	239,180	15.6	101	220,760	14.1	196,133	13.4	113
Total equity and liabilities	**1,626,748**	**100.0**	**1,534,027**	**100.0**	**106**	**1,566,285**	**100.0**	**1,463,448**	**100.0**	**107**

The Group's equity increased by EUR 100.8 million compared to 2011. The increase is attributable to Group profit for the year in the amount of EUR 159.8 million, change in fair value of financial assets available for sale in the amount of EUR 0.1 million, translation reserves in total of EUR 4.5 million of, and deferred taxes resulting from the actuarial calculation in the amount of EUR 0.3 million. Equity was reduced by dividend payments, totalling EUR 49.9 million, and by the additional purchase of treasury shares, in the total amount of EUR 13.1 million.

Non-current borrowings decreased by EUR 12.6 million, or 49%, with current borrowings down EUR 30.7 million, or 70%. Total borrowings decreased by 62%. Provisions remained at the level from 2011.

Among current liabilities, operating liabilities increased by EUR 14.5 million, or 16%, with income tax liabilities up EUR 1.2 million, or 91%. Other current liabilities increased by EUR 16.7 million, or 16%, mainly on account of the increase in accrued contractual discounts on products sold to other customers.

Statement of cash flows

	Krka Group		Krka Company	
EUR thousand	**2012**	**2011**	**2012**	**2011**
Net cash from operating activities	278,329	249,115	207,216	178,994
Net cash used in investing activities	–166,910	–109,495	–129,913	–55,920
Net cash used in financing activities	–108,012	–126,434	–78,578	–108,965
Net increase/decrease in cash and cash equivalents	**3,407**	**13,186**	**–1,275**	**14,109**

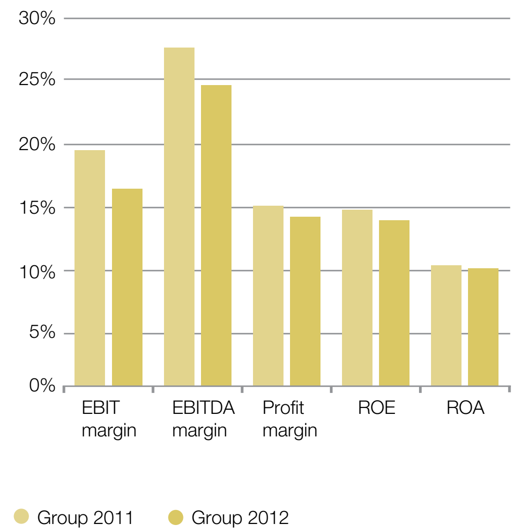
Krka Group cash and cash equivalents increased by EUR 3.4 million in 2012. The increase was generated because positive cash flows from operations exceeded the negative cash flows from investing and financing activities.

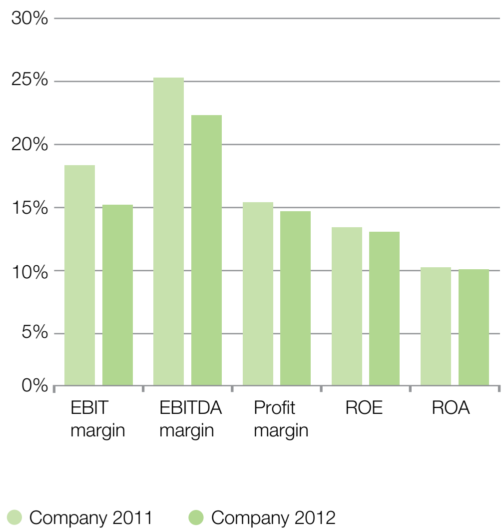
The Group reported EUR 289.2 million of operating profit before changes in net operating current assets. The changes in current assets that increased profit were changes in inventories, trade payables, deferred revenue and other current liabilities, while changes in trade receivables had a negative effect.

Negative cash flow from investing activities was mainly caused by purchase of property, plant and equipment, which amounted to EUR 145.1 million, by purchase of intangible assets, worth EUR 8.2 million, and by payments in connection with current investments and loans, totaling EUR 9.8 million. Negative cash flow from financing activities was primarily the result of EUR 49.8 million of dividend payments, EUR 41.3 million of repayments of non-current borrowings, and EUR 13.1 million worth of repurchased treasury shares.

Performance ratios

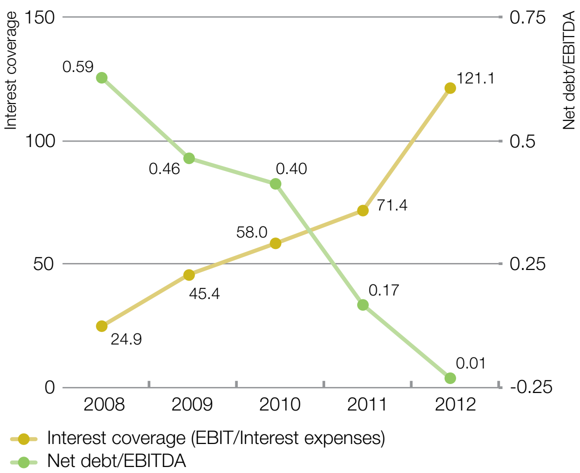
Profitability ratios





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

Liquidity ratios



Interest coverage in 2012 was higher than in 2011 due to lower interest expenses. The 2012 operating profit covered the interest liabilities of 121 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 to EBITDA ratio was 0.01, an improvement from 2011, attributable to the reduction in total borrowings and increase in cash. The ratio indicates that the Group could pay off its net debt in full in four days.

Operating figures for the past five years

EUR thousand	Krka Group					Krka Company				
	2012	**2011**	**2010**	**2009**	**2008**	**2012**	**2011**	**2010**	**2009**	**2008**
Revenues	1,143,301	1,075,627	1,010,021	953,038	949,920	1,035,280	957,653	932,366	850,119	826,160
EBIT	192,308	211,561	208,134	233,643	228,683	161,382	178,150	196,397	210,737	219,941
– EBIT margin	16.8%	19.7%	20.6%	24.5%	24.1%	15.6%	18.6%	21.1%	24.8%	26.6%
EBITDA	282,276	298,747	289,855	310,318	300,292	230,994	244,564	257,132	269,532	271,670
– EBITDA margin	24.7%	27.8%	28.7%	32.6%	31.6%	22.3%	25.5%	27.6%	31.7%	32.9%
Profit for the year	159,839	162,735	170,918	173,685	155,891	154,615	150,392	165,920	170,812	161,130
– Profit margin	14.0%	15.1%	16.9%	18.2%	16.4%	14.9%	15.7%	17.8%	20.1%	19.5%
Assets	1,626,748	1,534,027	1,488,204	1,341,032	1,271,036	1,566,285	1,463,448	1,446,311	1,312,939	1,224,392
ROA	10.1%	10.8%	12.1%	13.3%	13.0%	10.2%	10.3%	12.0%	13.5%	14.1%
Equity	1,240,521	1,139,754	1,053,327	920,369	783,296	1,232,215	1,140,485	1,058,154	932,010	797,203
ROE	13.4%	14.8%	17.3%	20.4%	21.3%	13.0%	13.7%	16.7%	19.8%	21.9%

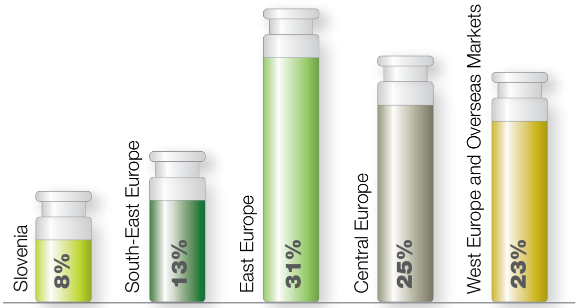
Marketing and sales

In 2012 the sales of both the Krka Group and the Krka Company exceeded the sales figures recorded in 2011. The Krka Group sold EUR 1,143.3 million worth of products and services, while the Krka Company sold EUR 1,035.3 million.

Sales by Region

Krka's sales were the highest in Region East Europe, where they amounted to EUR 354.2 million. This represents 31% of total Group sales. Region Central Europe reported the second best result, sales there amounting to EUR 282.4 million, representing 25% of total Group sales. The third largest area in terms of sales was Region West Europe and Overseas Markets, where Krka sold EUR 267.5 million worth of products, which is 23% of total sales. Sales in Region South-East Europe amounted to EUR 148.1 million and represent 13% of total sales, while in Slovenia sales totalled EUR 91 million, which is 8% of total Group sales.

Krka Group sales by Region in 2012



Krka Group sales by Region

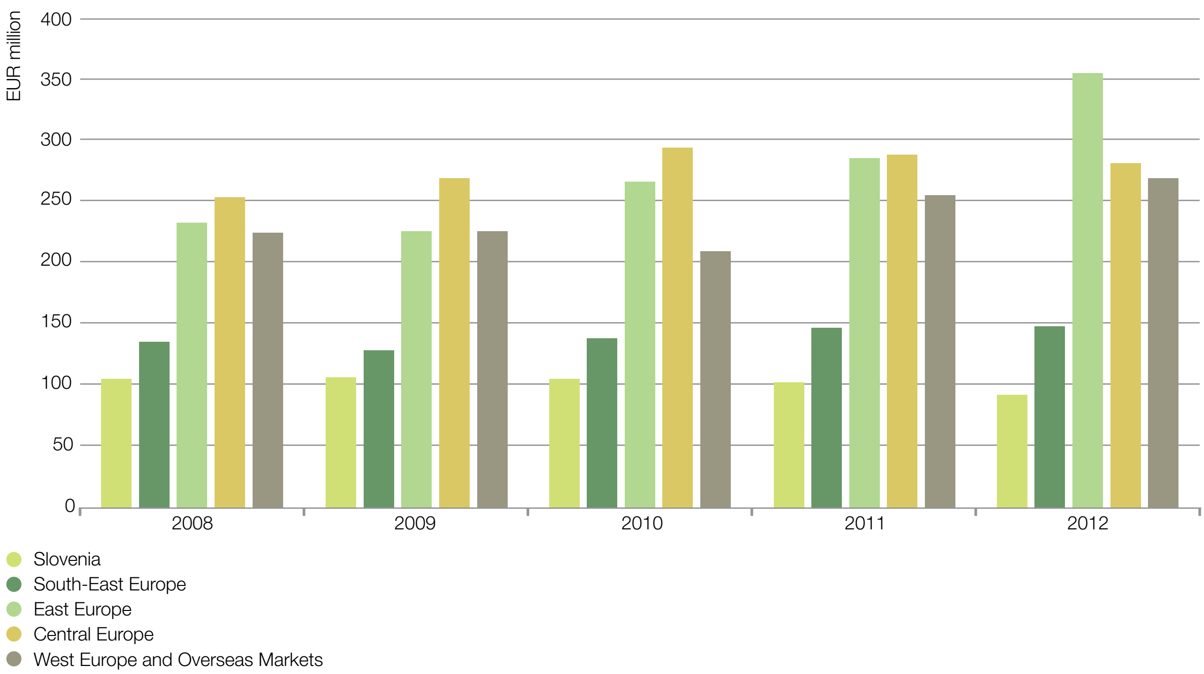
EUR thousand	Krka Group			Krka Company		
	2012	2011	Index 2012/2011	2012	2011	Index 2012/2011
Slovenia	91,002	101,827	89	60,086	67,888	89
South-East Europe	148,140	146,136	101	152,568	141,841	108
East Europe	354,213	285,226	124	295,612	242,698	122
Central Europe	282,400	288,217	98	287,162	276,760	104
West Europe and Overseas Markets	267,546	254,221	105	239,852	228,466	105
Total	**1,143,301**	**1,075,627**	**106**	**1,035,280**	**957,653**	**108**

Krka Group quarterly sales by Region

EUR thousand	2012				
	1st quarter	2nd quarter	3rd quarter	4th quarter	Total sales
Slovenia	22,916	24,058	22,299	21,729	91,002
South-East Europe	35,343	38,503	29,009	45,285	148,140
East Europe	78,632	89,309	71,122	115,150	354,213
Central Europe	66,031	71,872	67,949	76,548	282,400
West Europe and Overseas Markets	70,624	68,004	58,263	70,655	267,546
Total	**273,546**	**291,746**	**248,642**	**329,367**	**1,143,301**

EUR thousand	2011				
	1st quarter	2nd quarter	3rd quarter	4th quarter	Total sales
Slovenia	24,105	27,524	25,827	24,371	101,827
South-East Europe	36,734	36,811	33,955	38,636	146,136
East Europe	66,782	67,798	55,020	95,626	285,226
Central Europe	77,021	79,419	60,669	71,108	288,217
West Europe and Overseas Markets	53,314	59,297	63,874	77,736	254,221
Total	**257,956**	**270,849**	**239,345**	**307,477**	**1,075,627**

Krka Group sales by Region



Slovenia

Sales in Krka's domestic market amounted to EUR 91 million in 2012. A substantial amount, EUR 58 million, came from product sales, the majority from prescription pharmaceuticals, followed by non-prescription and animal health products. Given Krka's strategy to offer our products to patients without co-payment, the decreasing prices of pharmaceuticals and other systemic changes resulted in a reduction in overall sales compared to 2011.

Our best-selling prescription pharmaceuticals in 2012 were Prenessa (perindopril) and Prenewel (perindopril in fixed-dose combination with indapamide), Atoris (atorvastatin), Ultop (omeprazole), Sorvasta (rosuvastatin) and Lorista (losartan and all its fixed-dose combinations with a diuretic). We consolidated our position as the leading supplier of medicines treating high blood pressure and high blood lipids, and enhanced the Krka brands recognition in the treatment of depression and dementia. Our portfolio of statins was supplemented with new concentrations of rosuvastatin (Sorvasta 15 mg and 30 mg) and atorvastatin (Atoris 30 mg and 60 mg). New launches included Vizarsin (sildenafil) in the new form of orodispersible tablets, while our range of products was also expanded with the analgesic Doreta 75mg/600mg (tramadol and paracetamol), and new products containing active substances desloratadine (Dasselta) and ropinirole (Rolpryna).

KRKA HAS REMAINED THE MARKET LEADER IN THE SLOVENIAN PHARMACEUTICALS MARKET.

Krka Group market position in Slovenia
Holding a market share of 11.2%, we remain the leading pharmaceutical company.
Our products are the market leaders: ▶ In the proton pump inhibitor group, with a market share of over 50%, ▶ In the statin group, with a market share of over 40%, ▶ In the group of medicines acting on the renin-angiotensin system, with a market share of around 40%, and ▶ In the group of antipsychotics and antidepressants, with a market share of around 20%.
We are the leading supplier of medicines with the active substances perindopril (including fixed-dose combination with indapamide), atorvastatin, ramipril, simvastatin, enalapril, carvedilol, losartan (including fixed-dose combination with hydrochlorothiazide), valsartan, sertraline, donepezil, omeprazole, pantoprazole, and diclofenac.
The top ten best-selling prescription pharmaceuticals include Prenessa (perindopril) and Prenewel (perindopril in fixed-dose combination with indapamide), and Atoris (atorvastatin).

South-East Europe

Sales in Region South-East Europe amounted to EUR 148.1 million, up 1% compared to 2011. Sales growth was recorded in Serbia, Bosnia and Herzegovina, Macedonia, Bulgaria and Kosovo. The dominant share of sales came from prescription pharmaceuticals, followed by non-prescription products and animal health products.

In **Croatia**, one of Krka's key markets, sales amounted to EUR 35.2 million, slightly down from 2011. We have nonetheless retained our position as the third-ranked generic pharmaceutical company in the market, immediately behind the two domestic producers, and remained second in the country's market of animal health products.

KRKA IS THE FIRST-RANKED FOREIGN GENERIC PHARMACEUTICAL COMPANY IN CROATIA.

Our best-selling products were Atoris (atorvastatin), Helex (alprazolam), Ampril (ramipril), Enap (enalapril), Valsacor (valsartan), Nolpaza (pantoprazole), Zyllt (clopidogrel), Lanzul (lansoprazole), Emanera (esomeprazole), Ciprinol (ciprofloxacin) and Lorista (losartan). Roswera (rosuvastatin), Nolpaza (pantoprazole) in intravenous form and Monkasta (montelukast) were included in the reimbursement list and launched on the market in May, and Dalneva (perindopril in fixed-dose combination with amlodipine) in October.

Krka Group market position in Croatia
Holding a market share of 4.9%, Krka is the leading foreign generic pharmaceutical company.
Our products are the market leaders: ▶ In the fluoroquinolone antimicrobial group, with a market share of over 30%. Our products are among the market leaders: ▶ In the platelet aggregation inhibitor group (ADP receptor antagonists), with a market share of around 25%, ▶ In the group of angiotensin II receptor antagonists and their fixed-dose combinations with diuretics, with a market share of over 20%, ▶ In the anxiolytic group, with a market share of over 20%, ▶ In the statin group, with a market share of over 15%, and ▶ In the proton pump inhibitor group, with a market share of over 15%.
We are the leading supplier of medicines with the active substance enalapril in fixed-dose combination with hydrochlorothiazide, and of medicines with the active substances alprazolam, lansoprazole, and ciprofloxacin. We are among the leading suppliers of medicines with the active substances atorvastatin, simvastatin, ramipril, amlodipine, pantoprazole, esomeprazole, and clopidogrel.

In **Romania**, the Region's leading market in terms of sales in 2012, product sales amounted to EUR 47 million. Sales growth for the key therapeutic groups of medications continued, strengthening Krka's position as a leading generic pharmaceuticals producer in the market. The increased sales of newer products successfully compensated for the decline in Bilobil sales, the result of greater limitations imposed on prescribing this product at the cost of the health insurance company.

The best-selling products were Atoris (atorvastatin), Bilobil (ginkgo biloba), Ciprinol (ciprofloxacin), Enap (enalapril), Prenessa (perindopril, including fixed-dose combinations with a diuretic), Roswera (rosuvastatin), Tramadol (tramadol) and Tolura (telmisartan). The market was characterised in 2012 by the implementation of the regulation requiring pharmaceuticals producers to contribute into the health care budget (claw back).

Krka Group market position in Romania
Holding a market share of 2.5%, Krka is the third-ranked generic pharmaceutical company.
Our products are the market leaders: ▶ In the fluoroquinolone antimicrobial group, with a market share of over 30%. Our products are among the market leaders: ▶ In the cerebral and peripheral vasotherapeutic group, with a market share of over 15%, ▶ In the monocomponent angiotensin II receptor antagonist group, with a market share of over 15%, ▶ In the group of ACE inhibitors and their fixed-dose combinations with diuretics, with a market share of around 20%, ▶ In the group of monocomponent ACE inhibitors, with a market share of over 10%, ▶ In the statin group, with a market share of over 10%, ▶ In the proton pump inhibitor group, with a market share of over 10%, and ▶ In the macrolide and pyranoside antibiotic group, with a market share of around 10%.
We are the leading supplier of medicines with the active substances telmisartan, enalapril, losartan, carvedilol, tramadol, mirtazapine, ciprofloxacin, norfloxacin, lansoprazole, theophylline, and ginkgo biloba. We are among the leading suppliers of medicines with the active substances atorvastatin, rosuvastatin, perindopril (including fixed-dose combination with indapamide), amlodipine, simvastatin, pramipexole, olanzapine, clarithromycin, esomeprazole, and pantoprazole.

The 27% sales growth in **Serbia**, where Krka sold almost EUR 13 million worth of products, was mainly due to newer products. Good sales results were also recorded in **Bosnia and Herzegovina**, where sales increased by 6% to EUR 18.7 million, and in **Macedonia**, where sales amounted to almost EUR 14 million, up 4%. In both markets Krka consolidated its position as the leading foreign generic pharmaceutical company. Sales grew in **Bulgaria**, as they did in **Kosovo** where Krka is the number one generic pharmaceuticals provider. Declining sales in **Montenegro** and **Albania** were the result of unfavourable macroeconomic conditions in both markets and their pharmaceuticals procurement policy which increasingly favours the manufacturer that offers the lowest price.

East Europe

Region East Europe consists of numerous Eastern European and Central Asian markets, which witnessed a 24% aggregate sales increase in 2012. Having contributed EUR 354.2 million of sales, Region East Europe is the largest among Krka's five sales regions.

The **Russian Federation** is one of Krka's key markets as well as its largest individual market. Product sales there amounted to EUR 244.2 million, an increase by 25% compared to 2011. The largest contributors were prescription pharmaceuticals, especially Enap (enalapril), Lorista (losartan, including fixed-dose combinations with a diuretic), Atoris (atorvastatin), Zyllt (clopidogrel), Orsoten (orlistat), Perineva (perindopril, including fixed-dose combinations with a diuretic) and Nolpaza (pantoprazole). Particularly high sales growth was recorded for Lorista (losartan), which generated EUR 6.4 million more than in 2011.

Good results were also recorded for Roxera (rosuvastatin), which contributed almost EUR 2 million to total sales since its launch in May, and for the non-prescription product Nalgesin (naproxen), the sales of which increased by EUR 4.8 million. Two other important contributors to overall sales in the non-prescription product group were Herbion and Pikovit.

ACCORDING TO ANALYSTS, KRKA'S SALES GROWTH OUTPERFORMED THE AVERAGE PHARMACEUTICALS MARKET IN THE RUSSIAN FEDERATION BY 4 TO 5 PERCENTAGE POINTS.

The most important animal health products in terms of sales were Floron (florfenicol) and Enroxil (enrofloxacin). We continued with post-launch marketing activities for Fypryst (fipronil), the first in a series of high-potential products for the treatment of companion animals.

According to market analysts, Krka's sales growth outperformed the average pharmaceuticals market in the Russian Federation by 4 to 5 percentage points. In April we were awarded the Platinum Ounce, the most prestigious award in the pharmaceuticals market in the Russian Federation, for the launch of Perineva (perindopril), which was declared the best launch of the year.

In **Ukraine** sales amounted to EUR 58.8 million, an increase by 17% from 2011. The strongest driver was the sales growth of prescription pharmaceuticals, the largest as well as the fastest growing Krka’s product group in terms of sales in the Ukrainian market. Our best-selling products in the reported period were Enap (enalapril, including fixed-dose combinations with a diuretic), Herbion, Atoris (atorvastatin), Coryol (carvedilol), Dexamethason (dexamethasone) and Naklofen (diclofenac).

Krka Group market position in the Russian Federation
Holding a market share of 1.7%, Krka is the fourth-ranked generic pharmaceutical company among mainly foreign companies.
Krka outperformed the entire market with respect to sales growth in 2012.
Our products are the market leaders: ▶ In the group of non-mineral multivitamins for pediatric use, with a market share of over 70%, and ▶ In the group of medicines to treat colds (Other medicines), with a market share of over 35%. Our products are among the market leaders: ▶ In the group of angiotensin II receptor antagonists and their fixed-dose combinations with diuretics, with a market share of around 25%, ▶ In the platelet aggregation inhibitor group (ADP receptor antagonists), with a market share of over 20%, ▶ In the group of ACE inhibitors and their fixed-dose combinations with diuretics, with a market share of around 20%, ▶ In the statin group, with a market share of around 20%, and ▶ In the macrolide and pyranoside antibiotic group, with a market share of around 10%.
We are the leading supplier of medicines with the active substances enalapril (including fixed-dose combinations with hydrochlorothiazide), simvastatin, ramipril, pantoprazole, norfloxacin, dexamethasone, and naproxen. We are among the leading suppliers of medicines with the active substances atorvastatin, losartan (including fixed-dose combination with hydrochlorothiazide), perindopril, nifedipine, bisoprolol, valsartan, orlistat, pancreatin, omeprazole, clarithromycin, clopidogrel, risperidone, and ginkgo biloba.

Krka Group market position in Ukraine
Holding a market share of 2.2%, Krka is the third-ranked foreign generic pharmaceutical company.
Our products are the market leaders: ▶ In the statin group, with a market share of around 40%, ▶ In the group of anti-dementia medicines, with a market share of around 40%, and ▶ In the group of ACE inhibitors and their fixed-dose combinations with diuretics, with a market share of around 20%. Our products are among the market leaders: ▶ In the glucocorticoid group, with a market share of around 30%, ▶ In the group of angiotensin II receptor antagonists and their fixed-dose combinations with diuretics, with a market share of around 20%, and ▶ In the macrolide antibiotic group, with a market share of over 10%.
We are the leading supplier of medicines with the active substances enalapril in fixed-dose combination with hydrochlorothiazide, atorvastatin, carvedilol, clarithromycin, ciprofloxacin, dexamethasone, and ginkgo biloba. We are among the leading suppliers of medicines with the active substances enalapril, ramipril, losartan (including fixed-dose combination with hydrochlorothiazide), simvastatin, pantoprazole, diclofenac, and betamethasone.

East Europe, the leading sales region

East Europe has become the Krka Group's largest sales region. Sales there amounted to EUR 354.2 million, up EUR 69 million from the previous year. Sales growth was recorded in all markets of the Region.

Sales in **Kazakhstan** amounted to EUR 13.2 million. This is an increase by 27% compared to the year before, attributable mainly to prescription pharmaceuticals. The most important products remain Enap (enalapril), Duovit, Herbion, Zyllt (clopidogrel) and Atoris (atorvastatin). Sales in **Uzbekistan** totalled EUR 11.6 million, up 33%. The largest proportions in overall sales were recorded for the products Pikovit, Enap (enalapril), Septolete and Lorista (losartan). In **Belarus** sales increased by 34% to EUR 6.2 million. The best-selling products were Lorista (losartan), Enap (enalapril) and Pikovit. In the second half of the year we released two products on the market: Prenessa (perindopril), and Herbion syrups with a high sales potential. In **Moldova** Krka sold EUR 4.9 million worth of products, an increase by 15% compared to 2011. By increasing our market share to 4.8%, we have consolidated our position as one of the top three leading pharmaceutical suppliers. The largest contribution to overall sales came from prescription pharmaceuticals, the sales of which increased by 22%. The most important products in this group in terms of sales were Ampril (ramipril), Enap (enalapril) and Rawel (indapamide). In **Mongolia** sales were up 32%, also mainly on account of prescription pharmaceuticals, among which the leader remains Enap (enalapril). We successfully introduced the following new products to the market: Atoris (atorvastatin), Zyllt (clopidogrel), Rawel (indapamide) and Prenessa (perindopril). Strengthened marketing activities in **Azerbaijan** drove sales up 5% to EUR 2.6 million. The 11% sales increase in **Georgia** was mainly due to the stronger sales of prescription pharmaceuticals, which were up 23%. From 1.9% our market share increased to 2.4%. Sales in **Kyrgyzstan** were up 51% to EUR 2 million. At the international contest Choice of the Year, Pikovit was declared the number one choice in the category of vitamin and mineral products for children, and Duovit the number one choice in the category of vitamin and mineral products for adults. In **Turkmenistan** sales increased by 73%, mainly on account of prescription pharmaceuticals, which were also the main sales drivers in **Armenia**, where overall sales were up 35% from 2011. The leading products in terms of sales were Enap (enalapril) and Atoris (atorvastatin). Sales in **Tajikistan** increased by 25%.

Central Europe

Region Central Europe was Krka's second largest sales region in 2012. In addition to three key markets, Poland, the Czech Republic and Hungary, it also includes Slovakia and the three Baltic countries, Lithuania, Latvia and Estonia. Total sales in the Region amounted to EUR 282.4 million, down 2% from 2011. The dominant share of sales came from prescription pharmaceuticals, followed by non-prescription products and animal health products.

SALES GROWTH IN REGION CENTRAL EUROPE WAS THE HIGHEST IN THE BALTIC COUNTRIES, HAVING INCREASED BY 9% IN ESTONIA AND BY 8% IN LITHUANIA AND LATVIA.

Key market **Poland** contributed 40% of the Region's sales, which is EUR 111.6 million and represents an increase of more than 2% from 2011. Sales growth was lower than expected as a result of legislative changes that had a significant impact on the prices of medicines and on the manner in which they are prescribed and dispensed. In mid 2011 Poland namely passed a new pharmaceutical reimbursement act which, among other novelties, introduced fixed prices and margins effective from 1 January 2012. The new act required that applications for inclusion on reimbursement lists be submitted for all products, i.e. for those intended for first-time inclusion as well as repeatedly for those previously approved. Prescription pharmaceuticals included on the new reimbursement list represent the majority of Krka's medicinal products in Poland. The leading medicines in terms of sales in the Polish market remain Atoris (atorvastatin), Lorista (losartan), Valsacor (valsartan), Nolpaza (pantoprazole), Roswera (rosuvastatin), Sulfasalazin (sulfasalazine), Prenessa (perindopril) and Zalasta (olanzapine). In addition to Roswera (rosuvastatin), which became the fifth most important product after being launched in 2012, high sales growth was also recorded for Karbis (candesartan), Emanera (esomeprazole) and Rolpryna (ropinirole), which therefore made significant contributions to overall sales. Non-prescription product sales decreased by 18% compared to 2011, with the leading products in terms of sales being Septolete and Bilobil (ginkgo biloba).

Krka Group market position in Poland
Holding a market share of 2.4%, Krka is the fifth-ranked generic pharmaceutical company.
Our products are the market leaders: ► In the group of angiotensin II receptor antagonists and their fixed-dose combinations with diuretics, with a market share of around 30%, ► In the statin group, with a market share of around 20%, and ► In the SSRI antidepressant group, with a 10% market share. Our products are among the market leaders: ► In the group of intestinal anti-inflammatory products, with a market share of around 25%, ► In the oral fluoroquinolone antimicrobial group, with a market share of around 25%, ► In the group of ACE inhibitors in their fixed-dose combinations with diuretics, with a market share of around 20%, and ► In the proton pump inhibitor group, with a market share of around 15%.
We are the leading supplier of medicines with the active substances atorvastatin, losartan and valsartan (including fixed-dose combination with hydrochlorothiazide), sulfasalazine, lansoprazole, esomeprazole, and cetylpyridinium chloride.
We are among the leading suppliers of medicines with the active substances rosuvastatin, perindopril, candesartan, pantoprazole, gliclazide, paracetamol in fixed-dose combination with tramadol, sertraline, escitalopram, ropinirole, and ginkgo biloba.

In 2012 our subsidiary Krka-Polska again received several awards, testifying to its business success. Trade journal Gazeta Farmaceutyczna awarded Atoris (atorvastatin) and Zalasta (olanzapine) the prestigious title of the Medicine of 20 Years, while Nolpaza (pantoprazole) and Naklofen Top (diclofenac) were both awarded with a Special Mention. Septolete plus spray received the Złoty Otis (Golden Otis), a consumer trust award, in the category Market Debut of the Year.

In the **Czech Republic**, Krka's second largest market in the Region, product sales in 2012 amounted to EUR 67 million, up 4.2% compared to 2011. The largest proportion came from prescription pharmaceuticals, particularly Atoris (atorvastatin), Lorista (losartan), Lexaurin (bromazepam), Lanzul (lansoprazole), Amprilan (ramipril), Prenessa (perindopril, including fixed-dose combinations with a diuretic) and Asentra (sertraline). The most successful non-prescription products in terms of sales were Nalgesin S (naproxen) and Septolete, with overall non-prescription product sales down 8%.

Krka Group market position in the Czech Republic
Holding a market share of 3.1%, Krka is the third-ranked generic pharmaceutical company. Our sales growth in 2012 surpassed the growth of the entire market.
Our products are the market leaders: ▶ In the group of angiotensin II receptor antagonists and their fixed-dose combinations with diuretics, with a market share of over 30%. Our products are among the market leaders: ▶ In the anxiolytic group, with a market share of over 40%, ▶ In the group of ACE inhibitors and their fixed-dose combinations with diuretics, with a market share of over 15%, ▶ In the proton pump inhibitor group, with a market share of over 15%, and ▶ In the statin group, with a market share of around 15%.
We are the leading supplier of medicines with the active substances ramipril in fixed-dose combination with hydrochlorothiazide, valsartan, lansoprazole, and pantoprazole. We are among the leading suppliers of medicines with the active substances atorvastatin, losartan (including fixed-dose combination with hydrochlorothiazide), perindopril (including fixed-dose combination with indapamide), ramipril, sertraline, quetiapine, escitalopram, gliclazide, tamsulosin, clarithromycin, and levocetirizine.

Krka's key market **Hungary** is the third largest market in the Region in terms of sales. Product sales there amounted to EUR 48.7 million in 2012, down 24% compared to 2011. The main reason for lower sales is substantial price reductions caused by the Hungarian government's austerity measures.

Krka Group market position in Hungary
Holding a market share of 2.6%, Krka is the second-ranked generic pharmaceutical company among mainly foreign companies.
Our products are the market leaders: ▶ In the macrolide antibiotic group, with a market share of over 30%, ▶ In the proton pump inhibitor group, with a market share of around 30%, ▶ In the group of angiotensin II receptor antagonists and their fixed-dose combinations with diuretics, with a market share of over 20%, ▶ In the calcium-channel blockers group, with a market share of around 20%, and ▶ In the statin group, with a market share of around 20%. Our products are among the market leaders: ▶ In the group of ACE inhibitors and their fixed-dose combinations with diuretics, with a market share of over 15%.
We are the leading supplier of medicines with the active substances atorvastatin, amlodipine, valsartan, losartan (including fixed-dose combination with hydrochlorothiazide), indapamide, esomeprazole, rabeprazole, and clarithromycin. We are among the leading suppliers of medicines with the active substances perindopril (including fixed-dose combinations with indapamide and amlodipine), valsartan in fixed-dose combination with hydrochlorothiazide, pantoprazole, lansoprazole, quetiapine, and clopidogrel.

The main contributors to sales were prescription pharmaceuticals, especially Prenessa (perindopril), Atoris (atorvastatin), Nolpaza (pantoprazole), Valsacor (valsartan, including fixed-dose combinations with a diuretic), Lavestra (losartan, including fixed-dose combinations with a diuretic), Roxera (rosuvastatin) and Emozul (esomeprazole). Particularly good results were recorded for Valsacor (valsartan) and Roxera (rosuvastatin), which had become the fourth and the sixth best-selling product in the market since their launch in 2011. The sales value of non-prescription products decreased, while animal health product sales were up 10%.

All the other markets in the Region recorded rising sales in 2012, with growth being the highest, 9%, in **Estonia**, and with sales increasing by 8% in **Lithuania** and **Latvia**, and by 7% in **Slovakia.**

West Europe and Overseas Markets

Product sales in Region West Europe and Overseas Markets amounted to EUR 267.5 million last year, an increase by 5%

compared to 2011. Sales growth was driven by the successful sales of our well-established products, such as esomeprazole, clopidogrel, pantoprazole, and galantamine in prolonged-release dosage form, as well as of newly launched products, such as candesartan with fixed-dose combinations, donepezil, quetiapine, and memantine. Despite pressures to lower the prices of our products, and in spite of contracts of sale for certain older products having expired, Krka managed to retain sales via partners at the levels from 2011. Sales were accelerated through partners operating in the new overseas markets, and through our strengthened sales network in Germany, the Nordic countries, Portugal, Austria and Ireland. Our marketing and sales network was further expanded to Spain, Italy and France.

IN REGION WEST EUROPE AND OVERSEAS MARKETS KRKA REMAINS THE LEADING PRODUCER OF THE GENERIC ESOMEPRAZOLE, CLOPIDOGREL AND PERINDOPRIL, AND OF MEDICINES WITH THE ACTIVE SUBSTANCES GALANTAMINE, GLICLAZIDE AND ROPINIROLE, ALL THREE IN PROLONGED-RELEASE DOSAGE FORMS.

The sales of animal health products increased by 18% from 2011, prescription pharmaceuticals witnessed a 5% sales growth, and non-prescription product sales were up 2%.

In the markets of Western Europe we are the leading generic producer of medicines with esomeprazole and clopidogrel, and of prolonged-release dosage forms of galantamine, gliclazide, and ropinirole. We are also one of the leading producers of medicines with the generic pantoprazole, perindopril, lansoprazole, olanzapine, venlafaxine, donepezil, and pioglitazone.

Having contributed over EUR 65 million of total sales, **Germany** remains Krka's largest individual market in the Region. The decline in sales by one tenth compared to 2011 was mainly the result of decreased sales through partners, while sales in Krka's subsidiary TAD were up almost 10%. The most important products in terms of sales were the generic galantamine in prolonged-release dosage form, pantoprazole, esomeprazole, olanzapine, donepezil, clopidogrel, and ropinirole in prolonged-release dosage form, while the generics with candesartan (including fixed-dose combination with a diuretic), memantine and quetiapine, which were launched in Germany only recently, also made important contributions to overall sales. In **France** sales increased by 11% to EUR 38.1 million. The key contributors were newer generic prescription pharmaceuticals, especially those with esomeprazole, clopidogrel, gliclazide in prolonged-release dosage form, perindopril and its fixed-dose combinations, pantoprazole, and risperidone, as well as the animal health products with enrofloxacin, florfenicol, marbofloxacin, and toltrazuril. In the final quarter of 2012 we began selling generic products under the Krka brand via the subsidiary Krka France.

IN 2012 KRKA BEGAN MARKETING GENERIC PHARMACEUTICALS UNDER ITS OWN BRAND VIA ITS SUBSIDIARIES IN SPAIN, ITALY AND FRANCE.

Crucial for recording the 29% sales growth in the **UK** and **Ireland**, where we generated EUR 33.9 million of revenues, was maintaining our leading market shares for medicines with lansoprazole, perindopril, pioglitazone, clopidogrel, and esomeprazole, and for the prolonged-release dosage forms of galantamine, gliclazide, and ropinirole. New launches on the market included generic medicines with donepezil, quetiapine, candesartan (including its fixed-dose combinations), atorvastatin, and irbesartan. Sales in the **Nordic countries** increases by almost 10% from 2011, to EUR 28.2 million, which was primarily due to our subsidiary Krka Sverige. The best sales results in this market were recorded for medicines with esomeprazole, for the prolonged-release dosage forms of medicines with venlafaxine and galantamine, for medicines with candesartan in its fixed-dose combinations, and for medicines with mirtazapine, sertraline, losartan, enalapril, and clopidogrel.

In the **Benelux** we sold EUR 19 million worth of generic products, an increase by 9% from 2011, while in **Italy** sales totalled EUR 16.7 million, a decrease by over one tenth compared to last year. In mid 2012 we started selling generic products under the Krka brand via our newly-founded Milano-based subsidiary Krka Farmaceutici, while in **Spain**, where sales in 2012 amounted to EUR 12.5 million, our generic products are sold under the Krka brand by the newly-founded Madrid-based subsidiary Krka Farmacéutica. Sales in **Portugal** were EUR 14.3 million, and EUR 4.3 million in **Austria**. In both markets our generic pharmaceuticals are successfully sold via subsidiaries as well.

Krka Group market position in Western Europe
We remain the leading generic producer of the active substances esomeprazole, clopidogrel, galantamine, gliclazide, and ropinirole, the last three in prolonged-release dosage forms.
We are among the leading suppliers of generic medicines with the active substances olanzapine, pantoprazole, lansoprazole, perindopril, pioglitazone, and donepezil.
Since 2012 Krka has marketed generic pharmaceuticals under its own brand also via its subsidiaries in Spain, Italy and France.

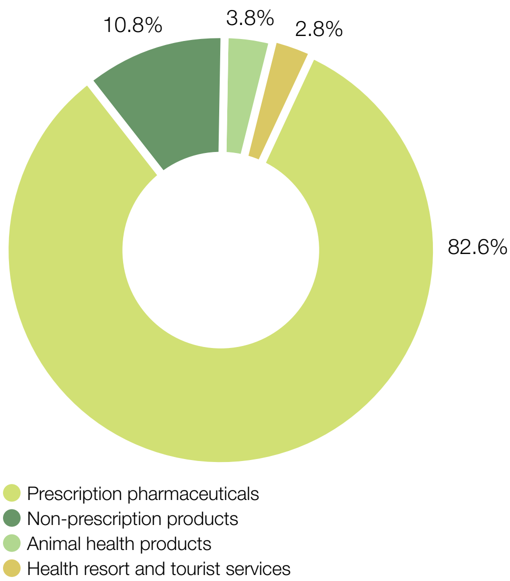
Our sales in the overseas markets increased by more than 40% compared to 2011. The main drivers of sales growth were the **Arabian Peninsula** and **Iran**, where sales doubled, while double-digit sales growth was also recorded in **South Africa**, **Malaysia** and **Singapore.**

Product and service groups

Krka's main line of business is the development, production and sale of prescription pharmaceuticals. Prescription products accounted for 82.6% of overall Krka Group sales in 2012, followed by non-prescription products on 10.8%, animal health products on 3.8%, and health resort and tourist services on 2.8%. Krka Group sales in 2012 increased by 6% year-on-year. The highest growth rate, of 12%, was recorded in the sales of animal health products, while in absolute numbers the largest contributor to overall Krka Group sales growth was prescription pharmaceuticals.

PRESCRIPTION PHARMACEUTICALS REPRESENT OVER 82% OF TOTAL KRKA GROUP SALES.

Krka Group sales by product group in 2012



Krka Group and Krka Company sales by product and service group

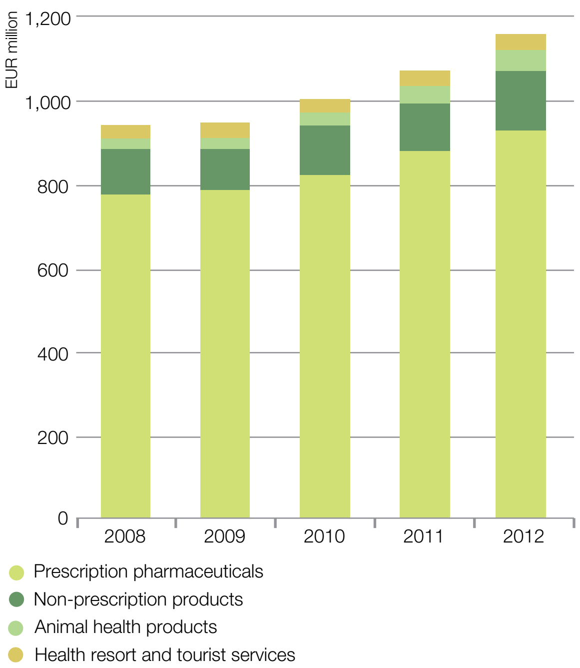
EUR thousand	Krka Group 2012	Krka Group 2011	Krka Group Index 2012/2011	Krka Company 2012	Krka Company 2011	Krka Company Index 2012/2011
Human health products	1,067,573	1,001,020	107	990,645	916,759	108
– Prescription pharmaceuticals	944,578	886,920	107	889,595	814,396	109
– Non-prescription products	122,995	114,100	108	101,050	102,363	99
Animal health products	42,752	38,059	112	42,574	38,289	111
Health resort and tourist services	31,864	34,833	91			
Other	1,112	1,715	65	2,061	2,605	79
Total	**1,143,301**	**1,075,627**	**106**	**1,035,280**	**957,653**	**108**

Krka Group quarterly sales by product and service group

EUR thousand	2012 1st quarter	2nd quarter	3rd quarter	4th quarter	Total sales
Human health products	254,618	271,472	230,108	311,375	1,067,573
– Prescription pharmaceuticals	230,616	243,065	203,422	267,475	944,578
– Non-prescription products	24,002	28,407	26,686	43,900	122,995
Animal health products	11,042	11,694	9,431	10,585	42,752
Health resort and tourist services	7,647	8,305	8,763	7,149	31,864
Other	239	275	340	258	1,112
Total	**273,546**	**291,746**	**248,642**	**329,367**	**1,143,301**

EUR thousand	2011 1st quarter	2nd quarter	3rd quarter	4th quarter	Total sales
Human health products	240,682	250,803	219,729	289,806	1,001,020
– Prescription pharmaceuticals	209,203	228,139	192,333	257,245	886,920
– Non-prescription products	31,479	22,664	27,396	32,561	114,100
Animal health products	9,076	10,813	8,548	9,622	38,059
Health resort and tourist services	7,986	9,005	10,135	7,707	34,833
Other	212	228	933	342	1,715
Total	**257,956**	**270,849**	**239,345**	**307,477**	**1,075,627**

Sales by product and service group

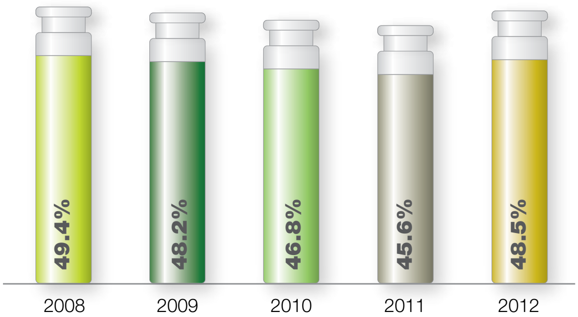


New products

For a number of years now, the sales of new products, which is products first introduced to a specific market over the past five years, has represented over 45% of total sales. In 2012 this proportion was 48%. The leading new products in terms of sales were Emanera/Emozul/Escadra (esomeprazole) and Roswera/Roxera/Sorvasta (rosuvastatin), which we started marketing in 2010 and which ranked among top 15 best-selling products in 2012. Roswera/Roxera/Sorvasta recorded the highest sales value growth among all Krka products in 2012, its sales having increased by over EUR 15 million compared to 2011.

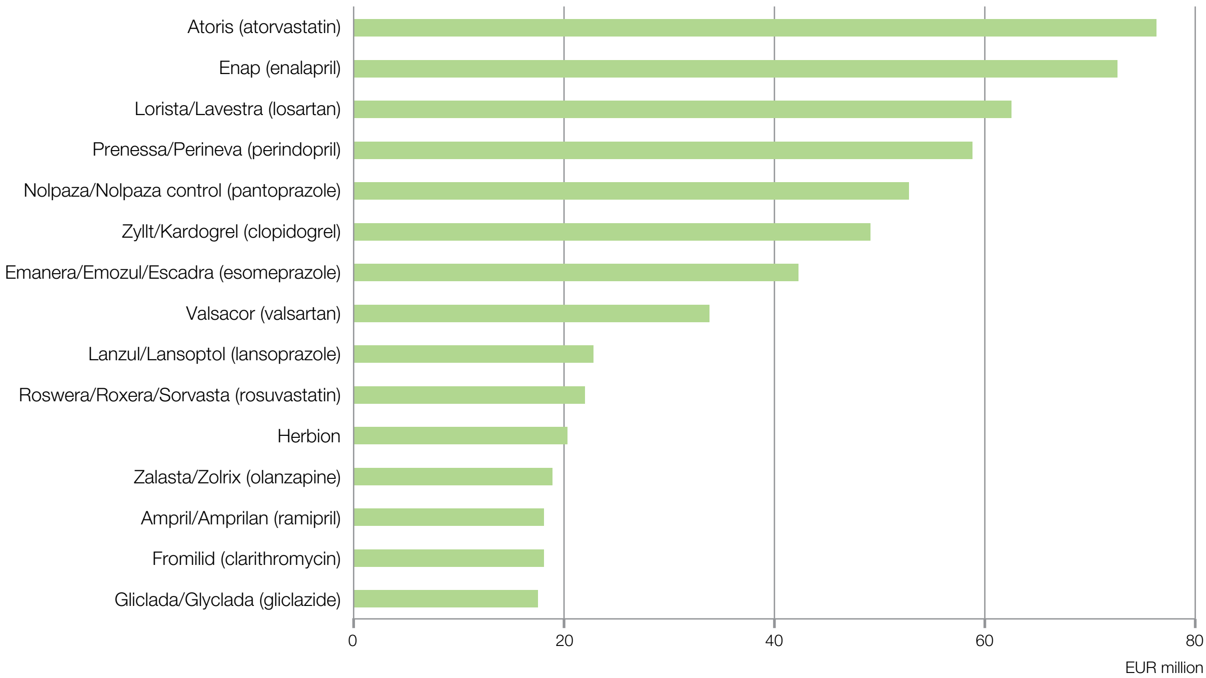
We started marketing several new products in 2012, having added new active substances, new pharmaceutical forms, new strengths or new pack sizes, while our marketing of existing products was extended onto new markets.

Proportion of new products* in Krka Group sales



** The new products proportion includes products launched on individual markets in the past five years.*

Sales of leading products in 2012



New products in 2012

Prescription pharmaceuticals	
For the treatment of cardiovascular diseases	Prenessa/Perineva (perindopril) orodispersible tablets Co-Olimestra (fixed-dose combination of olmesartan and hydrochlorothiazide)
For the treatment of diseases of the central nervous system	Memando (memantine) Zylaxera (aripiprazole)
For the treatment of diseases of the urinary tract	Vizarsin (sildenafil) orodispersible tablets
For the treatment of diseases of the respiratory system	Dasselta/Esradin (desloratadine)
Non-prescription products	
For coughs and colds	Herbion ivy syrup
Animal health products	
Antimicrobial pharmaceuticals for food-producing animals	Misoxin (doxycycline) Entemulin/Tyawalt (tiamulin)

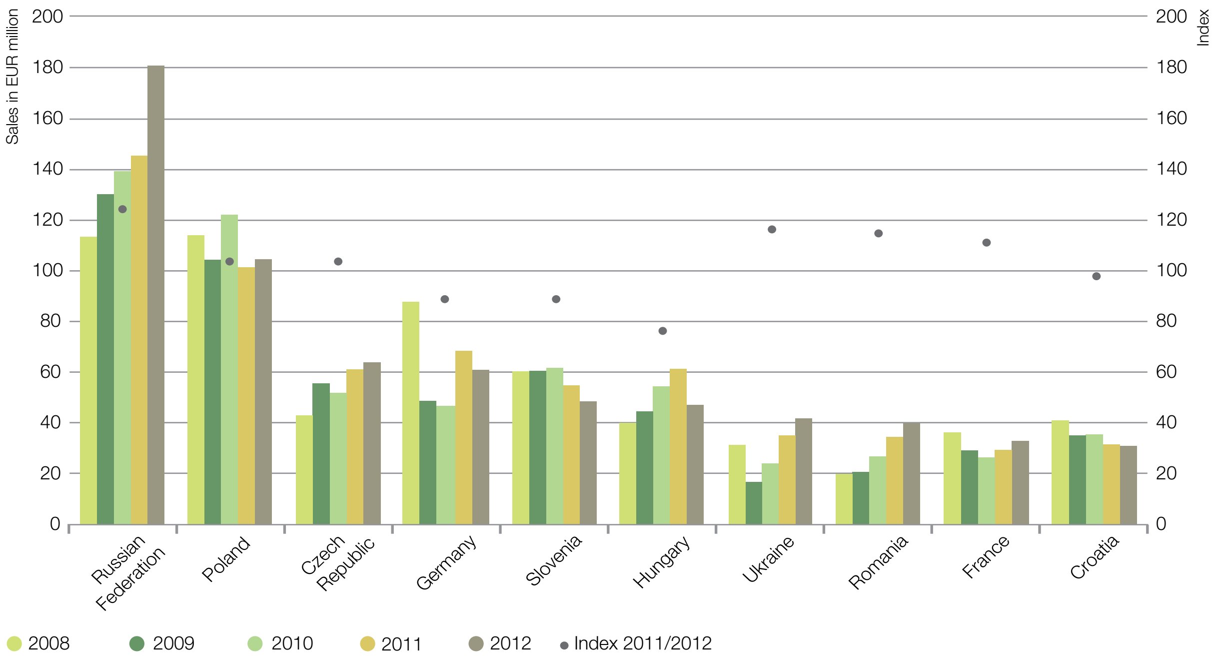
Prescription pharmaceuticals

In 2012 the Krka Group sold EUR 944.6 million worth of prescription pharmaceuticals, up 7% from 2011.

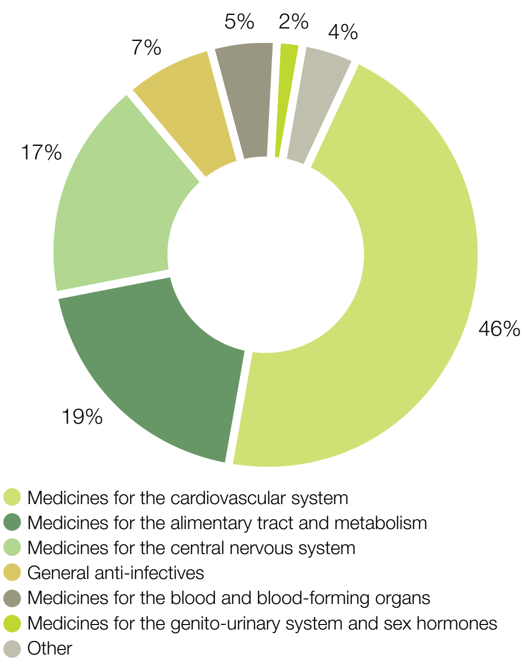
In Slovenia and in the markets of Central, Eastern and South-Eastern Europe Krka is one of the companies operating the strongest marketing and sales networks, and in these markets our prescription pharmaceuticals are marketed under our own brands. Our marketing and sales network in Western Europe was also considerably expanded in 2012, as we started marketing our prescription pharmaceuticals under our own brands in new, large markets, such as France, Spain and Italy. So we now market our prescription pharmaceuticals under our own brands in the majority of Western European markets as well.

With respect to Krka's ten largest individual markets, the sales of prescription pharmaceuticals increased the most in absolute terms in the Russian Federation, Ukraine and Romania, while among the other markets the highest growth was recorded in the countries of the Arabian Peninsula, Iran, the Nordic countries and Serbia.

Sales of prescription pharmaceuticals in the 10 largest markets



Sales of prescription pharmaceuticals by therapeutic group in 2012



Medicines for the treatment of cardiovascular diseases remained the key therapeutic group in terms of sales in 2012, followed by medicines for the alimentary tract and metabolism, and by medicines for diseases of the central nervous system.

KRKA'S LEADING PRESCRIPTION PHARMACEUTICALS IN TERMS OF SALES ARE ATORIS, ENAP AND LORISTA.

Atoris (atorvastatin) and Enap (enalapril) remained the leading prescription pharmaceuticals in terms of sales in 2012, followed by Lorista/Lavestra (losartan) and Prenessa/Perineva (perindopril). The other top ten best-selling products were Nolpaza/Appryo (pantoprazole), Zyllt (clopidogrel), Emanera/Emozul/Escadra (esomeprazole), Valsacor (valsartan), Lanzul/Lansoptol (lansoprazole) and Roswera/Roxera/Sorvasta (rosuvastatin). The highest sales growth in absolute terms was recorded by Roswera/Roxera/Sorvasta, followed by Karbis/Candecor/Canocord (candesartan) and Galsya SR/Galnora (galantamine).

MEDICINES FOR THE TREATMENT OF CARDIOVASCULAR DISEASES

Statins

Krka has been the leading producer of statins in the markets of Slovenia, Central, Eastern and South-Eastern Europe for several years. This position was consolidated in 2012, when we increased sales despite the decline in the value of the statin market. Krka's statins are used to treat over 1.5 million patients every day. We are the leading producer of statins in several individual markets as well, including Ukraine, Croatia, Poland and Hungary. In 2012 the sales value of our statins increased the most in Poland and the Russian Federation, the largest markets for our statins in general, as well as in Romania and Ukraine.

Atoris (atorvastatin) represented over 65% of our statin sales in 2012, and is our leading product. In Slovenia, Central, Eastern and South-Eastern Europe it preserved its position as the leading statin in terms of sales volume, while in terms of sales value it additionally strengthened its position as the leading atorvastatin, as its market share increased further. We entered the markets of Western Europe and began marketing atorvastatin in Germany, Spain, France, Italy and other markets. We increased the number of markets in which Krka is the first producer marketing atorvastatin's additional dosage strengths of 30 mg and 60 mg, by introducing them to Poland, the Czech Republic, Germany and a few smaller markets.

Roswera/Roxera/Sorvasta (rosuvastatin) is our newest statin. As a top priority product it is being marketed in over 20 markets, and in its third year after launch it already accounts for almost one fifth of our statin sales. Given its monthly sales, it was the leading generic rosuvastatin in the markets of Slovenia, Central, Eastern and South-Eastern Europe at the end of 2012, and it is the number one statin in terms of absolute sales growth in these markets. In 2012 we launched Roswera/Roxera/Sorvasta in the Russian Federation, Croatia, Lithuania, Ukraine and on several smaller markets, and we also increased the number of markets in which we are the only company marketing its additional dosage strengths of 15 mg and 30 mg. Roswera/Roxera/Sorvasta was the product that contributed the most to the absolute sales growth of our statins in 2012, and it is also the product that recorded the highest sales growth in absolute terms among all Krka products last year.

ROSWERA/ROXERA/ SORVASTA (ROSUVASTATIN) RECORDED THE HIGHEST SALES GROWTH IN ABSOLUTE TERMS AMONG ALL KRKA PRODUCTS.

Krka statins
rosuvastatin (Roswera/Roxera/Sorvasta)
atorvastatin (Atoris)
simvastatin (Vasilip)
lovastatin (Holetar)

ACE inhibitors

In 2012 Krka further consolidated its position as the leading generic producer of angiotensin-converting enzyme inhibitors (ACE inhibitors) in the markets of Slovenia, Central, Eastern and South-Eastern Europe. The sales of these products grew faster than the market, resulting in Krka increasing its market share. The biggest sales of our ACE inhibitors are recorded in the Russian Federation, which is also where sales value increased the most from 2011.

Enap (enalapril), together with its fixed-dose combinations with hydrochlorothiazide, remains our leading ACE inhibitor and Krka's second best-selling product. Despite its year-long presence, sales are increasing in numerous markets, especially in the Russian Federation, where in 2012 it was again a top ten best known prescription pharmaceutical.

Krka remains the only generic producer offering the full range of perindopril and its fixed-dose combinations. The portfolio includes **Prenessa/Perineva** (perindopril), **Co-Prenessa/Co-Perineva/Prenewel** (fixed-dose combination of perindopril and indapamide) and **Amlessa/Dalnessa/Tonarssa/Dalneva** (fixed-dose combination of perindopril and amlodipine). Together they represent over one third of our ACE inhibitor sales, and rank among top ten Krka products in terms of absolute sales growth.

In the markets of Slovenia, Central, Eastern and South-Eastern Europe, Prenessa/Perineva, together with its fixed-dose combinations with indapamide, has a market share of over 15% and is the leading generic perindopril. In Slovenia and Croatia it is the leader among all perindoprils. The successful launch of Perineva in the Russian Federation was confirmed not only by high sales growth, but by the 2012 Platinum Ounce for the best launch of the year 2011. We are among the leading generic manufacturers in Western Europe. In 2012 we started marketing perindopril in France and Italy, and became the first generic manufacturer to market Prenessa/Perineva in the form of orodispersible tablets in Slovakia.

KRKA IS THE ONLY GENERIC PRODUCER OFFERING THE FULL RANGE OF PERINDOPRIL AND ITS FIXED-DOSE COMBINATIONS.

We were also the first generic manufacturer to have started marketing the modern fixed-dose combination of perindopril and amlodipine, Amlessa/Dalnessa/Tonarssa/Dalneva, in Slovenia, Romania, the Czech Republic, Croatia, Portugal and elsewhere. Its market share exceeded 15% in the majority of markets as soon as in its first year after launch.

Krka's ACE inhibitors and their fixed-dose combinations
perindopril (Prenessa/Perineva) perindopril and indapamide (Co-Prenessa/Co-Perineva/Prenewel) perindopril and amlodipine (Amlessa/Dalnessa/Tonarssa/Dalneva)
enalapril (Enap) enalapril and hydrochlorothiazide (Enap-H, Enap-HL, Enap-HL 20)
ramipril (Ampril/Amprilan) ramipril and hydrochlorothiazide (Ampril HL/Amprilan HL, Ampril HD/Amprilan HD)
lisinopril (Laaven/Zonixem) lisinopril and hydrochlorothiazide (Laaven-HL/Zonixem-HL, Laaven-HL 20/Zonixem-HL 20, Laaven-HD/Zonixem-HD)
cilazapril (Cazaprol) cilazapril and hydrochlorothiazide (Cazacombi)

Sartans (angiotensin II receptor antagonists)

In 2012 we further consolidated our position as the leading producer of sartans in the markets of Slovenia, Central, Eastern and South-Eastern Europe, having even increased our market share of over 20%, to 22%. The biggest sales of our sartans are recorded in the Russian Federation, Poland, the Czech Republic and Germany, while in absolute terms sales increased the most in the Russian Federation and Germany. Krka is the leader in terms of the number of sartan molecules in its product range. For three of them (valsartan, telmisartan, candesartan) we are the leading generic supplier in the markets of Slovenia, Central, Eastern and South-Eastern Europe. In 2012 we expanded the product portfolio with the new fixed-dose combination Co-Olimestra (olmesartan and hydrochlorothiazide). The marketing of our sartans was spread mainly to the countries of Western Europe, as we launched one or more sartans in Germany, Spain, France, Italy, Finland and other countries. Krka's sartans are used to treat more than two million patients every day.

KRKA HAS CONSOLIDATED ITS POSITION AS THE LEADING SARTAN PRODUCER IN THE MARKETS OF SLOVENIA, CENTRAL, EASTERN AND SOUTH-EASTERN EUROPE.

Lorista/Lavestra (losartan), together with its fixed-dose combination with hydrochlorothiazide, represents more than half of our sartan sales and is Krka's number three product in terms of sales. The most important markets for our losartan are the Russian Federation and Poland, and its sales increased the most, by over 40%, in the Russian Federation. In Slovenia, Romania, Poland, Hungary and other markets, Lorista/Lavestra is the leading losartan and holds major market shares, in Slovenia and Romania of even more than 70%. In 2012 we started marketing our losartan in France and thus increased our presence in Western Europe.

Valsacor (valsartan), together with its fixed-dose combination with hydrochlorothiazide, represents approximately one third of Krka's sartan sales. In the markets of Slovenia, Central, Eastern and South-Eastern Europe it holds a market share of almost 30%, ranking Krka the leading valsartan producer in these markets. In 2012 we launched it on new markets in Western Europe, in France, Italy, Austria and Ireland, as well as in Belarus and Latvia, while it recorded the highest sales growth in Poland, Hungary and Lithuania.

The largest contributor to our sartan sales growth in 2012 in absolute terms was **Karbis/Candecor/Canocord** (candesartan), together with its fixed-dose combination with hydrochlorothiazide, particularly due to its increased sales in Western Europe and Poland. We were among the first generic manufacturers to launch it in Germany, France, Spain, Italy, Finland and other Western European countries, as well as in Romania and the Czech Republic. In Romania, the Czech Republic, Poland and Slovakia we are the leading generic manufacturer of candesartan and its fixed-dose combination.

Tolura (telmisartan) was Krka's number three sartan in terms of absolute sales growth in 2012. We were among the first generic manufacturers to launch it in the Czech Republic, Hungary, Slovakia and on other markets. Tolura is the leading generic telmisartan in the markets of Slovenia, Central, Eastern and South-Eastern Europe, while in Romania and Lithuania it is the leader among all telmisartans.

Krka's sartans and their fixed-dose combinations
losartan (Lorista/Lavestra) losartan and hydrochlorothiazide (Lorista H/Lavestra H, Lorista HL/Lavestra HL, Lorista HD/Lavestra HD)
valsartan (Valsacor) valsartan and hydrochlorothiazide (Valsacombi/Co-Valsacor/Valsacor H/Valsaden)
telmisartan (Tolura)
candesartan (Karbis/Candecor/Canocord) candesartan and hydrochlorothiazide (Karbicombi/Cancombino)
irbesartan (Ifirmasta/Irabel) irbesartan and hydrochlorothiazide (Ifirmacombi/Co-Irabel)
olmesartan (Olimestra) olmesartan and hydrochlorothiazide (Co-Olimestra)

Other medicines for the treatment of high blood pressure

Coryol (carvedilol), **Niperten** (bisoprolol), **Rawel SR** (indapamide) and **Tenox/Hipres** (amlodipine) are our most important medicines for the treatment of high blood pressure, and supplement our range of ACE inhibitors and sartans. The most recently launched one is Niperten, which has been recording high sales growth in the Russian Federation, of over 30%.

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

Proton pump inhibitors

Krka has been the leading producer of proton pump inhibitors in the markets of Slovenia, Central, Eastern and South-Eastern Europe for several years and maintained this position in 2012. Sales growth in absolute terms was the highest in the Russian Federation and France, where we sell the most of our proton pump inhibitors. In 2012 we consolidated our position in Western Europe, having launched our proton pump inhibitors on new markets. We market five different proton pump inhibitors, three of which rank among Krka's top ten best-selling prescription pharmaceuticals.

THREE OF OUR PROTON PUMP INHIBITORS RANK AMONG KRKA'S TOP 10 BEST-SELLING PRODUCTS.

Nolpaza/Appryo (pantoprazole) accounted for over 40% of our proton pump inhibitor sales in 2012. Its sales were the highest in Germany, Poland and the Russian Federation, where it recorded the highest sales growth in absolute terms as well. Nolpaza/Appryo is the number one generic pantoprazole in the markets of Slovenia, Central, Eastern and South-Eastern Europe, and one of the leading pantoprazoles in Western Europe. It is the third-ranked pantoprazole in Germany, while in Slovenia, Lithuania, the Czech Republic and Slovakia it is the number one pantoprazole overall, holding over 30% of the market. In 2012 we launched it in France, Spain, Italy and on several markets of Eastern and South-Eastern Europe.

Emanera/Emozul/Escadra (esomeprazole) is our newest proton pump inhibitor. It accounts for almost one third of total proton pump inhibitor sales and is recording the highest absolute sales growth in this group. In 2012 we started marketing it in France, Italy, Latvia and on several markets of South-Eastern Europe, thereby consolidating its position as the leading generic esomeprazole in the markets of Slovenia, Central, Eastern and South-Eastern Europe. Krka is the leading generic producer of esomeprazole in the markets of Western Europe as well. In Germany our esomeprazole holds over 15% of the market and is one of the leading generics, while in Poland, the Czech Republic, Hungary and Slovakia it is the leader among all esomeprazoles.

Lanzul/Lansoptol (lansoprazole) has remained in 2012 the leading lansoprazole in Slovenia, Romania, Poland, Croatia and numerous other markets. The most of Krka's lansoprazole sales are generated in the markets of Western Europe.

Gelbra/Zulbex (rabeprazole) consolidated Krka's position among proton pump inhibitor manufacturers in 2012. We were among the first generic manufacturers to launch it in the Russian Federation, Germany and France.

Krka's proton pump inhibitors
esomeprazole (Emanera/Emozul/Escadra)
pantoprazole (Nolpaza/Appryo)
rabeprazole (Gelbra/Zulbex)
lansoprazole (Lanzul/Lansoptol)

Oral antidiabetics

Gliclada/Glyclada is Krka's gliclazide in prolonged-release tablet form. It has been Western Europe's leading generic gliclazide in prolonged-release tablet form for several years. Our presence in Western Europe was strengthened last year with the launch of gliclazide in Italy, and we were the first and only generic manufacturer to start marketing its 60 mg dosage strength in Hungary. Our portfolio of oral antidiabetics is supplemented by **Enyglid/Repodiab** (repaglinide), **Paglitaz** (pioglitazone) and **Meglimid** (glimepiride).

Medicines for the treatment of obesity

Orsoten (orlistat) is our prescription pharmaceutical for the treatment of obesity, and it is complemented with products available without prescription. It was launched in the Russian Federation and Kazakhstan, and it is the leading generic orlistat in both markets. Its sales in 2012 rose by more than half compared to the year before, increasing our market share among orlistats in the Russian Federation to over 35%.

MEDICINES FOR THE TREATMENT OF THE CENTRAL NERVOUS SYSTEM

Antipsychotics

Krka has been the leading generic manufacturer of antipsychotics in the markets of Slovenia, Central, Eastern and South-Eastern Europe for several consecutive years. This position was consolidated in 2012 as we launched our fifth atypical antipsychotic, **Zylaxera** (aripiprazole). Krka's portfolio now includes all five of the world's best-selling atypical antipsychotics. The most important markets for our antipsychotics are Germany, the Russian Federation, Poland and the Czech Republic. In 2012 we started an intense promotion in the Russian Federation, which increased sales of our antipsychotics by more than 80%, the highest absolute sales growth among our markets.

KRKA'S PORTFOLIO OF ANTIPSYCHOTICS INCLUDES ALL FIVE OF THE WORLD'S BEST-SELLING ACTIVE SUBSTANCES.

Our most important antipsychotics are **Zalasta/Zolrix** (olanzapine) and **Kventiax/Quentiax** (quetiapine), which together generate almost 75% of sales. In 2012 we increased our presence mainly in Western Europe, having launched both in Spain, Italy and Austria, and having additionally launched olanzapine in France and Portugal, and quetiapine as the first generic in Germany. Olanzapine was launched in Germany in 2011, and Krka remained in 2012 the leading generic olanzapine manufacturer in that market. Zalasta/Zolrix is the leading generic in Slovenia, the Russian Federation, the Czech Republic and a few other markets, while Kventiax/Quentiax is the leader among generic quetiapines in Slovenia, Slovakia and Hungary.

Krka's atypical antipsychotics
olanzapine (Zalasta/Zolrix)
quetiapine (Kventiax/Quentiax)
risperidone (Torendo/Rorendo)
ziprasidone (Zypsilan/Zypsila/Ypsila)
aripiprazole (Zylaxera)

Antidepressants
In 2012 Krka maintained its position as the leading generic producer of antidepressants in the markets of Slovenia, Central and South-Eastern Europe, a status it has had for several years. Among patients taking antidepressants in these markets, the most are treated with Krka's products. Sales are the strongest in the Nordic countries, where we also recorded the highest absolute sales growth compared to 2011.

Asentra (sertraline) represents around one third of our antidepressant sales. With a market share of over 20%, it remained in 2012 the leading generic sertraline in the markets of Slovenia and Central, Eastern and South-Eastern Europe.

The highest sales growth among antidepressants in 2012 was recorded by **Alventa/Olwexya** (venlafaxine), which generates the most sales in the markets of Western Europe, where Krka is among the leading generic producers of venlafaxine.

Elicea/Ecytara/Anxila (escitalopram) is our newest antidepressant and the number one generic escitalopram in the markets of Slovenia, Central, Eastern and South-Eastern Europe. In 2012 we also launched it in the Russian Federation.

Krka's antidepressants
escitalopram (Elicea/Ecytara/Anxila)
venlafaxine (Alventa/Olwexya)
sertraline (Asentra)
mirtazapine (Mirzaten)

Medicines for the treatment of Alzheimer's disease
Krka has again maintained its position as the leading generic producer of medicines treating Alzheimer's disease in the markets of Slovenia, Central and South-Eastern Europe. The most products from this group are sold in Western Europe, especially in Germany, the UK and Sweden, and the highest sales growth compared to 2011 was also recorded in Germany. We added a new product to our portfolio for the treatment of Alzheimer's disease, **Memando** (memantine). It was one of the first generic memantines launched in Germany.

WE LAUNCHED MEMANTINE,
OUR FOURTH MEDICINE FOR THE
TREATMENT OF ALZHEIMER'S DISEASE.

Over 50% of our total sales of medicines treating Alzheimer's disease come from **Galsya SR/Galnora** (galantamine), which in its second year after launch became the number one generic galantamine in the form of prolonged-release capsules in EU countries. The highest sales for our galantamine are generated in the markets of Western Europe, where we consolidated our presence in 2012 by launching it in Spain and France, and as the first generic in Italy and Austria. We were also the first generic manufacturer to launch galantamine in Romania.

Our portfolio of medicines treating Alzheimer's disease also includes **Nimvastid** (rivastigmine) and **Yasnal/Yasnoro** (donepezil). Both remained leaders in 2012 – Nimvastid the leading generic rivastigmine, and Yasnal the number one donepezil in the markets of Slovenia, Central, Eastern and South-Eastern Europe. We launched donepezil in Germany, France, Spain, Italy and Austria, and rivastigmine in Germany, Italy, Ireland and Finland, thereby consolidating our position in Western Europe. Nimvastid remains the only rivastigmine in the form of orodispersible tablets available in our markets.

Medicines for the treatment of Parkinson's disease
In the markets of Slovenia, Central, Eastern and South-Eastern Europe, Krka was one of the leading generic manufacturers of medicines treating Parkinson's disease in 2012.

Rolpryna SR/Ralnea SR (ropinirole) was Europe's leading generic ropinirole in the form of prolonged-release tablets in 2012. It was launched in Slovenia, and later in the year also on the markets of Western Europe, in Spain, Italy, France and Austria. In Poland, Hungary, Romania, Germany, the UK and several other markets, our ropinirole was the leading generic ropinirole in 2012.

Our second medicine treating Parkinson's disease, **Oprymea** (pramipexole), remained in 2012 the leading generic pramipexole in the markets of Slovenia, Central, Eastern and South-Eastern Europe. We started marketing it in Italy and France, while its highest sales were generated in Romania.

Analgesics

Our most important prescription analgesics are **Doreta** (tramadol and paracetamol) and **Naklofen duo** (diclofenac). Doreta remained in 2012 the leading generic fixed-dose combination of tramadol and paracetamol in the markets of Central and South-Eastern Europe. As the only producer we launched a double dosage strength of this fixed-dose combination, containing 75 mg of tramadol and 650 mg of paracetamol, launching it in Slovenia, Poland, the Czech Republic and Slovakia.

MEDICINES FOR THE TREATMENT OF INFECTIONS

Krka's most important medicines for the treatment of infections are the macrolide **Fromilid** (clarithromycin), and fluoroquinolones **Ciprinol** (ciprofloxacin) and **Nolicin** (norfloxacin). In the markets of Slovenia, Central, Eastern and South-Eastern Europe, we are the number three producer of macrolides, while Fromilid is the leading generic macrolide and the fourth-ranked macrolide brand in terms of sales. In Slovenia, Ukraine, Hungary and certain smaller markets, it is the leading clarithromycin, holding over 50% of the market. Within the brand, the most important product is the prolonged-release dosage form, **Fromilid uno**.

In 2012 we were again the leading generic producers of fluoroquinolones in the markets of Slovenia, Central, Eastern and South-Eastern Europe, with Ciprinol remaining the leading ciprofloxacin in Romania, Ukraine, Croatia and several other markets.

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

As in previous years, **Zyllt/Kardogrel** (clopidogrel) was again one of the leading products in terms of sales. The most sales were generated in the Russian Federation, where they increased by more than 50% compared to 2011. In terms of sales volume, Zyllt has thus become the leading clopidogrel in the Russian Federation. In 2012 we started marketing our clopidogrel in Spain, France and certain markets of Eastern Europe, maintaining our position as the leading generic producer of clopidogrel in Europe.

KRKA'S CLOPIDOGREL IS THE LEADING GENERIC CLOPIDOGREL IN EUROPE.

MEDICINES FOR THE TREATMENT OF DISEASES OF THE URINARY TRACT

Our most important product in this group is **Tanyz/Tanyz ERAS** (tamsulozin), used for the treatment of benign prostatic hyperplasia. Tanyz ERAS is a prolonged-release dosage form, which increases convenience of the treatment and makes it even safer.

Vizarsin (sildenafil) is our medicine for the treatment of erectile dysfunction. In the markets of Slovenia, Central, Eastern and South-Eastern Europe, Krka was the first to offer it in the form of orodispersible tablets, enabling an even more discreet administration, without water. We launched it in this dosage form in Slovenia, Lithuania, Poland and Estonia. Vizarsin is the leading generic sildenafil in Slovenia, Lithuania and Romania.

Our medicines from this group also include **Asolfena** (solifenacin) for the treatment of urinary incontinence.

MEDICINES FOR THE TREATMENT OF DISEASES OF THE RESPIRATORY SYSTEM

Dasselta/Esradin (desloratadine) is our new medicine used to alleviate the symptoms of allergic rhinitis and urticaria. In 2012 we were the first generic manufacturer to launch it in Slovenia, Romania, Germany, the Czech Republic, Portugal, France, Ireland, Finland and Austria, and in the same year our desloratadine became the leading generic desloratadine in Germany, Lithuania, the Czech Republic, Slovakia and Portugal.

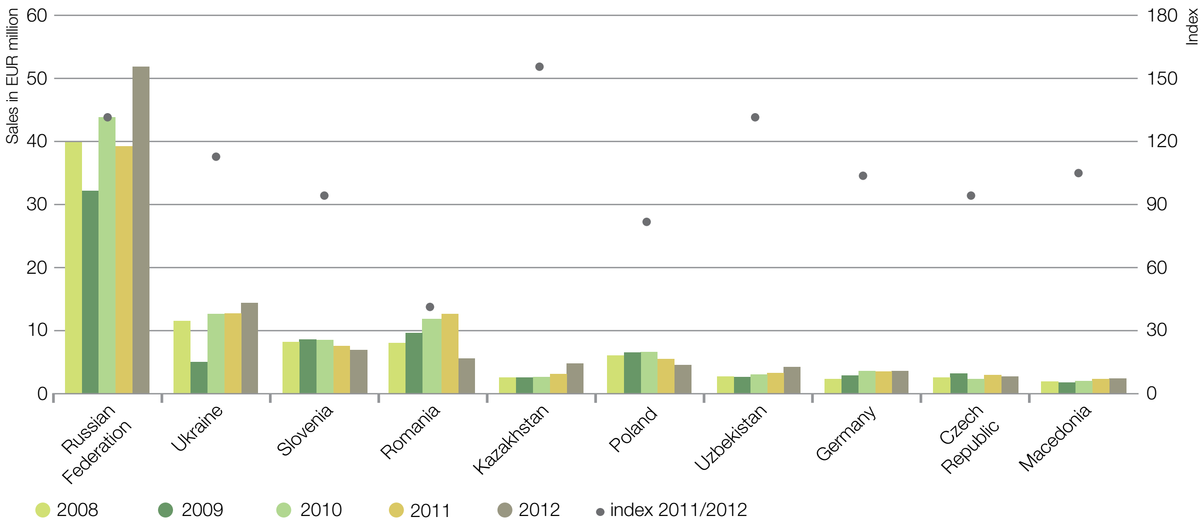
In 2012 we increased the number of markets in which we market our second medicine for the symptomatic treatment of allergies, **Cezera/Lertazin** (levocetirizine), by launching it in Germany, France, Austria and Ireland. Our portfolio of medications for diseases of the respiratory system is supplemented by **Monkasta/Monalux** (montelukast), used to prevent and treat chronic bronchial asthma and alleviate the symptoms of seasonal allergic rhinitis (hay fever). In 2012 it was launched in Croatia.

Non-prescription products

In 2012 the Krka Group sold EUR 123.0 million worth of non-prescription products, up 8% compared to 2011.

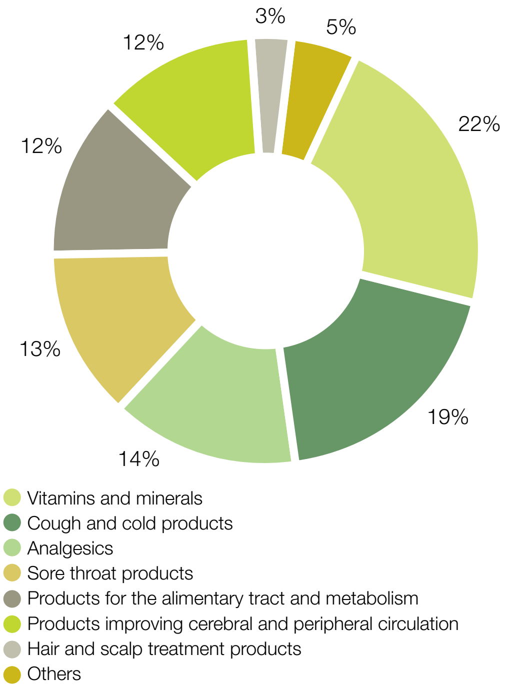
Among Krka's ten largest markets, the highest sales growth in absolute terms was recorded in the Russian Federation, Ukraine, Kazakhstan and Uzbekistan, while among the other markets the highest growth was recorded in the countries of the Arabian Peninsula, Lithuania, Mongolia and in certain smaller markets.

Sales of non-prescription products in the 10 largest markets



Krka's most important non-prescription product brands in terms of sales are Herbion, Septolete, Bilobil and Pikovit, which are also in the group of Krka's top 25 leading products in general. The non-prescription products that contributed the most to sales growth in absolute terms are Nalgesin S and Herbion.

Sales of non-prescription products by therapeutic group in 2012



The largest proportion of non-prescription product sales came from vitamin and mineral products, while the largest increase compared to 2011 was recorded by analgesics, the share of which was up 6 percentage points.

KRKA'S MOST IMPORTANT NON-PRESCRIPTION PRODUCT BRANDS ARE HERBION, SEPTOLETE AND BILOBIL.

Our leading non-prescription product brand is **Herbion**, which includes herbal cough syrups indicated for various kinds of cough. **Herbion plantain syrup** relieves dry cough, while **Herbion cowslip syrup** facilitates expectoration. In 2012 we added a new product for expectoration to our portfolio, **Herbion ivy syrup**, which is also intended for very young children. It was launched in Ukraine, Romania, the Czech Republic, Slovakia and on several other markets, while Herbion syrups were also launched in Belarus, Azerbaijan and Armenia.

Septolete is our second most important brand among sore throat products. By launching **Septolete plus spray** in Ukraine, Belarus, Kazakhstan, Slovakia and on several other markets, and **Septolete plus honey and lime** in Romania, Azerbaijan, Armenia and on certain other Eastern European markets, we increased the number of markets in which we market our products under this brand. In Poland, Septolete plus spray received the Golden Otis award in the category Market Debut of the Year. This is the most prestigious Polish award conferred by consumers on pharmaceutical companies for their products, and testifies to the fact that Krka's new product was fast to gain consumers' favour and trust.

Bilobil is our brand of ginkgo products. In 2012 **Bilobil intense** (120 mg) was additionally launched in Poland, Serbia, Kazakhstan, Belarus and Estonia. Bilobil remained in 2012 one of the leading ginkgo products in the markets of Slovenia, Central, Eastern and South-Eastern Europe. Its most important market in terms of sales is the Russian Federation, followed by Romania, where, however, due to a change in health insurance coverage, sales in 2012 declined substantially.

Our most important brands in the group of vitamin and mineral products are **Pikovit** and **Duovit**. Products of the Duovit brand are intended for adults, and are adjusted to the specific needs of the female or male body, while the Pikovit brand unites eight products for children. The newest among them are the two syrups **Pikovit Omega 3/Pikovit IQ** and **Pikovit Prebiotik/Pikovit Prebio**. The largest markets for this brand in terms of sales volume are the Russian Federation and the other countries of Eastern Europe. In several of them Pikovit is the leading vitamin and mineral product for children in terms of sales.

OUR INTENSE MARKETING OF NALGESIN IN THE RUSSIAN FEDERATION LAST YEAR RESULTED IN HIGH SALES GROWTH.

Our number one non-prescription analgesic is **Nalgesin S**. In 2012 we launched it on several new markets of Eastern, South-Eastern and Central Europe, while we particularly stepped up marketing intensity in the Russian Federation. Nalgesin S was the largest contributor to non-prescription products sales growth in absolute terms in 2012, and the Russian Federation its most important sales market, sales growth there being the highest. An independent company in the Russian Federation declared Nalgesin the most successful brand among medicinal products for musculoskeletal disorders.

Fitoval is Krka's brand uniting several products that help eliminate hair and scalp problems. Its most important sales market is the Russian Federation. In 2012 we increased the number of markets in which we market the well-established products of this brand, and we additionally launched **Fitoval intense dermatological anti-dandruff shampoo** and **Fitoval maintenance dermatological anti-dandruff shampoo** in the Russian Federation, Croatia, and Bosnia and Herzegovina.

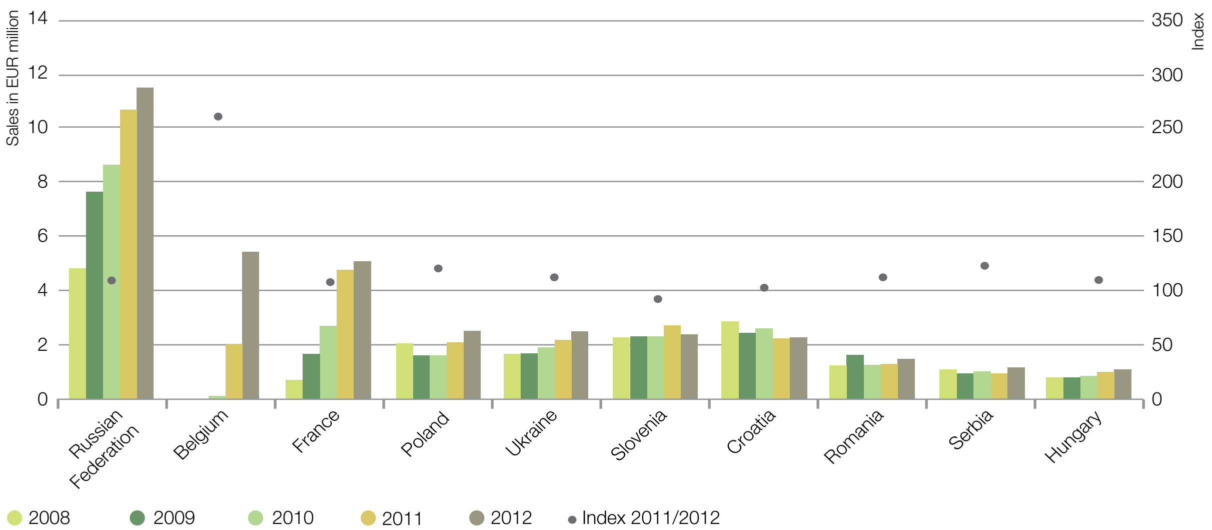
Animal health products

In 2012 the Krka Group sold EUR 42.8 million worth of animal health products, up 12% compared to 2011. With respect to Krka's ten largest individual markets, sales increased the most in Belgium, Serbia and Poland, while the markets that contributed the most to sales growth in absolute terms were Belgium and the Russian Federation.

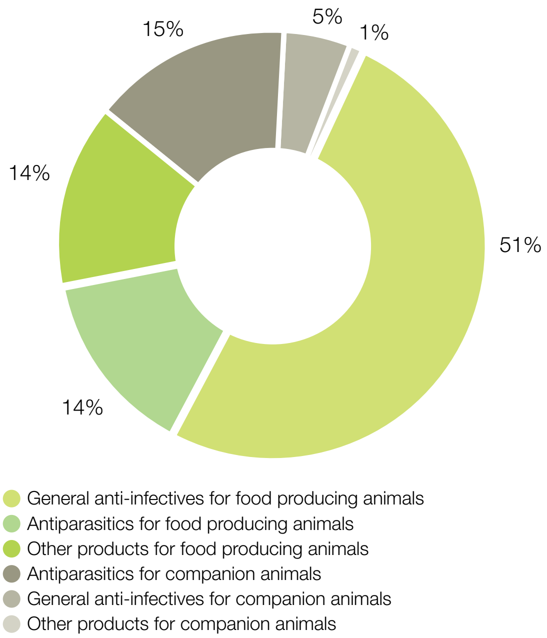
THE SALES OF ANIMAL HEALTH PRODUCTS INCREASED BY 12%.

In Slovenia and in the markets of Eastern and South-Eastern Europe as well as in the majority of Central European markets, our animal health products are marketed via our own marketing and sales network. In 2012 we additionally started marketing our veterinary products ourselves in the Czech Republic and Slovakia, while in Hungary and in Western European and overseas markets our products are sold via partners.

Sales of animal health products in the 10 largest markets



Sales of animal health products by therapeutic group in 2012



Our leading animal health product is **Enroxil/Xacin** (enrofloxacin). The Enroxil brand includes several dosage forms, including the **Enroxil Max** single-dose solution for injection and **Enroxil flavour** flavoured tablets, which in 2012 we additionally launched in Serbia. Around one quarter of our enrofloxacin is sold in Western Europe.

KRKA'S MOST IMPORTANT VETERINARY PRODUCTS ARE ENROXIL/XACIN (ENROFLOXACIN), FLORON (FLORFENICOL) AND FYPRYST (FIPRONIL).

Floron (florfenicol) and **Kokcisan** (salinomycin) were among the top five veterinary products in terms of sales in 2012. For several years now both have been marketed in numerous countries around the world. Despite its year-long presence, Floron recorded in 2012 the second highest sales growth in absolute terms among animal health products. The increase of over 25% was mainly driven by sales growth in the Russian Federation and in the markets of Western Europe.

Toltarox/Tolzesya (toltrazuril) is used to prevent coccidia infestations in pigs. It had originally been launched in 2011 and as soon as in 2012 became a top five best-selling veterinary product. We increased the number of its markets last year by having additionally launched it in Ukraine, Croatia, the Czech Republic and Serbia. In 2012 the majority of toltrazuril was again sold in the markets of Western Europe.

Quiflox/Marfloxin (marbofloxacin) is a third generation fluoroquinolone, used to treat bacterial infections in cattle and pigs. It had originally been launched in 2011, and in 2012 we expanded its markets. In Romania we market it ourselves, while in the Czech Republic and in the Nordic countries it is sold via partners. It is Krka's top ten best-selling veterinary product and a top three in terms of absolute sales growth.

Fypryst (fipronil) is Krka's most important veterinary product for companion animals and one of our newest animal health products. After being launched in 2010, it became in 2012 a top three best-selling animal health product with the highest absolute sales growth. Compared to 2011, Fypryst sales in 2012 almost tripled.

Another top ten best-selling animal health product is the antiparasitic **Dehinel** (febantel, praziquantel, pyrantel embonate). In 2012 it was launched in Spain and Ireland, and we also increased the number of markets in which we sell its newer, flavoured dosage form, **Dehinel Plus Flavour**. The Dehinel product range was supplemented with a product for large dogs, **Dehinel Plus XL**, which was launched in Poland, Croatia, the Czech Republic and on other markets. Compared to 2011, Dehinel sales increased by over 60%.

Ecocid/Oxicid S is a highly active disinfectant and another one of Krka's top ten best-selling animal health products. Its sales growth in 2012 was high, more than 30%, mainly due to increased sales in the Russian Federation.

Health resort and tourist services

The spa resort group Terme Krka generated EUR 31.9 million of sales in 2012 from its branches in Šmarješke Toplice, Dolenjske Toplice, Strunjan, Novo mesto and Otočec, down 9% from 2011. As a contracted provider of medical rehabilitation, the Terme Krka Group has felt the numerous austerity measures in the Slovenian national health care system, which caused a decline in both the scope and prices of services. The general economic conditions in Slovenia and in the Group's most important foreign market, Italy, resulted in decreasing sales on the self-funding market as well. The Terme Krka Group responded by implementing additional saving measures, the first effects of which appeared already in 2012.

The number of guests from Russia, the Netherlands, Israel and Austria rose considerably. Terme Krka recorded 333,173 overnight stays in 2012, with the number of overnight stays by foreign guests up 3%, having increased from 28 to 32%. The most frequent foreign guests were again the Italians (8%), followed by the Russians (almost 5%). The occupancy rate at Terme Šmarješke Toplice was 68%, at Terme Dolenjske Toplice 63%, and at the seaside spa resort Talaso Strunjan 78%.

The Russian Federation is the country with the largest market potential for Krka's spa resorts. In 2012 the Terme Krka Group was therefore intensely establishing contacts with numerous Russian clinics, health insurers and companies that send their customers to health care programmes and programmes for managers.

Research and development

Our research and development activity focuses on developing generic active pharmaceutical ingredients and dosage forms as well as technologies in these areas. Our development of value-added generic products includes innovative approaches in product design and in the development of manufacturing technologies and appropriate evaluation methods.

The compliance of our product development and production procedures and documentation with regulatory requirements is essential for fast gaining of marketing authorisations for prescription pharmaceuticals, non-prescription products, food supplements and animal health products. Our successful placing of new products on the markets is the result of a complex process, which includes recognising opportunities, using appropriate development and patent strategies, being successful in development work and effective in managing the entire pre-launch process (from the supply chain to the application of new technologies on the industrial scale and quality assurance) and finally, combining all these activities with innovative approaches to regulatory issues.

Bringing a new value-added generic product to the market on time requires creative and innovative approaches and, above all, teamwork among the research and development, and regulatory departments. In selecting products we carefully take into account the specific features of individual markets, in order to open up additional sales opportunities for the existing products on new markets.

Responding to professional, scientific and regulatory challenges, we have introduced new technologies and approaches in the area of research and development. One of them is fixed-dose combination medicinal products, in the production of which we implemented multi-layer tablet technology. This group of products requires complex studies, especially in providing clinical evidence of efficacy. Pharmacokinetic and, specifically, bioequivalence studies, have become increasingly complex also due to the expansion to new therapeutic areas, with anticancer medicines products being a particularly specific group of products.

Changes in the regulatory environment have also become very important over the past two years, especially in the Russian Federation, one of our most important markets. One of the key steps in advancing our research and development operations is conducting local clinical trials and other studies to ensure compliance with regulatory procedures and thus our operations with new requirements.

The achievements of Krka's researchers have not gone unnoticed in the wider community. Let us single out the national Gold Innovation Award conferred on Krka by the Chamber of Commerce and Industry of Slovenia for the innovative solid multiunit dosage form for the treatment of Alzheimer's disease.

To remain competitive in the future, we will need to focus on efficient and innovative development of selected products in interesting therapeutic areas. In addition, we will have to devote attention to industrial property protection, file marketing authorisation documentation for new products and launch them on time, maintain the competitive edge of our products in all markets, and actively launch existing products on new markets.

Number of new Krka Group marketing authorisations by Region

In 2012 Krka received marketing authorisations for 14 new products in 25 dosage forms and strengths. We gained a number of new marketing authorisations for several products and expanded our marketing opportunities in all Regions. Many products were authorised under different EU and national marketing authorisation procedures, resulting in 612 new approvals for our products in various countries.

KRKA RECEIVED MARKETING AUTHORISATIONS FOR 14 NEW PRODUCTS IN 25 DOSAGE FORMS AND STRENGTHS.

Number of new Krka Group marketing authorisations by Region

	Slovenia		South-East Europe		East Europe		Central Europe		West Europe		Rest of World	
	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	No. of products	No. of forms
2012	**19**	**43**	**83**	**228**	**76**	**164**	**109**	**273**	**275**	**686**	**50**	**94**
2011	31	76	92	224	112	191	177	422	415	843	28	55
2010	42	88	96	224	157	243	208	444	386	828	36	64
2009	43	64	101	173	126	222	171	317	393	798	40	89
2008	29	49	113	241	177	284	93	215	203	502	22	44

Protecting our know-how and intellectual property

Krka protects the results of its development work in key areas using patents. In 2012 Krka submitted patent applications for two new inventions, and six international patent applications on the basis of priority applications from 2011.

Our products are marketed under our own trademarks. In 2012 Krka registered 74 trademarks in Slovenia, and submitted 56 international and 33 national trademark applications.

Inventions and the related patent applications serve as protection of intellectual property in all key areas particular for the generic pharmaceutical industry. We file patents for technologies applied in synthesis, isolation and preparation of active substances, their specific properties, and pharmaceutical formulations and medicinal product preparation processes, their stabilisation and efficacy. In accordance with the optimisation of protection procedures and costs we opt for applications that apply to groups of inventions and technical and technological solutions.

Prescription pharmaceuticals

In 2012 we received marketing authorisations for eight new prescription products in 17 dosage forms and strengths. Through new marketing authorisations in all our Regions, granted under the EU centralised (CP), decentralized (DCP) and mutual recognition procedure (MRP) and under national procedures, we greatly expanded marketing opportunities for our established products.

Krka is one of the leading generic producers of medicines for the treatment of cardiovascular diseases. We expanded our range of medicines for the treatment of high blood pressure with the new fixed-dose combination of the angiotensin II antagonist **olmesartan** and the diuretic **hydrochlorothiazide**. The combination supplements our portfolio of sartans and their fixed-dose combinations, and increases the range of our antihypertension products. The fixed-dose combination of olmesartan and hydrochlorothiazide in film-coated tablets in four strengths was authorised for marketing in nine European countries under the DCP.

Completing the DCP we acquired a marketing authorisation for **Prenessa Q-Tab** (**perindopril**) orodispersible tablets in two strengths. This is a new dosage form, which eases administration for the patient. It was authorised in nine European countries.

WE INTRODUCED THE MEDICINES PERINDOPRIL AND SILDENAFIL IN THE FORM OF ORODISPERSIBLE TABLETS, MAKING THEM EASIER FOR THE PATIENT TO TAKE.

Applying the CP we obtained marketing authorisations in all EU markets for **Vizarsin** (**sildenafil**), now available as orodispersible tablets in three strengths. This is a product treating erectile dysfunction. The orodispersible tablet dissolves rapidly in the mouth without chewing, making it especially appropriate for people that have difficulty swallowing an ordinary tablet.

By gaining approvals for the new medicines **Ecansya** (**capecitabine**), **Escepran**/**Etadron**/**Ezyvast** (**exemestane**)

More than 550 employees of Research and Development are engaged in development of 170 new medicines.

The most important therapeutic groups of Krka's products in terms of sales are medicines for cardiovascular system, medicines for gastrointestinal and metabolic disorders, and medicines for central nervous system. By gaining approvals for three new prescription pharmaceuticals, capecitabine, exemestane and letrozole, Krka entered the area of oncology medications. Krka also launched new products for diabetes.



and **Lortanda**/**Likarda** (**letrozole**), we entered the oncology market. **Ecansya** (**capecitabine**), available in the form of film-coated tablets in three strengths, is used to treat different kinds of cancer, mainly colon and stomach cancer, and breast cancer. **Escepran**/**Etadron**/**Ezyvast** (**exemestane**) 25 mg film-coated tablets is used to treat early and advanced hormone-dependent breast cancer in postmenopausal women. **Lortanda**/**Likarda** (**letrozole**) 2.5 mg film-coated tablets are also used to treat breast cancer in postmenopausal women, particularly when immediate operation is inappropriate. All three cancer treatment products are administered orally.

BY GAINING APPROVALS FOR CAPECITABINE, EXEMESTANE AND LETROZOLE, KRKA ENTERED THE AREA OF ONCOLOGY MEDICATIONS.

We gained approvals for the antidiabetic **Gliclada**/**Glyclada** (**gliclazide**) modified-release tablets in the new strength of 60 mg. The medicine is used both for monotherapy and for combination therapy with other oral antidiabetics. The innovative 60 mg modified-release tablet enables 24-hour glycemic control with once-daily administration, ensuring an optimally even release of the substance. The medicine's new strength allows patients with type 2 diabetes to take fewer tablets a day, simplifying administration and improving patient compliance.

Further in the area of antidiabetic medications, we expanded our marketing opportunities in the countries of Western Europe by obtaining new approvals for **pioglitazone**, treating type-2 diabetes. **Paglitaz** (**pioglitazone**) tablets in three strengths were approved in 29 countries under the CP.

As to antipsychotics, marketing authorisation procedures were completed in seven European countries for **Zypsila**/**Zypsilan**/**Ypsila** (**ziprasidone**) capsules in four strengths. Approvals were granted in six European countries via an EU marketing authorisation procedure for the proton pump inhibitor **Nolpaza**/**Appryo** (**pantoprazole**) gastro-resistant tablets.

Our portfolio of products used to lower blood pressure was expanded to new Western European markets. Completing the DCP we obtained new marketing authorisations in 17 European countries for **Karbis**/**Candecor**/**Canocord** (**candesartan**) tablets in four strengths, and, also under the DCP, approvals were granted for **Valsacor** (**valsartan**) film-coated tablets in four strengths. By completing the DCP we expanded markets for **Doreta** film-coated tablets (fixed-dose combination of **tramadol** and **paracetamol**), which was approved in five European countries.

Atoris (**atorvastatin**) film-coated tablets in the three strengths of 10 mg, 20 mg and 40 mg were approved in 12 European countries under the MRP.

In the Russian Federation we received new marketing authorisations for two of our statins: for **Roxera** (**rosuvastatin**) and for new strengths of **Atoris** (**atorvastatin**). The well-established **Atoris** (**atorvastatin**) film-coated tablets were supplemented with the new strengths of 30 mg, 60 mg and 80 mg, enabling new treatment options. **Roxera** (**rosuvastatin**) was approved in the form of film-coated tablets in six strengths, which enables treatment to be better adjusted to each patient, and thus facilitates reaching guideline recommendations on lipid levels. Also in the Russian Federation, we obtained new marketing authorisations for **Zonixem** (**lisinopril**) tablets in three strengths and for **Zonixem HL**, **Zonixem HD** tablets (fixed-dose combination of **lisinopril** and **hydrochlorothiazide**) in three different strengths.

With respect to one of Krka's key therapeutic groups, proton pump inhibitors, marketing authorisations were acquired in the Russian Federation, Ukraine, Kazakhstan and Uzbekistan for **Zulbex** (**rabeprazole**) gastro-resistant tablets in two strengths.

Marketing opportunities were expanded for the medicine **Tolura** (**telmisartan**) tablets in two strengths, for which new approvals were granted in Moldova. In Ukraine we gained new marketing authorisations for **Lorista H 100 mg**/**12.5 mg** film-coated tablets (fixed-dose combination of **losartan** and **hydrochlorothiazide**), for **Zulbex** (**rabeprazole**) gastro-resistant tablets in two strengths, for **Zalasta** (**olanzapine**) tablets and orodispersible tablets, for the **Nolpaza** (**pantoprazole**) powder for solution for injection, and for **Vizarsin** (**sildenafil**) film-coated tablets in three strengths.

In Kazakhstan we received approvals for **Emanera** (**esomeprazole**) capsules in two strengths, and added a new strength of the fixed-dose combination of **losartan** and **hydrochlorothiazide** (**Lorista H**) to the portfolio. In Armenia we expanded our range of **Lorista** (**losartan**) film-coated tablets with approval of a new strength.

In Croatia, Kosovo and Macedonia we acquired marketing authorisations for **Atoris** (**atorvastatin**) film-coated tablets in three new dosage strengths of 30 mg, 60 mg and 80 mg.

In Croatia we obtained new approvals for **Valsacombi** film-coated tablets (fixed-dose combination of **valsartan** and **hydrochlorothiazide**) in two strengths, for **Lorista H 100 mg**/**12.5 mg** film-coated tablets (fixed-dose combination of **losartan** and **hydrochlorothiazide**), for **Tanyz ERAS** (**tamsulosin**) prolonged-release tablets, for **Karbicombi** tablets (fixed-dose combination of **candesartan** and **hydrochlorothiazide**) in four strengths, for **Zulbex** (**rabeprazole**) gastro-resistant tablets in two strengths, for **Rolpryna SR** (**ropinirole**) prolonged-release tablets in three strengths, and for **Nimvastid** (**rivastigmine**) capsules and orodispersible tablets. Also in Croatia, we acquired new marketing authorisations for **Dasselta** (**desloratadine**) film-coated tablets, and for **Nolpaza control** (**pantoprazole**) gastro-resistant tablets.

In Macedonia we were granted approvals for three of our statins, with **Roswera** (**rosuvastatin**) film-coated tablets in two additional strengths, **Amlessa** (**perindopril** and **amlodipine**) tablets in four strengths, and **Asolfena** (**solifenacin**) film-coated tablets in two strengths.

In Serbia we acquired marketing authorisations for **Tolura** (**telmisartan**) tablets in two strengths, for **Rolpryna SR** (**ropinirole**) prolonged-release tablets in three strengths, for **Valsacor** (**valsartan**) 320 mg film-coated tablets, and for **Valsacombi** film-coated tablets (fixed-dose combination of **valsartan** and **hydrochlorothiazide**) in two strengths.

In Bosnia and Herzegovina we obtained new marketing authorisations for **Rolpryna SR** (**ropinirole**) prolonged-release tablets in three strengths, for **Zulbex** (**rabeprazole**) gastro-resistant tablets in two strengths, and for **Dasselta** (**desloratadine**) film-coated tablets.

New approvals were obtained in selected overseas markets for different dosage forms and strengths of Krka's key products **Atoris** (**atorvastatin**), **Zyllt** (**clopidogrel**), **Valsacor** (**valsartan**), **Emanera** (**esomeprazole**), **Vizarsin** (**sildenafil**) and **amlodipine besylate**.

Non-prescription products

In 2012 our new herbal non-prescription product **Herbion Iceland moss syrup** was approved for marketing.

In several new markets we obtained approvals for new non-prescription products of our key brands.

A new marketing authorisation was granted in the Russian Federation for herbal soft capsules **Palprostes** (**fruit extract of dwarf fan palm**).

Bilobil (**ginkgo biloba**) 120 mg capsules were approved in Estonia, Poland and Turkmenistan.

Marketing authorisation was granted for **Herbion ivy syrup** in the markets of Eastern and South-Eastern Europe, in Ukraine, Kazakhstan, Macedonia, Bosnia and Herzegovina, Belarus, Moldova and Croatia.

As to analgesics, marketing opportunities were expanded for our well-established brand **Nalgesin** (**naproxen**). New approvals were granted under the DCP for **Nalgesin**/**Naldorex**/**Analgesin** (**naproxen**) film-coated tablets in two strengths in additional six European countries: Portugal, Austria, Hungary, Lithuania, Poland and Romania, and we also obtained new marketing authorisations for it in Croatia, Albania, Moldova and Serbia.

HAVING COMPLETED THE DCP WE OBTAINED MARKETING AUTHORISATIONS FOR NALGESIN IN THE COUNTRIES OF THE EU.

In the markets of Eastern Europe we expanded the range of products of another Krka's key brand, **Septolete**. The **Septolete plus spray** was approved in Belarus, Serbia, Kyrgyzstan, Turkmenistan and Albania, while in Russia, Ukraine, Turkmenistan, Armenia, Moldova, Malta and Romania we acquired marketing authorisations for **Septolete plus honey and lime** lozenges.

New approvals were also issued for **Duovit** and **Pikovit** in South Africa.

Animal health products

In 2012 five new products in seven dosage forms and strengths were approved for marketing. **Fypryst** (**fipronil**) was approved under the DCP in the form of cutaneous spray. This is a new dosage form of the substance fipronil, which treats and prevents flea, tick and lice infestations in cats and dogs. **Misoxin** (**doxycycline**) oral powder 500 mg/g was approved in the Russian Federation.

THE RANGE OF ANIMAL HEALTH PRODUCTS WAS EXPANDED WITH FIVE PRODUCTS FOR FOOD-PRODUCING AND COMPANION ANIMALS.

Marketing authorisation was acquired for the **Florfenicol minidose** solution for injection for cattle, in the new strength of 450 mg/ml. The solution's increased strength allows for the subcutaneous dose to be smaller, easing the administration of the medicine. The product was approved under the national procedure in Germany.

Our new animal health product **Marfloxin**/**Quiflox** (**marbofloxacin**) 5 mg, 20 mg and 80 mg tablets for cats and dogs was approved in 25 European countries under the DCP. The product is used to treat bacterial infections of the respiratory tract and skin, and infections of the urinary tract in cats and dogs.

Applying the DCP we obtained marketing authorisations in European countries for the **Flimabend** (**flubendazole**) 100 mg/g oral suspension for chickens and pigs. It is indicated for the control of common gastrointestinal parasites in pigs and poultry. The innovative form of the suspension allows for a faster preparation of medicated drinking water, which, due to its good physical stability, makes administration easier.

In 27 European countries we obtained marketing authorisations for the probiotic product **Animavit** in the form of granules containing probiotic organisms of the Bacillus subtilis species. It is a feed additive and gut flora stabiliser that increases immunity and weight gain in intensive pig production.

We completed the DCP for the **fipronil** spot-on solution in five strengths, obtaining marketing authorisations for the product in 11 European countries.

In Slovenia we were granted approval for the **Kvestigin** (**amoxicillin**) powder for oral suspension, used to treat infections in pigs and broilers.

In Eastern and South-Eastern Europe we gained new marketing authorisations for **Giraxa**, **Rycarfa**, **Tiavalt**, **Toltarox**, **Dehinel Plus Flavour** and **Dehinel Plus XL**.

New marketing authorisations were granted in Croatia for **Toltarox** (**toltrazuril**), an oral suspension preventing and treating coccidiosis in newborn pigs, and for **Fypryst** (**fipronil**), a cutaneous spray treating and preventing flea, tick and lice infestations in cats and dogs.

Rycarfa (**carprofen**), in the form of flavoured tablets in three strengths and in the form of solution for injection, is used as a pain reliever in degenerative changes of the musculoskeletal system and in operations. New marketing authorisations were secured for both dosage forms in Serbia, while the solution for injection was also approved in Kazakhstan. The **Giraxa** (**colistin**) powder for oral solution, treating bacterial infections in farm animals, was approved in Azerbaijan.

In the Russian Federation we acquired marketing authorisations for the **Fypryst** (**fipronil**) cutaneous spray, used to treat and prevent flea, tick and lice infestations in cats and dogs, and for **Tiavalt** (**tiamulin**) 450 mg/g water soluble granules for the preparation of medicated drinking water, preventing and treating chronic respiratory disease in poultry as well as treating gastrointestinal and respiratory infections in pigs.

In Ukraine we obtained approvals for **Dehinel Plus Flavour** and **Dehinel Plus XL** tablets, for internal parasite infestations in dogs. **Dehinel Plus XL** was also approved in Serbia.

Health resort and tourist services

The spa resort Terme Dolenjske Toplice introduced in 2012 a new back pain treatment called Gamma Swing, based on years of positive experience in the alleviation of back pain with traction treatment. The method combines optimum and individually adjustable spinal traction with oscillating motion.

Product supply

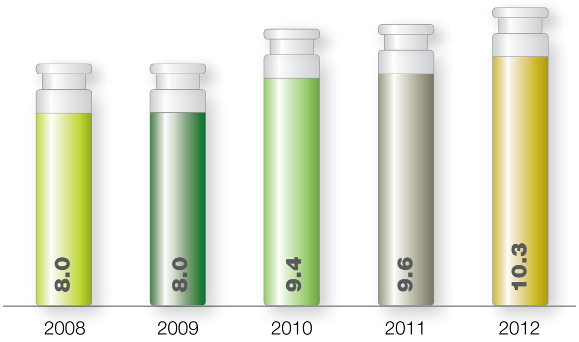
The key objective of Product Supply is to satisfy market demand by providing sufficient quantities of quality products in a timely and cost efficient manner. We manage this by continually optimising the cost efficiency of products and technologies, by continually improving processes to reduce flow time along the entire supply chain, and by operating an integrated supply process system including all Group companies as well as other contracted production sites.

We have improved cost efficiency in Product Supply processes by having optimised our production processes in Slovenia and abroad, by managing the entire product life cycle, and by having introduced equal-quality but lower-cost alternative sources of active pharmaceutical ingredients, excipients and packaging.

Production planning and realisation

In terms of volume, the production of finished pharmaceutical products followed market demand. Compared to last year, production in 2012 increased by 7%, and we also recorded the largest monthly and quarterly production quantities so far. By continually improving processes we have considerably reduced the average order-to-delivery time. In planning production we increased the number of batches of the same product scheduled simultaneously, and thus enhanced efficiency, economics and availability.

Production of finished pharmaceutical products in billions



Supply process

In 2012 we improved electronic operations with our suppliers of secondary packaging, and supplemented extranet portals for dealings with contractors. This has simplified supply planning and accelerated procedures as well as decreased administrative expenses. We continued improving our partnership strategies with suppliers and thus substantially shortened order-to-delivery times for the majority of raw materials, thereby reducing the input prices of key raw materials for our most important products. Certain suppliers are included into our processes as soon as at the development stage of a new product, and, if necessary, they are informed of our development strategy and undergo training. With major suppliers we hold annual meetings.

Production

By optimising the activities related to the transfer of technologies for new products to large scale production, we reduced the risks inherent in the launch of new products. All required product documentation was supplied on time for an individual product to be released to the market.

We have continued with the construction of the new solid dosage forms production plant Notol 2 and the production and distribution centre in the Russian Federation. They will increase our production capacity from the current 12 to over 17 billion solid dosage form pharmaceuticals. We are also strengthening our API production capacity (Sinteza 1 plant in Krško, Slovenia), while the sterile products production capacity has already been stepped-up.

Processes are run, monitored and supervised with increased information technology support, as we are now capturing data directly from the lines, calculating and visualising production process efficiency. In trying to additionally improve information technology support and thus standardise and streamline process phases, we will continue upgrading production process software.

Warehousing and transport

The principles we comply with in the warehousing and distribution of our products are, as elsewhere, quality, flexibility and responsiveness. We have implemented the SAP business management software into the warehouses for incoming materials, and have thereby increased storage capacity for materials subject to more stringent warehousing requirements. With a modernised cargo vehicle fleet we have increased vehicle utilisation and decreased fuel costs per kilometre despite higher fuel prices.

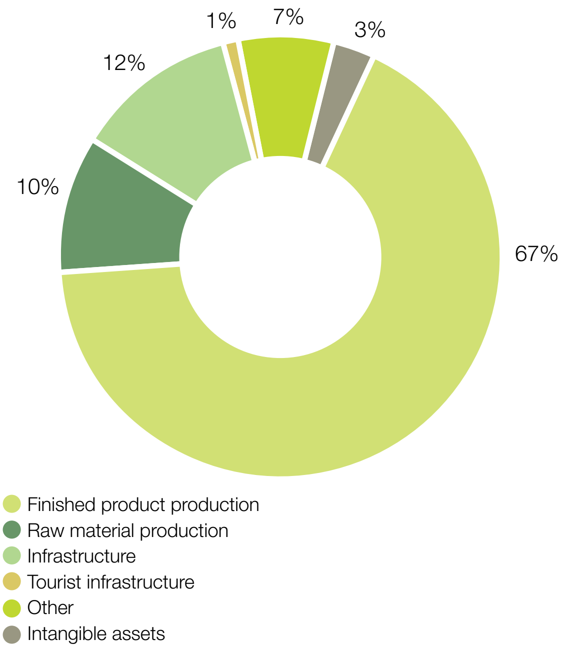
Investments

In 2012 the Krka Group's investments totalled EUR 153 million. This is the highest annual figure in the last ten years, when over EUR 100 million on average was invested every year into increasing and modernising production infrastructure, and research and development infrastructure.

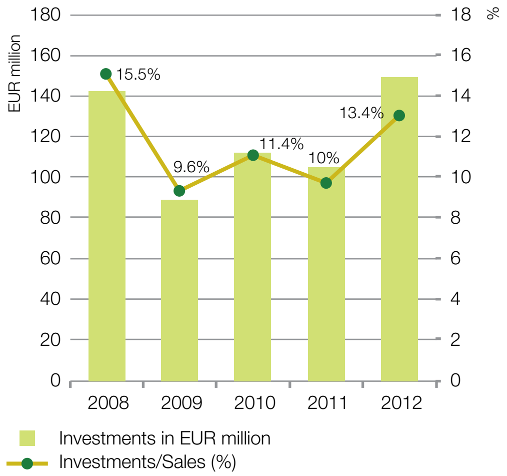
IN 2012 WE ALLOCATED EUR 153 MILLION TO INVESTMENTS.

Over 20 investment projects are currently ongoing in Slovenia, Croatia and the Russian Federation. Environmental standards are being taken into account in all these projects, and the used equipment corresponds to best available technology (BAT) in the areas of environmental protection and energy efficiency, while at the same time ensuring safety and efficacy of operations.

Structure of Krka Group investments in 2012



Krka Group investments 2008–2012



Most investments are increasing our finished product and raw material production capacity. In 2012 the investments to sales ratio was 13.4%.

New facilities to produce more quality, safe and effective pharmaceuticals

NOTOL 2

In June 2012 construction works started at Krka's central location at Ločna in Novo mesto, Slovenia for Notol 2, the production plant for solid dosage form pharmaceuticals – the largest investment in Krka's history. The estimated investment value of the 55,000 m^2 plant is EUR 200 million, and its target capacity is 4.5 billion finished products per year. Notol 2 has been designed to incorporate a vertical flow of materials and a high level of automation. The construction of the building, incorporation of technological and other equipment, qualification, and equipment and system start-ups will last two and a half years.

IN FUTURE YEARS WE WILL INCREASE OUR PRODUCTION CAPACITY BY HALF, TO 17 BILLION SOLID DOSAGE FORM PHARMACEUTICALS A YEAR.

FARMA GRS

Another large ongoing investment is that into Krka's subsidiary Farma GRS, a company founded together with partners in a tender by the Ministry of Economic Development and Technology aimed at setting up economy development centres. The newly-founded company will set up the infrastructure for developing new products and processes related to pharmaceutical chemistry and technology. The Farma GRS project in fact includes two investments. At Krka's location in Ločna, Slovenia we are setting up new research and development, and production capacity, worth EUR 45 million. The project is being co-funded by the European Union, contributing over EUR 10 million from the European Regional Development Fund. In the Production Centre for the Final Processing of Active Ingredients, production started in November 2012, while the Chemicals Development Centre will start operations in 2013. Within the same project we also expanded the operations of our development and control centre RKC 3.

EXPANDING API PRODUCTION

In the summer of 2012 we started constructing the Sinteza 1 plant in Krško, Slovenia, which will increase our API and intermediates production capacity. The investment, worth an estimated EUR 85 million, will provide for the highest possible level of production flexibility, and will facilitate a transfer to large scale production of complex APIs and intermediates in the shortest possible time. The plant will enable production in a controlled environment, consistent with the European Community Regulation on chemicals and their safe use (REACH). Construction is going according to plans. At the end of 2012 the production facility was constructed to the extent that we could start mechanical and electrical wiring installation works. Manufacturing equipment will be fitted in the second half of 2013, and production in the new plant will start in 2014.

Modernising production and increasing capacity

The sterile product production plant will gradually increase ampoule production to 130 million ampoules per year. By the end of 2012 we installed new technological equipment: two injection filling lines, two injection solution preparation lines and one ampoule packaging line. Process qualifications and gradual transfers of technologies from existing to new lines will continue until the second quarter of 2013, when production is planned to start on the new equipment. We spent EUR 7.2 million on this investment in 2012.

The Bršljin plant is undergoing an upgrade of technological equipment, aimed at increasing production capacity for animal health products with biocidal effect. The investment value of the equipment upgrade is almost EUR 1 million.

Building our plant in the Russian Federation at an accelerated pace

One of the most important ongoing investments in the Krka Group is Krka-Rus 2, the construction of a new plant and expansion of our logistics centre in the Russian Federation. The plant, with the target production capacity of 1.8 billion tablets and capsules per year, is consolidating Krka's status as a domestic pharmaceuticals producer in this country. The new facilities spread over a total surface area of around 36,000 m2. The automated high-bay warehouse will connect to the existing warehouse, and the new production facility to the new high-bay warehouse. The plant will accommodate technological processes, i.e. weighing, granulation, tabletting, tablet coating, capsule filling and packaging. Construction is going according to plans, and includes several new buildings being built: a production plant, a logistics centre with a high-bay warehouse, and an energy facility. In 2013 we will conduct testing and start-ups of technological equipment and systems. The investment, worth an estimated EUR 135 million, of which EUR 50 million was spent in 2012, will rank Krka among the leading Russian producers.

INCREASED PRODUCTION CAPACITY IN CROATIA

The existing and partly refurbished production and distribution centre in Jastrebarsko, which operates under Krka's subsidiary Krka Farma Zagreb, increased the production capacity for bulk products and finished products in 2012. In addition to increasing production capacity in the packaging phase, it now enables the production of granulate and film-coated tablets under special climate conditions as well as the production of bilayer tablets. The investment was worth almost EUR 3 million.

Terme Krka

In 2012, the subsidiary Terme Krka Group drew up the project documentation for expanding the restaurant area at the spa resort Terme Šmarješke Toplice, and for constructing an adventure park at Otočec, aimed at diversifying our tourist offer. It will increase the area's tourist appeal, and provide an innovative form of recreation to families and the youth who wish to spend their free time by being active outdoors.

The Otočec Adventure Park Project is part of the 2012 Dolenjska and Bela krajina Local Action Group Detailed Design Plan, phase II, and it is being partly co-funded by the European Agricultural Fund for Rural Development (EAFRD) under Axis 4: LEADER. Implementation is planned in the first half of 2013.

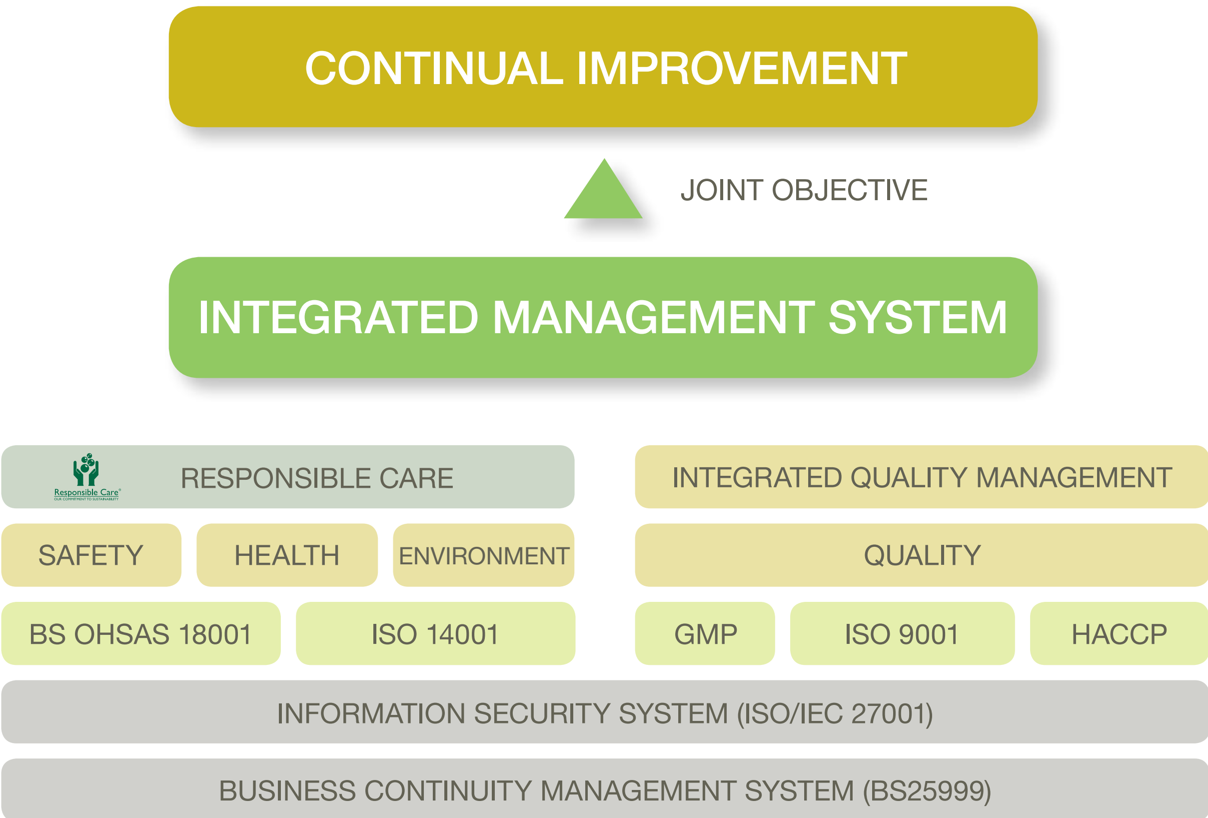
Integrated management system and quality

Krka's underlying strategy includes a sustained systematic improvement of processes, with which we are continually exceeding customer requirements with respect to product and service quality. Objectives are planned systematically and continually coordinated with the different aspects of operations.

Management and quality system

We manage the different aspects of our operations (quality, the environment, health and safety at work, foodstuffs safety, information security, and business continuity management) in a uniform manner with our integrated management system (IMS). The purpose of the IMS is to reach optimum operations targets. Its 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, ISO/IEC 27001, BS 25999. The performance of our IMS is supported by a centralised document management system, which we are continually improving by reducing costs, shortening the time span from when a document is produced to when it can take effect, providing for easier access to and better security of documents. We are gradually migrating from paper to electronic document management. To ensure the credibility of our IMS and consolidate our partners' trust, the IMS is regularly certified by an independent external institution (SIQ – Slovenian Institute of Quality and Metrology). The regular audits conducted by Slovenian as well as foreign inspectors from agencies and inspectorates demonstrate our compliance with regulatory and legal requirements (good practices, GxP).

OUR INTEGRATED MANAGEMENT SYSTEM (IMS) DEMONSTRATES OUR ATTITUDE TO QUALITY, THE ENVIRONMENT, HEALTH AND SAFETY AT WORK, FOOD SAFETY AND INFORMATION SECURITY. THE IMS IS A BASIS FOR THE EFFICIENT IMPLEMENTATION OF THE COMPANY'S CONTINUITY.

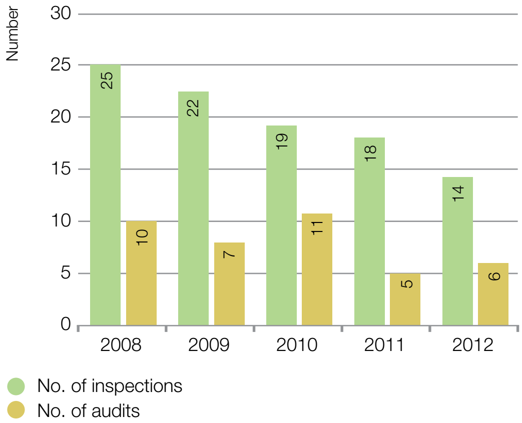


The constant improvements dictated by standards, quality guidelines and the PDCA approach (Plan, Do, Check, Act) are the driving force behind the progress and ongoing development that Krka continually implements across all areas of its operations. We systematically manage the processes covering every step from customer requirements, research and development, production, marketing and sales, to the monitoring of customer satisfaction. And it is customer satisfaction and achieving business success that will remain our primary objectives in the future.

Inspections and audits of the management and quality system

Krka's management system is checked for compliance and approved through the regular inspections conducted by domestic as well as foreign government agencies and inspectorates, and it is also audited by certification organisations and partners.

Number of inspections and audits in the Krka Group



THE NUMBER AND FREQUENCY OF PARTNER AUDITS DEPEND ON THE RISK ANALYSES THEY CONDUCT WHEN DRAWING UP THEIR AUDIT PLANS. THE DECREASING TREND IN THE NUMBER OF AUDITS AND INSPECTIONS SHOWS THAT THE RISK IS ASSESSED TO BE LOW AND THAT THE TRUST OUR PARTNERS PLACE IN KRKA'S QUALITY SYSTEM IS CONSIDERABLE.

The Agency for Medicinal Products and Medical Devices of the Republic of Slovenia (JAZMP) conducts regular inspections of our control and quality assurance systems, our pharmaceuticals and API production process, our conducting clinical trials, pharmacovigilance. In 2012 we passed several inspections, including:

- The verification of a new animal health product production line, set up in the OTO solid dosage forms production plant. The audit was successful and confirmed that the facility operates in compliance with good practices;
- An inspection of our sterile products production (a part of the inspection was carried out by Canadian inspectors under the Mutual Recognition Agreement). The inspection was successful, allowing Krka to keep a valid GMP certificate for the manufacture of sterile products;
- An inspection of production and distribution in the subsidiary Krka-Rus. The inspection confirmed compliance with the EU good manufacturing practice guidelines and resulted in the renewal of our GMP certificate. This allows us to continue pursuing our quality policy of having all Krka production and distribution companies, including those incorporated outside the EU, operate in compliance with EU regulations;
- An EU inspection of the pharmacovigilance system for medicines authorised under the centralised procedure. The inspection confirmed compliance of the entire system at Krka and all its companies and representative offices abroad.

Krka having passed these inspections, JAZMP confirmed our compliance with EU requirements, which is a basis for renewing GMP certificates and for maintaining valid pharmaceutical manufacturing licences.

In line with the annual plan of the European Medicines Agency, Krka passed a regular pharmacovigilance inspection (JAZMP) of its medicines authorised under the centralised procedure. Two of Krka's subsidiaries also passed inspections of their pharmacovigilance systems, as performed by national agencies.

Regular inspections for permission to start or continue operations in Krka's markets outside the European Union were conducted by other medical agencies as well. We passed all of them, with inspectors confirming our compliance with regulatory requirements for the production of pharmaceuticals.

In some countries (e.g. Russian Federation, Ukraine and Belarus), Krka has the special status of a high-quality pharmaceuticals producer. This makes imports quality control for Krka's products in those countries consist of only three parameters, which reduces costs and brings finished product batches to the market much faster. In 2012 we again witnessed a general inspection by the Belarus inspection authorities, which confirmed compliance with the requisite standards and preserved Krka's existing status.

The Veterinary Administration of the Republic of Slovenia conducted inspections to verify that conditions were in place to ensure the traceability of feed in three registered plants, and to verify our compliance with the requirements for the issue of veterinary permits for exporting feed additives and foodstuffs of animal origin. They also inspected the use of medicines, and the use-related traceability of animal health products.

The Health Inspectorate of the Republic of Slovenia carried out inspections of production, labelling and ensuring traceability across the entire food supplement production process at two registered locations. It also verified the implementation of the requirements stipulated by the Slovenian Act Regulating the Sanitary Suitability of Foodstuffs, Products and Materials Coming into Contact with Foodstuffs, and examined the implementation of HACCP requirements at our company canteen.

Krka's auditors audit the management systems of suppliers and contract partners in order to better control the quality of our products and processes. Measures are therefore implemented in order to reduce risks related to the quality of products and raw materials produced by suppliers and contractors to an acceptable level. The adequate quality and timely delivery of products and raw materials manufactured by suppliers and contract partners provides for an optimum planning of production processes.

Quality assurance processes

Krka has six key processes facilitating the implementation of company policies and reaching its strategic objectives: company management, research and development, product supply, marketing, sales, and engineering and technical services. Quality assurance processes are integrated into company management processes and facilitate the implementation of elementary corporate process rules of operation. Our constant task is to upgrade quality systems and thereby improve process efficiency and product and service quality.

For a product to be of high quality, safe and effective, it is important to incorporate quality in the earliest stages of research and development. By continually implementing new knowledge and by working with an in-depth understanding of processes, we are reducing their variability and ensuring consistent quality in products and processes. For this purpose we had introduced new approaches and tools in 2011, and in 2012 we upgraded them and ensured appropriate resources.

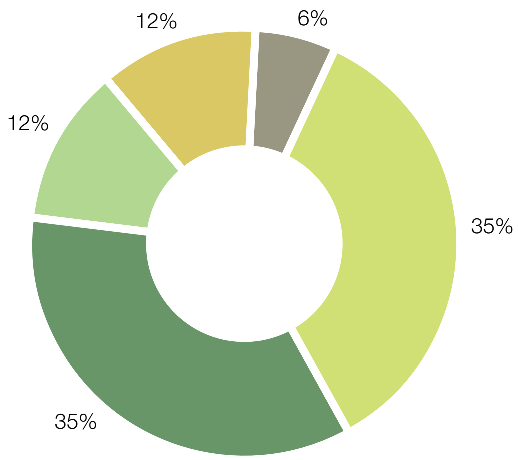
The quality of products, active ingredients, incoming materials and the production environment are analysed at all production locations with laboratory quality controls. The Laboratory Quality Control department additionally improved the regular quality controls of incoming materials and finished products in 2012 by using new equipment. Our in-depth professional work, efficient work organisation, compliance with all the requirements of laboratory quality control, and our handling of laboratory equipment pursuant to good manufacturing practice requirements help us reach optimum analysis response times. In this way we contribute to realising orders and satisfying our customers.

The number of product batches released to the market depends on sales requirements and production realisation. The activities that are crucial for releasing a batch to the market come as a result of processes ongoing throughout the control and quality assurance cycle. All production batches are assessed according to good manufacturing practice standards and according to registration documentation, which makes our products safe, high quality and effective. A batch's final assessment is prepared by the adequately qualified persons authorised to launch pharmaceuticals, as stipulated by the Slovenian Medicinal Products Act. The qualified persons are registered with the JAZMP, and they are also listed on Krka's Pharmaceutical Manufacturing Licence.

RELEASING A BATCH TO THE MARKET COMES AS A RESULT OF PROCESSES ONGOING THROUGHOUT THE PRODUCT PRODUCTION CYCLE.

The issue of the certificate and drawing up of the batch documentation for a customer are conducted on the basis of quality assurance contracts, which we regularly harmonise and update together with customers and partners. In-depth communication and certain responsibilities within a partnership come as a result of long-term co-operation.

Controls leading up to the release of pharmaceuticals to the market



- Analysis of raw and incoming materials
- Analysis of bulk products/finished products
- Process control and examination of bulk product production documentation
- Process control and examination of packaging documentation
- Batch release/Issue of certificate

The qualification and validation of investment and computer projects, production and laboratory equipment, utilities, air-conditioning systems, technological procedures, cleaning processes, calibrations and maintenance processes all contribute to quality assurance in production and control processes.

Our documentary and information system is continually upgraded according to process requirements, which enables transparent and efficient use of information. The documentation evidencing the quality of our products is systematised and ready for inspections or partner audits.

Improving the quality system

In order to improve our processes we constantly monitor customer satisfaction via indirect indicators, such as complaints, recalls and information about adverse effects. We contribute to our partners' satisfaction with our products and services by ensuring regularly amended quality assurance contracts, by holding annual quality audits, and by coordinating activities related to product realisation within quality assurance. Finally, partner satisfaction is also evident from the audits of our compliance with good manufacturing practice and registration documentation requirements, which we continue to pass successfully.

All major processes are periodically reviewed by our Quality Committee, which examines them with respect to our IMS and against performance criteria, whereupon the Quality Committee proposes strategic guidelines for their further development.

A KEY OBJECTIVE OF OUR IMS, AS WELL AS OF OUR OPERATIONS AND SUCCESS, IS THE SATISFACTION OF OUR CUSTOMERS WITH KRKA PRODUCTS AND SERVICES.

Krka places a strong emphasis on environmental protection and on occupational health and safety (ISO 14001, BS OHSAS 18001) as well as on open and fair public relations. We regularly inform the public about the improvements we introduce. The fact that our approach is successful and fair is proved every year when we are granted the right to use the Responsible Care logo.

We continually strive to integrate and harmonise quality systems across the entire Krka Group and, consistently, upgrade our quality systems and implement optimisations. Through the internationalisation of quality system processes we are establishing coherent and comprehensive quality management, as well as optimising processes and making them efficient.

Information security system

Our information security management system (ISMS) is ISO/IEC 27001 certified. We regularly conduct information source risk assessments, while the ISMS is regularly assessed by external security audits. Krka's Information Security Policy was extended to our subsidiaries. A key element making the implementation of our ISMS successful is employee training and awareness raising, which we sometimes conduct using contemporary technologies, such as e-learning. Krka's internal rules on archiving documentary material comply with the Slovenian Protection of Documents and Archives and Archival Institutions Act, which was approved by the Archives of the Republic of Slovenia.

In 2012 we completed the renovation of our personal data protection system pursuant to the Slovenian Personal Data Protection Act. Subsidiaries abroad also protect personal data in line with Krka's policy and the local legislation.

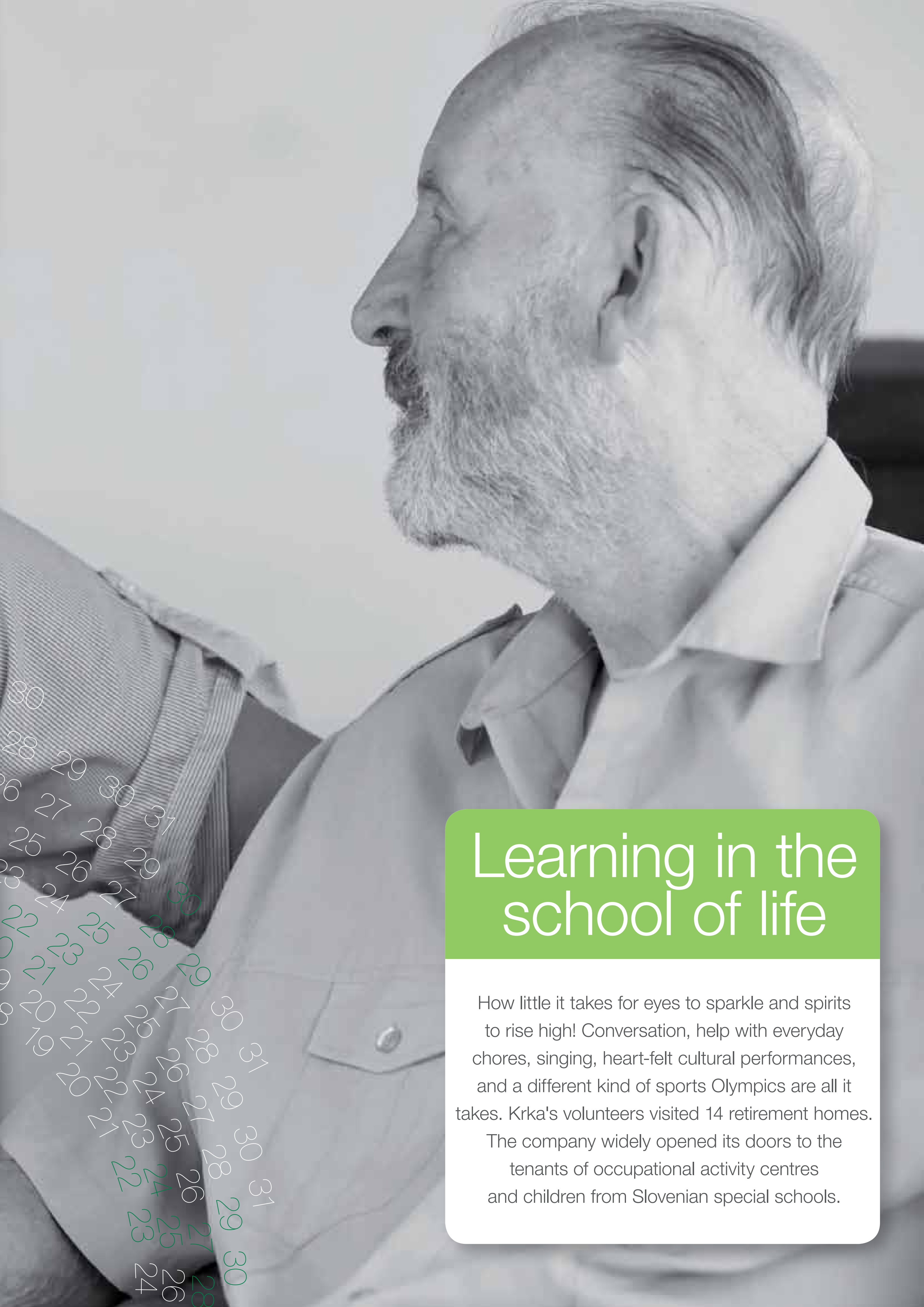
OUR INFORMATION SECURITY MANAGEMENT SYSTEM IS A PLATFORM THAT FACILITATES CONTINUAL IMPROVEMENTS IN SEVERAL AREAS, SUCH AS THE PROTECTION OF PERSONAL DATA, ARCHIVING, BUSINESS CONTINUITY, ETC.

In 2013 we will systemically integrate information source risk management into risk management within the business continuity management system.

Business continuity management system

In accordance to the BS25999 standard (Business Continuity Management), we have set up our business continuity management system. We assess process criticality and the risks endangering their operability. We take effective measures to protect people, property and other key resources, and to prevent emergencies and disasters. For emergency cases we have prepared plans of action and disaster relief measures as well as measures to decrease direct damage. The efficiency of our business continuity management system is improved through continual system upgrades and due to trainings and drills. In 2012 we refreshed our business impact analysis, and in 2013 we will recast our business continuity plans for operations under emergency conditions.

OUR BUSINESS CONTINUITY MANAGEMENT SYSTEM IS AN INTEGRAL PART OF KRKA'S COMPREHENSIVE RISK MANAGEMENT.



Learning in the school of life

How little it takes for eyes to sparkle and spirits to rise high! Conversation, help with everyday chores, singing, heart-felt cultural performances, and a different kind of sports Olympics are all it takes. Krka's volunteers visited 14 retirement homes. The company widely opened its doors to the tenants of occupational activity centres and children from Slovenian special schools.

Responsibility to employees

Company success, growth and development are the result of committed and qualified employees. Responsibility to employees, quality of life and work, social security, and safety at work form the foundation for a stimulating work environment in which the goals and needs of the individual are linked with the company's objectives.

WE BUILD PARTNERSHIP AND TRUST.

Krka values – speed and flexibility, partnership and trust, creativity and efficiency – form the foundation for our operations. We encourage the culture of mutual trust, respect, collaboration and teamwork, lifelong learning, and responsible and effective work. Respect for legal norms and rules, and an ethical approach to other people and the wider social community represent the very basis of our work. We are additionally bound to respect the ethical and professional standards of work, conduct and behaviour by the Krka Code of Ethics.

New employees are selected carefully. They must have the necessary knowledge and skills, and maintain high professional and ethical standards. They are expected to undergo continual training and development, and to strive for excellence in their work, personal development in interpersonal relations.

WE ARE COMMITTED TO HIGH ETHICAL AND PROFESSIONAL STANDARDS STIPULATED IN THE KRKA CODE OF ETHICS.

We think ahead, devising ways to always attract enough skilful experts that will contribute to the meeting of our objectives. This is why we **systematically work with young people even before they enter the job market**. We offer university and secondary school students who had demonstrated a certain talent and ability during their studies the opportunity to acquire Krka study grants. During their studies they are then connected with the company through gatherings that we organise for them, and through their professional internship. They get a chance to know the company and our work processes better, as well as to develop and demonstrate their knowledge and potential. As visiting professors we co-create undergraduate and master's study programmes, and help students and junior researchers with our expertise and by suggesting topics to deal with in their graduation and master's theses from different areas. Krka scholarship holders and their mentors are also actively engaged in the Krka Prizes. In 2012 Krka had 81 university students on study grants, 17 of whom had already graduated.

The number of employees is rising both at home and in Krka's subsidiaries and representative office abroad. Outside Slovenia Krka currently employs as many as 4,697 employees, which is **50% of all Krka Group employees**.

We invest into the development of our own specialists and senior managers, and provide support to employees gaining higher education qualifications. We also offer our employees numerous opportunities for personal growth, education and training.

WE INVEST IN THE KNOWLEDGE AND DEVELOPMENT OF OUR EMPLOYEES.

We motivate our employees to work towards excellent results with various rewards and recognitions, while special recognition awards are conferred on our best employees and managers in the Group.

A pleasant organisational climate facilitates committed and creative work, and the reaching of ambitious objectives, which is why we regularly measure it. The findings of such analyses prove a good tool for preparing improvements and changes within our organisation.

The company's competitiveness and performance are maintained also through a continual improvement of internal processes. This is becoming increasingly important given our intense growth and expansion into new markets. The Krka Group is becoming increasingly complex, which is why we devote special attention to our organisational efficiency. Reorganisations, the restructuring of representative offices into subsidiaries, and the continual search for new solutions in processes as well as structure provide us with flexibility and speed in responding to the demands of a competitive environment.

Krka has received many prizes and awards for its systematic and accountable work in the human resources field, which involves the efforts of our senior management, specialist services and other partners. In 2012 we won our eighth TOP 10 award for investing into and being successful at education and training. We were a finalist in the Golden Thread employer-of-the-year campaign and were conferred a special recognition award for being a steadily growing company. We received a special award from the Chamber of Commerce of Dolenjska and Bela krajina for being the region's largest employer, while the Slovenian Human Resource Association presented Krka with a recognition award for contributing to the sustainable development of the human resources profession.

Key data in 2012	
Number of employees	9,461, of which 50% in Slovenia
Average age	38.5
Share of female employees	63%
Share of employees with at least university qualification	51.9%
Change in the number of employees in 2012	+513

Number of employees on 31 December 2012

	2012	2011	2010	2009	2008	Index 2012/2011
Krka Company in Slovenia	4,085	3,899	3,784	3,563	3,380	105
Krka Company representative offices outside Slovenia	410	480	749	1,697	1,870	85
Krka Company	**4,495**	**4,379**	**4,533**	**5,260**	**5,250**	**103**
Subsidiaries outside Slovenia	4,287	3,865	3,361	2,036	1,673	111
Terme Krka Group	627	653	675	679	679	96
Farma GRS	50	51				98
GRS VIZ FARMA	1					
GRS TEH FARMA	1					
Krka Group	**9,461**	**8,948**	**8,569**	**7,975**	**7,602**	**106**

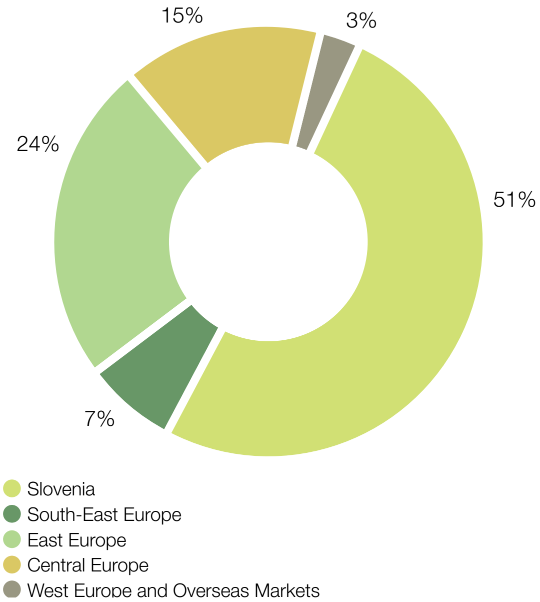
Educational structure

To invest extensively into development, additional capacity and complex technologies, and to maintain Krka's competitiveness in global markets, we require highly qualified specialists in all areas. The share of Krka Group employees with a university level education or higher is constantly increasing and currently stands at 52%. At the end of 2012, as many as 4,909 of our employees had a university level education or higher, while our team includes 106 experts with a doctoral degree and 281 with master’s degrees and specialisations.

Educational structure on 31 December 2012

	2012	2011	2010	2009	2008
Doctorate	106	95	90	82	76
Master of science	281	266	245	215	178
University education	4,522	4,230	4,076	3,730	3,604
Higher professional education	1,072	945	780	698	596
Vocational college education	263	257	248	240	225
Secondary school education	1,864	1,760	1,711	1,599	1,503
Other	1,353	1,395	1,419	1,411	1,420
Total Krka Group	**9,461**	**8,948**	**8,569**	**7,975**	**7,602**

Employee structure on 31 December 2012 by region



Employee education and development

Investing in the knowledge and development of all employees is the key to success, both for Krka and its employees. Employee development is systematically planned, and with **continual education** we enable our employees' professional and personal development as well as promotion.

Competence-based systems in various work areas enable us to determine requirements for the development and upgrading of our employees' knowledge and skills. Competences are also the starting point in recruiting new employees, as well as a basis for creating education and training programmes, and for evaluating those programmes.

An important tool providing effective leadership, motivation and development of employees is the Krka appraisal interview. Managers and employees use it to define objectives, discuss priorities and expectations relating to work and employee development, and on that basis plan the employees' continual training. All employees are involved in the Krka appraisal system.

WE IDENTIFY TALENTED EMPLOYEES EARLY IN THEIR CAREER, FOSTERING THEIR FURTHER DEVELOPMENT.

Particular emphasis is devoted to identifying, early in their career, and systematically developing our **key and promising employees**. We train them, let them gather experience in various areas, mentor and coach them, all with a view to preparing them to assume the most demanding and responsible tasks in the company. In 2012 we had 1,155 key and promising employees, which is 12.6% of the entire Krka Group team.

We provide our employees with continual education and training in various specialist fields, such as management and personal growth, foreign languages, particularly English and Russian, quality, and using modern information technology.

KNOWLEDGE IS A KRKA VALUE.

Employees learn about the most demanding topics and most recent discoveries at faculties, institutes and other institutions, both at home and abroad. In 2012, 538 employees were enrolled in part-time studies, 71 of them postgraduate students. Krka supports them by partly funding their tuitions and by granting study leaves.

Krka was one of the first companies in Slovenia to develop programmes for **national vocational qualifications (NVQ)**. We are the only provider in the country for six NVQ programmes for the pharmaceutical industry, and employees working in pharmacies and other pharmaceutical companies are included as well. In 2012 we awarded 135 NVQ certificates. In total we have awarded 964 certificates since 2004 – 822 to Krka employees and 142 to participants from other companies and pharmacies.

The need to develop leaders led to the creation of our own leadership programme, the **Krka Leadership School**. It comprises three programmes, adjusted to the different levels of leadership, including the Krka International Leadership School, the Krka Operational Leadership School and an elementary level leadership programme. We also provide an in-house international **programme for experts and project teams**, working towards developing our specialist employees. This programme places emphasis on developing communication skills, team and project work, and personal development. Our employees also undergo leadership and management training at reputable business schools.

For our marketing and sales employees we organise seminars for new employees, and we have also introduced seminar and workshop programmes for various positions. The most numerous group in the marketing and sales network is our medical representatives, for which we hold in-house seminars led by over 50 Krka trainers.

Traditional forms of education and training are being supplemented with e-learning and e-testing, which have gained importance given Krka's widespread international organisation. We use e-learning and e-testing to prepare our employees for upcoming seminars and meetings, which increases the level of attained knowledge and employees' cooperation at seminars. Knowledge is delivered in this manner in the areas of marketing and sales as well as quality. In 2012 marketing employees in Slovenia and abroad took part in around 850 e-courses and 1,160 different online testing sessions, while in the Russian Federation, our largest market, we trained our specialist employees using a new online method, the webinar.

In 2012 we migrated to a new e-learning and e-testing application, which we named Krka Learning. It makes learning and tracking of e-learning history easier and more transparent for the users, and makes the preparation, announcement of e-learning and e-testing sessions as well as the follow-up analysis easier and faster for the authors. The new system was introduced in 2012 in Slovenia and in three markets of Region Central Europe.

In 2012 every Krka Group employee took part in more than six education or training programmes, spending 54 hours on average. Krka spends 0.62% of our operating revenues on employee education and training.

With the subject matter as well as forms of our training sessions we pursue Krka's values, particularly efficiency, flexibility, partnership and creativity.

Employee remuneration and motivation

We recognise good work in employees and motivate them to continue working well through a performance bonus system.

Our best performing employees receive recognition awards and performance bonuses for the successful work they do. We select and award our best employees and managers at each organisational unit level and at Group level, as well as our best employees in the sales and marketing network and the most successful employees in the field of regulatory affairs.

WE PROMOTE COMMITMENT AND LOYALTY, AND REWARD EXCELLENCE.

Krka has been recognising the efforts of its most loyal employees for decades by bestowing long-service awards and special recognition awards. The ceremony at which we celebrate these achievements is known as the Krka Awards Day.

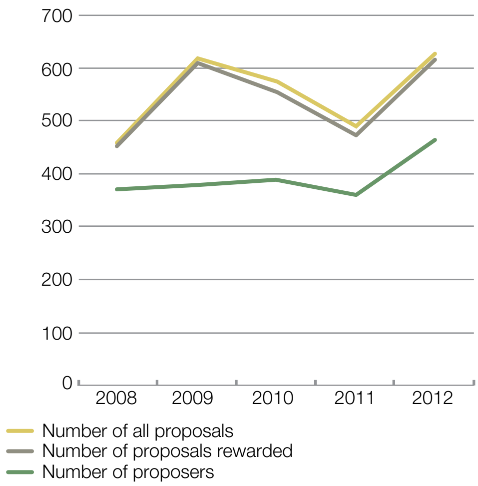
Encouraging inventive work

Krka's system of inventive work allows every employee to participate in the system of continual improvements in the quality system, and thus in the integrated management system. The key role in maintaining and encouraging inventive work belongs to the management staff, who find ways to encourage their employees to be as innovative as possible during their everyday work.

Every employee may put forward proposals on how to improve the work process, ensure safer conditions of work, or reduce operational costs. We stimulate inventive work by posting announcements on our Intranet website Krkanet and by publishing them in our in-house monthly magazine Utrip, while a further incentive is the awards and special recognitions conferred on the most innovative employees at the annual Krka Awards Day.

In 2012 the number of proposals increased by 26% compared to 2011.

Number of employee proposals and improvements



52% of employees with university level education or higher

We increased the number of employees by 6%
At the end of the year, the Krka Group had 9,461 employees, 50% in Slovenia and 50% abroad. In 2012 each Krka Group employee spent an average of 54 hours in training, taking part in more than six education programmes of different types.



Health and safety at work

Krka provides its employees with a safe working environment. The latest developments in occupational health and safety and fire prevention are incorporated into every new project and technology. We monitor the risk of accident and potential health implications for every work post and technology. In order to ensure continual long-term improvements in working conditions, risk is assessed periodically and action is taken to reduce it to acceptable levels.

We have an employee healthcare system that involves the heads of individual organisational units, specialist services and doctors specialising in occupational health. The Works Council and both trade unions are also incorporated into the system.

OUR WORK PROCESS RISKS ARE UNDER CONTROL.

The physical and emotional well-being of our employees, and a pleasant psychosocial climate are ensured by regular weekly recreation, preventive health care recreation and sports events, and workshops by doctors dealing with a healthy lifestyle and the effects of psychoactive substances, healthy meals at our canteens, and similar.

Several years ago we started the Interpersonal Relations and Sick Leave project, which has contributed to reducing sick leave. In 2012, 4.1% of Krka Group employees were on sick leave, and 5.1% on maternity leave.

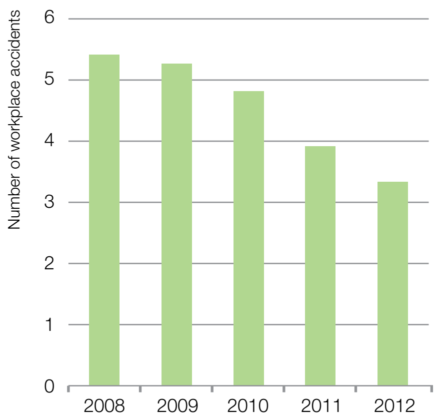
A total of 5% of employees have a registered disability. Pursuant to the legislation and regulations as well as the individuals' disabilities, we have a team of experts to find work for them that matches their occupational profile. Preventive measures are taken to ensure they do not suffer further restrictions due to their disabilities. In addition to preventive and curative healthcare for employees with disabilities, Krka ensures that their work posts are adjusted to their occupational capacities. Krka also provides appropriate requalification for employees who can no longer perform their duties.

TEAMWORK IN EMPLOYEE HEALTHCARE PRODUCES RESULTS.

The health and safety at work system complies with the BS OHSAS 18001:2007 standard and is incorporated into the Krka integrated management system. Each organisational unit at Krka includes a health and safety at work working group together with a certified health and safety officer. At the company level, we have a health and safety at work team that prepares key objectives and programmes, submitting them to the Management Board for approval.

We continually monitor data on workplace accidents. The LTAR (Lost Time Accident Rate) indicator in the graph below indicates the number of accidents in the workplace requiring three or more days of sick leave per million hours of work. In 2012 its value was 3.38, whereby all accidents were minor.

Frequency of workplace accidents



WE ARE WELL-PREPARED FOR EMERGENCIES.

No major incident, such as a fire or major spillage of hazardous chemicals, occurred in 2012. The Fire Protection Department and the Industrial Fire Service Crew are responsible for emergency interventions. We staged 15 training exercises in 2012 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 between the internal and external emergency teams, and the Krka first aid and medical teams.

Quality of life

At Krka we are aware that in the present times, which demand ever faster responses and continual adjustments in all areas of work and life, our employees' health and well-being is a shared responsibility.

We have supported well-being and good interpersonal relationships by organising a wide range of cultural and sporting events for decades.

At all Krka locations we provide high quality meals, including a variety of cold and warm meals. We also call our employees' attention to the importance of a healthy diet. In 2012 we carried out a survey of their satisfaction with the services in company canteens, which revealed that an increasing number of our employees opt for a healthy diet.

WE OFFER QUALITY OF LIFE TO EMPLOYEES AND KRKA PENSIONERS.

Employee gatherings are an important part of Krka's corporate culture. Employees get together for the Krka Day — a social and sports event for all employees, and for the Krka Awards Day, where we reward our most loyal employees as well as our best employees, best managers, and best proposers of innovations and useful proposals. Skiing enthusiasts get together for a winter sports day, and we also meet at gatherings for the disabled employees, for blood donors, for volunteer fire fighters, for people involved in sports, at environmental cleaning campaigns, at ceremonies held when opening new facilities, and at other events.

We also host a traditional New Year's event for our retired Krka employees, who are organised into the Krka Pensioners Club, which helps them keep in touch with former colleagues.

The Krka Trim Club organises various sports activities which around one thousand of our employees take part in during their leisure time every week, while the Krka Culture and Arts Society offers an art gallery, a choir, a drama club and creative workshops, and organises visits to various cultural events.

Communicating with employees

Open and regular communication with employees is of key importance in the processes of socialisation, decision making, problem solving and controlling change.

WE PROMOTE OPEN TWO-WAY COMMUNICATION.

We promote responsible and ethical communication, and encourage open and two-way exchanges at all levels. This is how we create a productive 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 company events via various internal communication tools. In the second half of 2012 we carried out an employee satisfaction survey relating to internal informing, and used the results to find improvements and optimise internal communication tools.

The **Works Council** is the link between employees and the Management Board. Its members represent all organisational units in the company. Employees can therefore put their initiatives and questions forward through members or the President of the Works Council.

Another important source of information is the annual **worker assemblies**, where the President and members of the Management Board inform employees of the past year's operating results, plans for the current year, the company's development strategy, and other news. At these assemblies employees may ask questions and put forward proposals.

If they wish to talk to the **President of the Management Board**, all employees are welcome to e-mail him at any time and they may also make a personal appointment upon prior notice.

Our Intranet website, called **Krkanet**, is a tool for internal communication. It is the central venue for posting documents and it supports our business processes and project work. The portal allows employees to prepare, publish and seek information and documents relating to their work, to cooperate across organisational units, to work with shared documents and databases, to share and exchange knowledge, and to collect and organise data and information in one place.

WE KEEP EMPLOYEES INFORMED ABOUT EVENTS IN THE COMPANY VIA VARIOUS INTERNAL COMMUNICATION TOOLS.

Employees also receive news about the company via our internal weekly bulletin **Bilten**, which is available in printed as well as electronic form, and via our monthly magazine **Utrip**. Utrip is an important contribution to understanding the Krka vision, mission and values, as well as the company's strategy and politics. Both magazines are in the Slovenian language, while in recent years we have also started compiling local language editions in Poland, the Russian Federation, Ukraine and Croatia.

Another Krka newsletter in electronic form is the **M-Bulletin**, intended for our marketing and sales staff outside Slovenia. Employees also receive daily information about events in the company via **information screens**.

Responsibility to investors

Krka's principal objective is maximising company value and acting for the benefit of all stakeholders, including shareholders (investors). We demonstrate our responsibility by reaching our business objectives, operating in a transparent manner and communicating with investors.

WE WERE AWARDED THE PORTAL PRIZE FOR EXCELLENCE IN CORPORATE GOVERNANCE AND INVESTOR RELATIONS FOR THE SIXTH CONSECUTIVE TIME.

Our transparency of operations complies with the good practices of corporate governance as stipulated by corporate governance codes.

Quality communication with investors and analysts is an important aspect of Krka's reaching its primary objective, because it helps them understand our business story. In 2012 the Ljubljana Stock Exchange awarded Krka the sixth consecutive Portal prize for being the most transparent listed company, while Euroshareholders and the PanSlovenian Shareholders'

Association expressed their confidence by conferring on us the Shareholders' Friendly Company award.

We work to make our communication with investors as transparent, prompt and consistent as possible. The information we pass on to investors is mainly related to our results and the company's strategy for the future, all in line with the company's information disclosure policy.

IN 2012 WE HELD OVER 100 MEETINGS WITH THE INTERESTED INVESTORS.

The main communication objectives are:

- Achieving a fair market valuation for Krka,
- Gaining an easier and cheaper access to capital,
- Creating a reasonable level of liquidity in Krka shares.

We are meeting these objectives through:

- Meetings with investors at the company's headquarters,
- Meetings between Krka's management and financial analysts at the company's headquarters,
- Taking part in various investor conferences,
- Organising roadshows in financial centres around the world,
- Organising conference calls with financial analysts after releasing business results,
- Issuing publications for investors (magazine Utrip prihodnosti, presentation and promotional materials),
- Holding Annual General Meetings,
- Hosting press conferences announcing business results,
- Communicating with financial media.

Krka's business results are available in Slovenian and English on the Ljubljana Stock Exchange online portal SEOnet (*http://seonet.ljse.si*), at the Warsaw Stock Exchange via its ESPI system, and on the Krka website.

For more information shareholders can contact our Finances Division, by telephoning +386 7 331 2109 or e-mailing us at *finance@krka.biz*.

IN 2012 EUROSHAREHOLDERS AND THE PANSLOVENIAN SHAREHOLDERS' ASSOCIATION PRESENTED KRKA WITH THE SHAREHOLDERS' FRIENDLY COMPANY AWARD.

Responsibility to customers

Customers one of the key target groups of any company, therefore we put customer satisfaction with our products and services first. We build partner relationships based on cooperation, knowledge and trust.

We classify our customers into four groups according to their status in the pharmaceutical market:

1. Institutions (healthcare, regulatory, industrial property, health insurance, etc.),
2. Direct customers (distributors, other pharmaceutical companies),
3. Indirect customers (pharmacies, hospitals, pharmacists, doctors, veterinarians), and
4. End users (patients, consumers).

WE BUILD PARTNER RELATIONSHIPS BASED ON COOPERATION, KNOWLEDGE AND TRUST.

Responsibility to institutions

Following official procedures in cooperating with regulatory institutions, health insurance companies and other bodies involved in the medicines sector is a basis for responsible and long-term cooperation. Our implementation of procedures is evidenced by adequately kept data records and by reliable documentation that is organised systematically and clearly.

The implementation of quality systems and a documented compliance with standards and good practices are regular features in the life cycle of our products, starting with product development.

OUR PRINCIPAL CONCERN IS PROVIDING SAFE AND EFFECTIVE PRODUCTS OF HIGH QUALITY AS WELL AS OFFERING RELIABLE AND TRUSTWORTHY DATA.

In order to constantly raise the level of our operations, our quality and operations systems are continually upgraded. This is confirmed by successfully passed audits and inspections conducted by regulatory bodies year after year, examining the compliance of our operations and integrated management system with the relevant standards.

In order to reach our research and development objectives, we engage in an exchange of ideas and know-how with specialised institutions and companies, whereby target-oriented project cooperation with universities and institutes as well as other education and science institutions is of particular importance. Education and training is something that we do every day at Krka, and a relevant aspect of it is the Krka Prizes and study grants offered to future experts. Our experts undergo continual education and upgrade their knowledge through the fruitful cooperation with the mentioned institutions as well as by participating in the teaching process and scientific research.

Our professional, scientific and regulatory environment is changing, and we take an active part in these changes, mainly by cooperating in various professional and industry associations in Slovenia, the European Union and in other markets.

Responsibility to direct customers

The second customer group is direct customers, primarily distributors and other pharmaceutical companies. It is important that we know their needs, as this is the only way to meet their expectations. For this purpose we regularly examine their opinion. In this manner we determine the areas in which we can introduce various improvements to increase their satisfaction and improve relations and business processes, thereby making a long-term contribution to sales growth and enhanced business performance.

ON AVERAGE, THE SATISFACTION OF DIRECT CUSTOMERS IS HIGH.

Responsibility to indirect customers

Doctors and pharmacists, who prescribe, recommend and dispense our products, are one of the most numerous customer groups. These indirect customers form a link with end users, for whom our products are intended. To make this link work to the mutual benefit and satisfaction of both ends, we regularly provide doctors and pharmacists with all the required expert information on Krka products, whereby we strictly comply with the valid legal norms and ethical standards.

DOCTORS AND PHARMACISTS ARE REGULARLY PROVIDED WITH ALL THE REQUIRED EXPERT INFORMATION ON KRKA PRODUCTS.

Another indispensable aspect of a responsible attitude is making sure that all our employees who come into contact with indirect customers have a strong professional background and can offer objective and useful information on our products. This is why we make sure they undergo regular education and training, which increasingly takes place as e-learning and e-testing.

At Krka we spread knowledge. Every year we organise numerous specialist gatherings for doctors, pharmacists and veterinarians, where experts can exchange their views and experience, establish contacts and acquire new knowledge. These events take place in different countries with a Krka presence. Consistent with global trends and in line with the participants' wishes, they are becoming increasingly interactive, often taking place as workshops and round tables. Experts and opinion leaders from various areas come together to discuss novelties and topics of current concern, which participants can use in practice. Success is measured by the scores with which participants express their satisfaction. The average satisfaction score is 4.9 (on the scale of 1 to 5) and rising.

We obtain information about the opinions of indirect customers with market surveys conducted by independent agencies. A comprehensive survey was conducted in our key markets (Slovenia, the Russian Federation, Croatia, Poland, Hungary and the Czech Republic) in 2011, which revealed that we are among the leaders in these markets with respect to the rated areas. In 2012 we then identified all the areas in which our operations can be further improved. Some of these improvements have already been implemented and will be examined in the next survey.

Responsibility to end users

Our knowledge and expertise is directed towards the ultimate goal – caring for the health of patients and consumers, the end users of our products. We provide a wide range of products to treat the most widespread illnesses of the modern time, supplementing well-established products with new ones.

IN A LARGE PART OF THE WORLD WE ARE RENOWNED FOR HIGH QUALITY, EFFECTIVE AND SAFE PRODUCTS WITH ADDED-VALUE, AVAILABLE AT ACCESSIBLE PRICES.

We strive towards users placing trust in us and our products. Our responsibility to them is therefore many-fold. In a large part of the world we are renowned for high quality, effective and safe products with added-value, available at accessible prices. We leave nothing to chance; the quality of active ingredients and excipients as well as all incoming materials through to finished products is examined with numerous laboratory tests, using state-of-the-art and validated analytical methods and devices. This is our way of ensuring that all our products are of high quality, effective and safe.

The amount of confidence placed in a company is also reflected in its reputation. In 2012 we commissioned the market research company Valicon to conduct a Brand Track study in 10 countries, surveying 12,000 consumers. One of the questions asked was which pharmaceutical company the consumers' regarded as the most reputable. Results showed that Krka was the number one company in Slovenia, and among the top five most reputable pharmaceutical companies in Slovakia, the Czech Republic, Croatia and Serbia. In Ukraine, Kazakhstan, Russia and Poland consumers ranked us among the top ten most highly esteemed companies.

SLOVENIAN CONSUMERS CONSIDER KRKA THE MOST REPUTABLE PHARMACEUTICAL COMPANY IN SLOVENIA.

Trust comes as a result of a long-term relationship, which we build and nurture with appropriate communication. It is always oriented and adjusted to the user, and, above all, it is always responsible and professional. Because we realise that a piece of information is only useful when understood, we adjust the style and tone as well as the subject matter to different user groups, trying to reach the widest possible audience with our message. We strive to give our users all the information on our products they need, decreasing the fear factor, improving cooperation and strengthening trust.

In 2012 we updated our websites with numerous topics, which users can access anywhere and any time to be in touch with the latest and most relevant information. We updated our corporate websites in different markets, including all their product-related content, and increased the scope, accessibility and promptness of published information.

OUR WEBSITES EDUCATE, ADVISE AND AMUSE, AND VISITORS COME BACK FREQUENTLY.

We are also preparing new product websites. In 2012 we launched the website *www.bilobil.si*. Website content strives to have an educational edge, give advice and amuse readers. This makes it more interesting, which is a prerequisite for users to revisit more frequently. Product websites continue to run in the local language of each market.

For several years we have published the electronic monthly newsletter E-mesečnik, which is gradually being recast to make it even more appealing and useful to readers. The website *www.ezdravje.com*, where we deal with relevant health-related topics, continues to remain popular with users. We also regularly update our websites addressing specific diseases and conditions. We also operate a special website for pet owners, *www.klopi-bolhe.com*.

Despite an increasing focus on online promotion, we continue to issue printed materials, especially for products available without prescription. V skrbi za vaše zdravje (Caring for Your Health) booklets provide information about some of the most common diseases and medicines, and are available at the general practitioners'. One of the reasons for their popularity is the fact that they offer numerous advice on how to act in case of a specific health problem. In 2012 we also continued issuing the V skrbi za vaše zdravje printed magazine, which is available in pharmacies and doctor's waiting rooms.

Social corporate responsibility

Social corporate responsibility is strongly anchored in Krka's business strategy, and it is our fundamental commitment in cooperating with the environment in which we operate. It is inseparably connected with our mission of living a healthy life. We are aware that our contribution to general community welfare and to the preservation of the natural environment have a significant impact on our operations. We therefore build our relationships with the community on respect and dialogue.

SOCIAL CORPORATE RESPONSIBILITY IS INSEPARABLY CONNECTED WITH THE KRKA MISSION.

Contributing to social progress

Krka has cooperated with and helped its wider community since incorporation. Considerable funds are allocated to not-for-profit activities at the local and national level, and we also support specific projects outside Slovenia. Our contributions support organised groups and individuals whose projects or activities promote social progress. We prioritise sponsoring and giving grants to long-term projects that can contribute to improving the lives of as many people as possible, and to projects that promote mass participation and work with young people.

In 2012 the Krka Company allocated 0.38% of its total sales to sponsorships and grants. We demonstrate our socially responsible posture by supporting healthcare and sports, humanitarian efforts, science, education and culture, while we also support those whose efforts contribute to protecting the natural environment.

IN 2012 WE ALLOCATED 0.38% OF TOTAL SALES TO SPONSORSHIPS AND GRANTS.

By sponsoring and donating to organisations we develop partnerships with them. Once a year we organise gatherings for clubs and societies that bear the Krka name, where we present the company's operations and plans, and in turn learn about their achievements and plans, thereupon assessing our directions and conditions for further cooperation.

Caring for a healthy society

Krka allocates considerable funds to healthcare institutions for modernisation and equipment upgrades. In this way we wish to bring urgent medical care closer to as many people as possible. Krka is a co-founder of the Slovenian Heart Foundation and has supported its work throughout its existence.

Through cooperation and partnership we stimulate advancement in numerous sports activities, primarily sponsoring amateur clubs at the wider local level, which enable young people to take part in recreational and competitive sports.

Charity work

Our contribution to social progress also includes voluntary work of individual employees. Despite our commitment to corporate and business objectives, we often divide our time and goodwill to participate in charity and humanitarian campaigns. Numerous employees have been blood donors for many years, or are volunteers in various not-for-profit associations and organisations. Their dedicated voluntary work on several sponsorship boards and organisations promotes community development and improves peoples' lives in many different ways.

IN APRIL WE ORGANISED KRKA'S WEEK OF CHARITY AND VOLUNTEERING.

Precisely because there are many of us at Krka who think and live as volunteers, we decided to hold a socially responsible campaign in 2012, which we called **Krka's week of charity and volunteering**. Under the Charity is Also a Part of Us slogan we joined forces in April to do various charity activities. We collected clothes and other necessities for adults and children, helped the Red Cross and Karitas charities, donated blood, helped the elderly at retirement homes, spent time with the tenants of occupational activity centres and of associations for persons with special needs, as well as with children with special needs, collected cat and dog food for sheltered animals, and organised a clean-up event.

Almost 600 employees participated in the various events, which is 15% of all Krka employees in Slovenia, and another 300 joined the campaign by donating clothes and other necessities. Together we collected 90 litres of blood and 2,429 kilos of clothes and necessities, prepared 750 food packages, and collected 800 kilos of pet food.

This was the first campaign of its kind, and we will repeat it in 2013. At a time when numerous people find themselves in situations of distress and need, humanitarian efforts of companies and individuals are an increasingly important expression of solidarity.

Care for our fellow men has an every-day presence in the way many of us at Krka think and live. Last year we devoted special attention to our employees who have been volunteers for many years on sponsorship boards of various associations and societies, in retirement homes, in schools for children with special needs, and in other institutions. For the first time we conferred recognition awards on Krka volunteers, who do charity work in one or more areas, and whose work and results make the lives of numerous people in their community better.

IN DECEMBER WE CONFERRED RECOGNITION AWARDS ON KRKA VOLUNTEERS FOR THE FIRST TIME.

At Krka we have always come to the aid of people who suffer damage in accidents or are inflicted by social misfortune. For a number of years we have been the largest donor to the Novo mesto-based society Sožitje, a charity helping people with mental disabilities, and the Novo mesto Dragotin Kette Primary School for children with special needs. We also support occupational activity centres and retirement homes, and frequently respond to Red Cross and Karitas charities' calls for donations. Through our Works Council we also collect contributions for fellow employees inflicted by major misfortunes.

Supporting new discoveries

The scientific community in Slovenia has come to recognise the merit of Krka Prizes, which are meant as a stimulus for young people to engage in creative and research work. In the past 42 years we have awarded as many as 2,382 Krka Prizes. Our vision is for Krka Prizes to pave the way for new discoveries that will contribute to new products for the coming generations.

The Krka Prizes Fund was established in 1971 with the primary purpose of establishing cooperation between research and academic institutions and the company, as this is the only way for knowledge to flow. The result of such a combination of basis and applied research is numerous successful research projects in different areas of pharmacy and related sciences, dealing with areas that will contribute to the health of patients around the world even more efficiently in the future.

Supporting cultural creativity

We have supported many types of cultural expression since our incorporation, and have had our own Culture and Arts Society since 1971. It prepares fine art and photography exhibitions in the Krka galleries in Novo mesto and Ljubljana, as well as organises the annual book fair with accompanying events, and Drama club meetings. It supports the work of the Krka Mixed Choir, literature club and creative workshops.

We support cultural institutions in our wider community, including the Novo mesto Anton Podbevšek Theatre, and provide funding to several others, such as the Marjan Kozina Music School, the Dolenjska Museum and the Krka Wind Orchestra. For several years now we have been a sponsor of Slovenia's central cultural institution, Cankarjev dom, and of the annual music summer festival Festival Ljubljana. For several consecutive years, including in 2012, we have been incorporating into Festival Ljubljana the Krka Evening of Culture.

Quality of life

One of our most visible projects, started in 2009, is the **Caring for Your Health – Together We Scale the Heights** campaign. It has included our working with the Slovenian Mountaineering and Climbing Association to signpost and do maintenance work on 15 hiking routes around Slovenia. We wanted to raise awareness with it, encouraging the Slovenian people to care for their health and to hike, as walking is the easiest of exercises and contributes to improving our physical as well as emotional well-being. Thousands of hikers have set off on the routes marked with the Krka sign, and we happily welcome each new one that our campaign has encouraged to take a new step towards their better health.

Protecting the environment together

Our fundamental principle in making business decisions is caring for the quality of life, which means placing the protection of our natural environment at the forefront of our work. We had organised our first Krka environmental clean-up event in 2009, and in April 2010 we joined the all-Slovenian volunteer clean-up campaign. In 2011 we organised another clean-up event, with Krka employees cleaning and fixing up the surroundings of the Terme Krka resorts at Otočec, Šmarješke Toplice, Dolenjske Toplice, Strunjan and Ljutomer. A similar event was repeated in 2012 during Krka's week of charity and volunteering.

Our protection of the environment also extends indoors, where we save energy, printing and other paper, and sort waste. In an effort to reduce pollution and energy consumption, each and every employee has taken control of their everyday activities.

In the autumn of 2010 we made another contribution to preserving the environment by using renewable energy sources. On the rooftop and façade of a new part of the packaging warehouse we installed a solar power station to generate green energy, and have made further efforts at preserving the environment by having company internal post delivered with an electric drive vehicle. Since we follow global trends and they forecast a rapid development of electric vehicles, we have installed in the car park in front of the Krka administrative building in Novo mesto, Slovenia our first charging station for electric vehicles.

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.

Responsibility for our natural environment

Responsibility for our natural environment is being incorporated into Krka's day-to-day operations. The ISO 14001 environment management standard, which we obtained 12 years ago, and the integrated environmental protection permit bind us to continually reduce all our impacts on the environment. This includes both, cutting all emissions, and reducing the consumption of natural resources and energy. A clearly phrased statement of responsibility for the natural environment has been included into our Environment Policy, a basis for our environmental objectives. In 2012 these objectives were met to the greatest extent possible. We keep up to date with state-of-the-art technologies and most recent trends, and comply with environmental laws.

Significant environmental protection achievements in 2012

- Implementation of a new regenerative thermal oxidizer for waste air in chemical production.
- Reduction in the quantity of wastes put on landfill by 26%.
- Increase in the quantity of waste directed into energy use by 38%.
- Reduction in the environmental load on the River Krka by 10%.
- Construction of a system utilising low-temperature condensed flue gas heat in the steam boiler room.

THE NEW WASTE AIR TREATMENT SYSTEM IN CHEMICAL PRODUCTION HAS ADDITIONALLY REDUCED AIR EMISSIONS.

Environmental protection costs

Over the past five years Krka has invested EUR 27 million in environmental protection (running costs and investments). The exact values of investments each year differ depending on the particular projects. In 2012 running costs amounted to EUR 4.2 million and investments were worth EUR 2.3 million.

Use of natural resources

WATER

At Krka we are aware that water is a strategically important natural resource and an ingredient key to running our business. This is why we consistently plan, monitor and control how it is used.

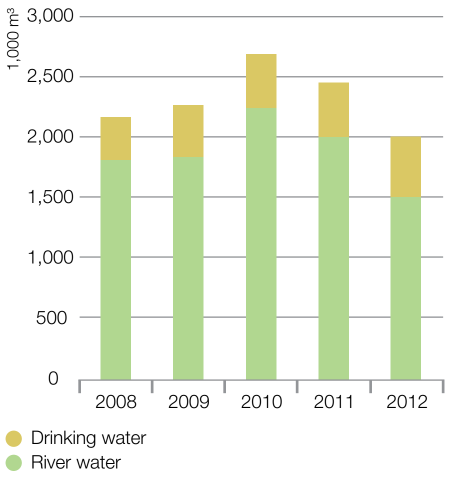
DRINKING WATER AND RIVER WATER

The quantity of drinking water is limited, and due to human interventions into nature its quality is deteriorating. We are additionally reminded of this by annual droughts, which cause reductions in drinking water supply, and by long-term rains and floods, which affect the quality of groundwater, the principal source of drinking water in Slovenia. Using a computer operated surveillance system to monitor all major drinking water users, we detect causes of increased use and take appropriate action. Defects and uncontrolled water leakages are prevented with the correct planning and implementation as well as with the preventive maintenance of the water supply network. We have managed to have drinking water use increase at a slower pace than the scope of production.

Over 80% of drinking water is used for production process purposes. Krka utilises drinking water as a raw material to prepare high quality purified waters used in the production of pharmaceutical products. We do this by using membrane technology, which involves fewer chemicals and therefore has a lower impact on the environment. With adequate preventive maintenance, operation monitoring and technological improvements we are ensuring consistent water quality and extending the equipment's useful life, which in turn reduces the required use of water and chemicals as well as the amount of produced waste.

Most of the river water we use is for cooling, which we do with various heat conductors, especially in API production, and the remainder is used for the preparation of various forms of process water for energy and production needs. In recent years we have increased the scope of API production but have managed to keep the use of river water on a similar level, which was due to our ongoing measures to make efficient use of energy.

Utilisation of drinking water and river water



ENERGY

Krka's main sources of energy are:

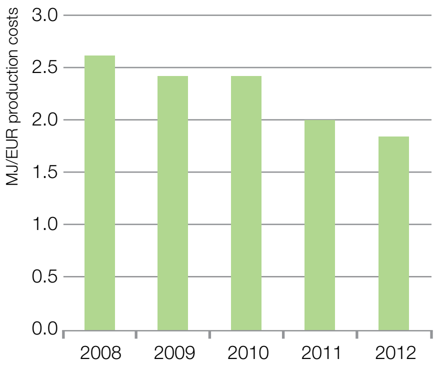
- Natural gas,
- Liquid petrol gas,
- Electricity, and
- Extra light fuel oil as a back-up fuel.

SPECIFIC ENERGY USE

Specific energy use has been declining in recent years, the result of our numerous energy efficiency measures.

Despite the significant increase in production volume, specific energy use in 2012 was again down compared to the year before.

Specific energy use



COGENERATION

Pursuant to our vision of energy efficient investing we decided to embark on the construction of a natural gas cogeneration system in 2012, which will be completed in mid 2013. We opted for BAT (best available technique) providing maximum primary energy savings and maximum CO_2 emission cuts. The system will produce around 12 GWh of heat energy and approximately the same amount of electric power, both solely for our own needs. It will enhance the energy efficiency and cost efficiency of boiler room operations. Compared to separate production, cogeneration will lead up to savings at the wider level of over 25% in primary energy consumption and to CO_2 emission cuts in the same amount.

THE COGENERATION SYSTEM HAS RESULTED IN PRIMARY ENERGY SAVINGS OF OVER 25% AT THE WIDER LEVEL.

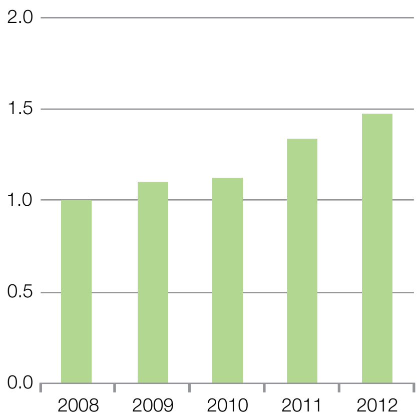
INCREASED FLUE GAS WASTE HEAT RECOVERY

In 2012 we modernised the flue gas heat recovery system in the steam boiler room. At the same time we modernised heat energy consumers, as this is the only way to ensure adequate conditions in the long-term for recovered low-temperature condensed flue gas heat to be used for central heating purposes. We are thus decreasing natural gas consumption in the plant by an additional 3% and reducing CO_2 emissions by 490 tonnes per year.

ENERGY EFFICIENCY INDEX

In addition to decreasing specific energy use in recent years, our energy efficiency index has gone up as much as 45% over the last five years.

Energy efficiency index



Emissions

WASTEWATER

In 2012 we treated 765,757 m³ of wastewater in our treatment plant. Our professional management of the demanding wastewater treatment technology has resulted in the plant's high operational efficiency and a 10% reduction in the total environmental load on the River Krka.

Wastewater from the Bršljin and Ljutomer plants is treated in the municipal wastewater treatment plants, while wastewater from the Šentjernej plant is pre-treated in the plant's own treatment plant. In 2013 we will connect to the new municipal wastewater treatment plant in Šentjernej.

A HIGHLY EFFICIENT TREATMENT PLANT HAS REDUCED THE ENVIRONMENTAL LOAD ON THE RIVER KRKA BY 10%.

Wastewater management

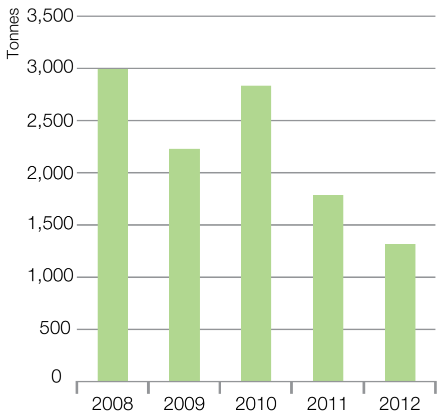
* *Environmental load units (ELU) are the prescribed mathematical calculation of pollution from all wastewater outlets in Slovenia (Krka Ločna, Šentjernej, Bršljin and Ljutomer). The calculation takes into account the annual wastewater rate of discharge, organic pollution, nitrogen, phosphorous, suspended solids load and the impact of wastewater treatment.*

WASTE

Special attention is devoted to separating waste at the source, i.e. at the point where it occurs. For this purpose we have set up our own waste management system. Landfill is the least environmentally acceptable and therefore the last option in the waste management process. Our strategic objectives thus include reducing the quantity of landfilled waste, in which Krka was successful in 2012. We sent 1,319 tonnes of production waste to landfills, a decrease by 26% compared to 2011. This was achieved by harvesting high energy waste and directing it into energy use, by composting all herb waste, and by transferring sludge from wastewater treatment into waste processing. A total of 1,633 tonnes of useful separated waste (paper, plastic, glass, metal, wood) were processed in 2012, and 1,567 tonnes of waste were used to generate energy or sent to composting. We are continually improving our separate waste collection system by organising waste collection points, purchasing new equipment and educating all employees.

Useful separated waste

Landfilled waste



NOISE

By using equipment with reduced noise emissions, by setting up noise barriers, and by fitting cargo vehicles with electrical cooling aggregates, we are reducing noise pollution to the minimum. All noise measurement results comply with the legislation.

AIR EMISSIONS

Air emissions are being reduced through treatment 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, we keep air emissions below the legal threshold values and at the levels made possible by state-of-the-art emission control technology. The largest investment in the area of reducing environmental impact in 2012 was the set-up of a new regenerative waste air thermal oxidizer in chemical production, which will additionally reduce airborne organic compound emissions. Absolute filtration is applied to all airborne particle emissions, making sure that all particles, or at least over 99.95% of all particles, are removed.

Environmental protection at Krka's subsidiaries outside Slovenia

Our subsidiaries outside Slovenia manage emissions into the environment in compliance with the local legislation. Despite the fact that Krka's subsidiaries have a lower environmental impact as they only accommodate production facilities for finished products, we are implementing state-of-the-art processes there as well, thereby reducing all emissions to the absolute minimum. We have set up separate waste collection systems, hazardous waste is being transferred into incineration, wastewater is being led off into municipal wastewater treatment plants, and particle emissions are being reduced with filtration devices.

Environmental communication

Environmental values are anchored into Krka's business strategy, making responsible and credible environmental communication our daily routine. We have a strong sense of responsibility to our employees and the local and wider community, and therefore provide them with all environment-related information.

By investing considerably in internal communication, as well as with awareness-raising and education, we are establishing a high environmental consciousness and a strong sense of responsibility in our employees. It is important for everyone at Krka to realise that we can each make individually significant contributions to reducing impacts on the environment. Topics on environmental responsibility are featured in our introductory seminar for newly recruited employees and in the courses leading up to obtaining national vocational qualifications, and they are also regularly covered in our internal magazine and on our website. During the April 2012 week of charity and volunteering, Krka employees took part in a clean-up event, cleaning and fixing up the surroundings of Terme Krka resorts and certain Krka plants.

Responsibility towards the natural environment is further reflected in our attitude to the local community, with which we coexist in the same area. Engaging in open environmental communication with the local and wider community, we wish to inform the public of our efforts in this area, and therefore make appearances in different media to discuss specific environmental issues. We hold traditional meetings with local residents every two years, where we inform them of our actions, results and plans related to environmental protection. The locals' comments and initiatives are taken into account when preparing environmental objectives and programmes.

Krka is recognised as an environmentally-conscious company in the wider community as well. Academic institutions of all types are welcome to look at our state-of-the art environment protection technology. As visiting professors we co-create undergraduate and master's study programmes, and help students and junior researchers with our expertise and by suggesting topics to deal with in their graduate and master's theses. We are actively engaged in the drafting of environmental legislation, and make active contributions at the Environment and Energy Section of the Dolenjska and Bela krajina Chamber of Commerce and Industry.

Searching for a balance

Balance gives rise to zest and life energy. Being devoted to one’s occupation is only one half of the circle. The other half includes respect for people and responsibility for nature. With Krka's support our volunteers brought the first week of community actions to a close. They for the fourth consecutive time cleaned and tidied up the surroundings of Terme Krka spa resorts and individual production facilities.


JUL
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FINANCIAL REPORT

FINANCIAL REPORT

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 "the Group"), whereas the second section encompasses the financial statements and related notes of Krka, d. d., Novo mesto (hereinafter also "the 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. They are an integral part of the 2012 Annual Report, which is published via the SEOnet electronic announcement system of the Ljubljana Stock Exchange, via the ESPI system of the Warsaw Stock Exchange and on the Krka website (http://www.krka.si/sl/za-vlagatelje/financna-porocila/).

Each section of financial statements was audited by ERNST & YOUNG Revizija, poslovno svetovanje, 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 of the Krka Group including the financial statements so as to provide the general public with a true and fair view of the financial position and the results of operations of the Company and its subsidiaries in 2012.

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.

The Tax Authorities may, at any time within a period of five years after the end of the year for which tax assessment was due, carry out the audit of the company operations, which may lead to assessment of additional tax liabilities, default interest, and penalties with regard to corporate income tax or other taxes and duties. The Management Board is not aware of any circumstances that may result in a significant tax liability.

Novo mesto, 18 February 2013

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

Consolidated Financial Statements of the Krka Group

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR thousand	Notes	31 Dec 2012	31 Dec 2011
Assets			
Property, plant and equipment	13	772,291	707,509
Intangible assets	14	118,507	119,082
Deferred tax assets	17	24,512	27,340
Non-current loans	15	5,387	4,821
Non-current investments	16	5,100	4,944
Other non-current assets		203	169
Total non-current assets		**926,000**	**863,865**
Inventories	18	250,751	254,229
Trade and other receivables	19	415,233	394,094
Current loans	15	11,091	1,050
Current investments	16	679	602
Cash and cash equivalents	20	22,994	20,187
Total current assets		**700,748**	**670,162**
Total assets		**1,626,748**	**1,534,027**
Equity			
Share capital	21	59,126	59,126
Treasury shares	21	–55,656	–42,584
Reserves	21	192,069	174,409
Retained earnings	21	1,043,544	947,289
Equity holders of the parent		**1,239,083**	**1,138,240**
Non-controlling interest	21	1,438	1,514
Total equity		**1,240,521**	**1,139,754**
Liabilities			
Non-current borrowings	23	12,900	25,500
Provisions	24	104,746	104,819
Deferred revenue	25	12,424	6,670
Deferred tax liabilities	17	15,292	18,104
Total non-current liabilities		**145,362**	**155,093**
Trade payables	26	105,415	90,888
Current borrowings	23	13,355	44,091
Income tax liabilities		2,497	1,309
Other current liabilities	27	119,598	102,892
Total current liabilities		**240,865**	**239,180**
Total liabilities		**386,227**	**394,273**
Total equity and liabilities		**1,626,748**	**1,534,027**

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction with these.

CONSOLIDATED INCOME STATEMENT

EUR thousand	Notes	2012	2011
Revenues	6	1,143,301	1,075,627
Cost of sales		–467,557	–416,704
Gross profit		**675,744**	**658,923**
Other income	7	8,526	7,125
Distribution expenses		–318,215	–286,000
R&D costs		–101,102	–92,932
Administrative expenses		–72,645	–75,555
Operating profit		**192,308**	**211,561**
Financial income	11	5,418	493
Financial expenses	11	–7,227	–12,079
Net financial expenses		**–1,809**	**–11,586**
Profit before tax		**190,499**	**199,975**
Income tax expense	12	–30,660	–37,240
Profit for the year		**159,839**	**162,735**
Attributable to:			
– equity holders of the parent		159,915	162,801
– non-controlling interest		–76	–66
Basic earnings per share (in EUR)	**22**	**4.80**	**4.85**
Diluted earnings per share (in EUR)	**22**	**4.80**	**4.85**

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction with these.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR thousand	Notes	2012	2011
Profit for the year	**21**	**159,839**	**162,735**
Other comprehensive income for the year			
Change in fair value of available-for-sale financial assets	21	106	–281
Deferred tax effect – change in fair value of available-for-sale financial assets	21	19	56
Effect of the actuarial calculation – TAD	21	260	0
Effect of the actuarial calculation on deferred tax – TAD	21	–910	0
Translation reserve		4,463	–8,250
Total other comprehensive income for the year		**3,938**	**–8,475**
Total comprehensive income for the year		**163,777**	**154,260**
Attributable to:			
– equity holders of the parent		163,853	154,326
– non-controlling interest		–76	–66

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction with these.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

			Reserves			
EUR thousand	Share capital	Treasury shares	Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves
Balance at 1 Jan 2012	**59,126**	**–42,584**	**42,584**	**101,503**	**14,990**	**30,000**
Profit for the year	**0**	**0**	**0**	**0**	**0**	**0**
Other comprehensive income for the year						
TAD – provision charge from the actuarial calculation of pensions	0	0	0	0	0	0
Change in fair value of available-for-sale financial assets	0	0	0	0	0	0
Deferred tax effect – change in fair value of available-for-sale financial assets	0	0	0	0	0	0
Effect of the actuarial calculation on deferred tax	0	0	0	0	0	0
Translation reserve	0	0	0	0	0	0
Total other comprehensive income for the year	**0**	**0**	**0**	**0**	**0**	**0**
Total comprehensive income for the year	**0**	**0**	**0**	**0**	**0**	**0**
Transactions with owners, recognised directly in equity						
Formation of statutory reserves	0	0	0	0	0	
Formation of other revenue reserves under the resolution of the Management and Supervisory Boards	0	0	0	0	0	0
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0
Transfer to other revenue reserves under the resolution of the Annual General Meeting	0	0	0	0	0	0
Formation of reserves for treasury shares	0	0	13,072	0	0	0
Repurchase of treasury shares	0	–13,072	0	0	0	0
Dividends paid	0	0	0	0	0	0
Acquisitions of non-controlling interests	0	0	0	0	0	0
Total transactions with owners, recognised directly in equity	**0**	**–13,072**	**13,072**	**0**	**0**	**0**
Balance at 31 Dec 2012	**59,126**	**–55,656**	**55,656**	**101,503**	**14,990**	**30,000**

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction with these.

		Retained earnings					
Fair value reserve	Translation reserve	Other revenue reserves	Profit for the year	Retained earnings	Total equity of the parent	Non-controlling interest	Total equity
1,542	–16,210	760,611	124,150	62,528	1,138,240	1,514	1,139,754
0	0	0	159,915	0	159,915	–76	159,839
0	0	0	0	–910	–910	0	–910
106	0	0	0	0	106	0	106
19	0	0	0	0	19	0	19
0	0	0	0	260	260	0	260
0	4,463	0	0	0	4,463	0	4,463
125	4,463	0	0	–650	3,938	0	3,938
125	4,463	0	159,915	–650	163,853	–76	163,777
0	0	0	0	0	0	0	0
0	0	25,000	–25,000	0	0	0	0
0	0	0	–124,150	124,150	0	0	0
0	0	61,387	0	–61,387	0	0	0
0	0	0	–13,072	0	0	0	0
0	0	0	0	0	–13,072	0	–13,072
0	0	0	0	–49,938	–49,938	0	–49,938
0	0	0	0	0	0	0	0
0	0	86,387	–162,222	12,825	–63,010	0	–63,010
1,667	–11,747	846,998	121,843	74,703	1,239,083	1,438	1,240,521

EUR thousand	Share capital	Treasury shares	Reserves: Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves
Balance at 1 Jan 2011	**59,126**	**–21,749**	**21,749**	**101,503**	**14,990**	**27,184**
Profit for the year	**0**	**0**	**0**	**0**	**0**	**0**
Other comprehensive income for the year						
Change in fair value of available-for-sale financial assets	0	0	0	0	0	0
Deferred tax effect – change in fair value of available-for-sale financial assets	0	0	0	0	0	0
Translation reserve	0	0	0	0	0	0
Total other comprehensive income for the year	**0**	**0**	**0**	**0**	**0**	**0**
Total comprehensive income for the year	**0**	**0**	**0**	**0**	**0**	**0**
Transactions with owners, recognised directly in equity						
Formation of statutory reserves	0	0	0	0	0	2,816
Formation of other revenue reserves under the resolution of the Management and Supervisory Boards	0	0	0	0	0	0
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting of Shareholders	0	0	0	0	0	0
Formation of reserves for treasury shares	0	0	20,835	0	0	0
Repurchase of treasury shares	0	–20,835	0	0	0	0
Dividends paid	0	0	0	0	0	0
Acquisition of non-controlling interests	0	0	0	0	0	0
Total transactions with owners, recognised directly in equity	**0**	**–20,835**	**20,835**	**0**	**0**	**2,816**
Balance at 31 Dec 2011	**59,126**	**–42,584**	**42,584**	**101,503**	**14,990**	**30,000**

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction with these.

		Retained earnings					
Fair value reserve	Translation reserve	Other revenue reserves	Profit for the year	Retained earnings	Total equity of the parent	Non-controlling interest	Total equity
1,767	**–7,960**	**684,639**	**111,765**	**58,736**	**1,051,750**	**1,577**	**1,053,327**
0	**0**	**0**	**162,801**	**0**	**162,801**	**–66**	**162,735**
–281	0	0	0	0	–281	0	–281
56	0	0	0	0	56	0	56
0	–8,250	0	0	0	–8,250	0	–8,250
–225	**–8,250**	**0**	**0**	**0**	**–8,475**	**0**	**–8,475**
–225	**–8,250**	**0**	**162,801**	**0**	**154,326**	**–66**	**154,260**
0	0	0	–2,816	0	0	0	0
0	0	15,000	–15,000	0	0	0	0
0	0	0	–111,765	111,765	0	0	0
0	0	60,972	0	–60,972	0	0	0
0	0	0	–20,835	0	0	0	0
0	0	0	0	0	–20,835	0	–20,835
0	0	0	0	–47,001	–47,001	0	–47,001
0	0	0	0	0	0	3	3
0	**0**	**75,972**	**–150,416**	**3,792**	**–67,836**	**3**	**–67,833**
1,542	**–16,210**	**760,611**	**124,150**	**62,528**	**1,138,240**	**1,514**	**1,139,754**

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR thousand	Notes	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**159,839**	**162,735**
Adjustments for:		**129,360**	**127,202**
– amortisation/depreciation	13, 14	89,968	87,186
– foreign exchange differences		2,242	–3,354
– investment income		–1,894	–871
– investment expense		6,146	3,834
– interest expense and other financial expense		2,238	3,167
– income tax	12	30,660	37,240
Operating profit before changes in net operating current assets		**289,199**	**289,937**
Change in trade receivables		–18,189	9,535
Change in inventories		3,478	–23,260
Change in trade payables		14,527	–498
Change in provisions		–983	–4,070
Change in deferred revenue		5,754	–468
Change in other current liabilities		16,538	29,738
Income taxes paid		–31,995	–51,799
Net cash from operating activities		**278,329**	**249,115**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,129	378
Dividends received		17	16
Proceeds from sale of property, plant and equipment		767	255
Purchase of intangible assets	14	–8,155	–7,621
Purchase of property, plant and equipment	13	–145,132	–102,092
Non-current loans		–1,673	–1,502
Proceeds from repayment of non-current loans		904	980
Acquisition of non-current investments		–134	–63
Proceeds from sale of non-current investments		47	67
Payments/Proceeds in connection with current investments and loans		–9,795	87
Payments in connection with derivative financial instruments		–4,987	0
Proceeds from derivative financial instruments		102	0
Net cash used in investing activities		**–166,910**	**–109,495**
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		–2,860	–3,361
Repayment of non-current borrowings		–41,300	–37,899
Repayment of current borrowings		–1,010	–17,440
Dividends paid	21	–49,770	–46,902
Repurchase of treasury shares		–13,072	–20,835
Proceeds of payments from non-controlling interests		0	3
Net cash used in financing activities		**–108,012**	**–126,434**
Net increase in cash and cash equivalents		**3,407**	**13,186**
Cash and cash equivalents at beginning of year		20,187	7,789
Effect of exchange rate fluctuations on cash held		–600	–788
Net cash and cash equivalents at end of period		**22,994**	**20,187**

The accompanying notes are an integral part of the consolidated financial statements and should be read in conjunction with these.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Krka, d. d., Novo mesto 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 2012 relate to the Krka 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, non-prescription products), animal health 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 International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB ("IFRIC"), as adopted by the European Union, and in compliance with the Companies Act.

At the date of the statement of financial position, due to the endorsement process of the EU, there is no difference in the policies applied by the company between IFRS and IFRS adopted by the EU.

The consolidated financial statements were approved by the Company's Management Board on 18 February 2013.

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.

The use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the carrying amounts of assets and liabilities of the Company as well as the reported income and expenses for the period.

Management estimates include among others: determination of the useful life and residual value of property, plant and equipment, as well as intangible assets; allowances made for inventories and receivables; assumptions material to the actuarial calculation of defined employee benefits; assumptions used in the calculation of potential provisions for lawsuits, as well as assumptions and estimates relating to impairment of goodwill and trademarks. Regardless of the fact that management duly considers all factors that may impact the preparation of these assumptions, the actual consequences of business events may differ from those estimates. In the process of making accounting estimates management makes judgements while considering potential changes in the business environment, as new events occur, as new and additional information is obtained, and as more experience is acquired.

Key estimates and assumptions as at the day of the statement of financial position that are associated with future operations and which could result in significant adjustment of the book values of assets and liabilities are presented below.

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

- Note 14 Impairment testing of the trademark and goodwill

  The criteria used in goodwill impairment testing are verified at least once a year. Determination of the present value of future cash flows requires management to assess estimated future cash flows from each cash generating unit as well as to determine the appropriate discount rate. The Company has found no evidence of goodwill impairment. The carrying amount of goodwill of EUR 42,644 thousand did not change in the 2012 financial year. Furthermore, the Company assessed that in the reporting period there were no indications pointing to the need to impair the trademark. Its carrying amount of EUR 42,403 thousand did not change in 2012.

- Note 24 Measurement of defined benefit obligations

  Defined benefit obligations include the present value of termination benefits on retirement and anniversary bonuses. They are recognised on the basis of the actuarial calculation approved by the management. The actuarial calculation is made by using assumptions and estimates effective at the time of the calculation, and may, as a result of future changes, differ from actual assumptions applicable at that future time. This applies primarily to determination of the discount rate, assessment of employee turnover, mortality assessment, as well as assessment of the increase in salaries. Due to the complexity of the actuarial calculation and the long-term nature of the item, defined benefit obligations are sensitive to changes in the above estimates and assessments.

- Note 24 Provisions for lawsuits and contingent liabilities

  Several lawsuits and claims have been brought against individual companies in the Group for alleged breaches of patent rights or competition law. A provision is recognised when companies have present obligations (legal or constructive) as a result of past events, a reliable estimate can be made of the amount of obligation, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Potential obligations are not recognised in the financial statements as their actual existence will be confirmed only upon the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of these companies. The management of individual companies continually assess contingent liabilities to determine whether an outflow of resources embodying economic benefits has become probable. In this case, a provision is recognised in the financial statements of the period in which the change in probability occurs.

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 accounting policies and calculation methods used are consistent with those applied in the year ended 31 December 2011, except for the adoption of new standards and interpretations, which are noted below and which have been applied if relevant events occurred in Group companies in the reporting period.

Newly adopted standards and interpretations

The accounting policies used are consistent with those applied in the financial year ended 31 December 2011, except for the amended standard, which is noted below.

IFRS 7 – *Financial Instruments: Disclosures – Transfer of Financial Assets*

The amendments are effective for periods beginning on or after 1 July 2011 and were issued to improve the disclosure requirements relating to the transfer of financial assets. Amendments require disclosures for transfers of financial assets that are derecognised in their entirety, as well as those that are not, to enable the user of the financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. The amendment requires retrospective application. The amendment has no impact on the Group's consolidated financial statements.

The amendment has no impact on the Group's financial position or performance.

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. Hence, in the consolidated statement of financial position advances on fixed assets and inventories are included in property, plant and equipment and inventories respectively, instead of in receivables, and in the consolidated income statement, the reversal of receivable allowances is disclosed in other income (in previous years, it was included among financial income), whereas impairments and write-offs of receivables are presented in cost of sales or as an individual item included in costs by nature (in previous years, they were presented among financial expenses).

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 gains and losses 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 translated to the functional currency at the prevailing exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date when the fair value was determined. Foreign currency differences are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, 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 prevailing at the reporting date. The income and expenses of foreign operations are translated to euro at the average annual exchange rate, which in view of transaction dynamics is closest to the exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised directly in other comprehensive income – translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

OPERATING PROFIT

Operating profit comprises profit before tax and financial items. Financial items include interest on bank balances, deposits, available-for-sale investments, interest paid on borrowings, profit or loss from the sale of available-for-sale financial instruments, and foreign exchange gains or losses from the translation of all monetary assets and liabilities in foreign currency.

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 chapter "Financial income and 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. After 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.

SHARE CAPITAL

Repurchase of treasury shares

When treasury shares recognised as a part of share equity are repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

Dividends

Dividends are recognised in the Group's consolidated financial statements 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 making the asset ready for its intended use, and (if applicable) costs of dismantling and removing the items and restoring the site on which they are located, as well as capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined as the difference between proceeds from disposal and the carrying amount of property, plant and equipment and are recognised net within "other income" or "other expenses" in profit or loss.

As from 1 January 2009, costs of borrowings that may be directly attributable to the acquisition, construction or production of an asset under construction, are also part of the cost of an item of property, plant and equipment of the Group. If borrowings raised by the Company are earmarked and they cannot be attributed directly to the acquisition of an asset under construction, the pro-rata amount of costs is capitalised only when borrowings exceed 10% of the value of all investments of the accounting period. The pro-rata amount of costs is calculated using the capitalisation rate as the weighted average costs of borrowings that have not been settled in the accounting period. The pro-rata amount of costs increases the cost of significant assets under construction; i.e. assets that account for more than 10% of total investments in the period and the construction of which extends over a period of more than 6 months.

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 when 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 profit or loss as incurred.

OTHER INTANGIBLE ASSETS

Intangible assets with infinite useful life (trademarks) are tested for impairment on an annual basis. Such an asset is the TAD trademark, which has allowed the Group to enter the German market and other Western European markets.

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 as 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, which are usually connected with the sale.

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. Fixed price variances are determined in accordance with the current valuation of inventories using production costs. 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 assets) 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 assessed at 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. For the purpose of impairment testing, the goodwill acquired in a business combination is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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 termination benefits upon retirement. Provisions are formed for these obligations. 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 termination 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 for the year 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 resources embodying economic benefits 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 from sale of goods and services rendered

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. Revenues from services rendered are 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 revenues are 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 when the sale is made, including those granted for early payment.

Deferred revenue

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

Financial income and expenses

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

Income tax expense

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 be reversed in the foreseeable future.

In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. The amount of deferred tax 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

An operating 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.

Amendments to standards and interpretations

STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The Group has not early adopted any standard or interpretation issued but not yet effective. The Group intends to adopt these standards, if applicable, when they become effective.

The following new and amended standards will be applied in future periods as required by IFRSs and the European Union:

IFRS 7 – *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (amended)*

The amendment is effective for annual periods beginning on or after 1 January 2013. The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity’s financial position. The amendments to IFRS 7 are to be retrospectively applied.

The Group estimates that, given the nature of operations and the type of its financial assets, the amendments to IFRS 7 will not have a significant impact on the financial statements.

IFRS 10 – *Consolidated Financial Statements*

This standard replaces the part of IAS 27 *Consolidated and Separate Financial Statements* which refers to consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation – Special Purpose Entities. The standard is applicable in the EU for periods beginning on or after 1 January 2014. IFRS 10 establishes a single control model that applies to all entities. This will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent. The standard also changes the definition of control.

The Group estimates that the amendments to IFRS 10 will not impact the financial statements.

IFRS 11 – *Joint Arrangements*

This standard replaces IAS 31 *Interest in Joint Ventures* and SIC 13 Jointly-controlled entities – non-monetary contributions by venturers. The new standard addresses only two forms of joint arrangements (joint operations and joint ventures), where there is joint control. IFRS 11 uses the principle of control in IFRS 10. In addition, IFRS 11 removes the option to account for jointly-controlled entities using proportionate consolidation, leaving only the option to use the equity method. The standard is effective in the EU for periods beginning on or after 1 January 2014.

The Group estimates that the amendments to IFRS 11 will not impact the financial statements.

IFRS 12 – *Disclosure of Interests in Other Entities*

This standard is effective in the EU for periods beginning on or after 1 January 2014 and includes disclosure requirements that were previously in IAS 27 *Consolidated and Separate Financial Statements* related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 28 *Investments in Associates* and IAS 31 *Interest in Joint Ventures*. A number of new disclosures are also required, especially regarding judgments made to determine whether an entity controls another entity.

The Group estimates that the amendments to IFRS 12 will not impact the financial statements.

IFRS 13 – *Fair Value Measurement*

The new standard is applicable for periods beginning on or after 1 January 2013. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRSs.

The Group will consider the amendments to IFRS 13; however, it estimates that the amendments will not significantly impact the financial statements.

IAS 1 – *Presentation of Financial Statements: Presentation of Items in Other Comprehensive Income*

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items which will never be reclassified. The amendments are effective for periods beginning on or after 1 July 2012.

The Group will consider the amendments to IAS 1; however, it estimates that the amendments will not significantly impact the financial statements.

IAS 12 – *Deferred Tax (amended)*

The amendment is effective in the EU for annual periods beginning on or after 1 January 2013. This amendment concerns the determination of deferred tax on investment property measured at fair value. The aim of this amendment is to include a) a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and b) a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis.

The Group estimates that, given the nature of operations, the amendment to IAS 12 will not have a significant impact on the financial statements.

IAS 19 – *Employee Benefits (amended)*

In June 2011, the International Accounting Standards Board ("the IASB") issued numerous amendments to IAS 19. The key amendment refers to the removal of the corridor mechanism for recognising changes in the value of defined benefit plans. This means all changes in the value of defined benefit plans will be recognised as they occur depending on the type of change either in profit or loss or in other comprehensive income. The amendments are effective for periods beginning on or after 1 January 2013.

The Group will consider the amendment to IAS 19 and it estimates that the amendment will have a significant effect on the financial statements.

IAS 27 – *Separate Financial Statements*

This revised standard was issued in May 2011 as a result of the new standards IFRS 10, IFRS 11 and IFRS 12. IAS 27 contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The standard is effective in the EU for periods beginning on or after 1 January 2014.

The Group will consider the amendment to IAS 27; however, this will not (significantly) impact the financial statements.

IAS 28 – *Investments in Associates and Joint Ventures*
This revised standard was issued in May 2011 as a result of the new standards IFRS 10, IFRS 11 and IFRS 12. IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This revised standard is effective in the EU for periods beginning on or after 1 January 2014.

The Group will consider the amendment to IAS 28; however, this will not affect the financial statements.

IAS 32 – *Financial Instruments: Presentation (amended) – Offsetting Financial Assets and Financial Liabilities*

The amendment is effective for annual periods beginning on or after 1 January 2014. This amendment clarifies the meaning of 'currently has a legally enforceable right to set-off' and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosures required by the IFRS 7 – *Offsetting Financial Assets and Financial Liabilities* amendments.

The Group estimates that, given the nature of operations and the type of its financial instruments, the amendment to IAS 32 will not affect the financial statements.

In compliance with the requirements of IFRSs and subject to the endorsement by the European Union, the Group will have to apply in future periods the following amended and revised standards and interpretations:

IFRS 1 – *First-time Adoption of International Financial Reporting Standards: Government loans (Amendment)*

The amendment is effective for annual periods beginning on or after 1 January 2013. This amendment sets out how a first-time adopter would account for a government loan with a below-market rate of interest when they transition to IFRSs. This amendment provides the same relief to first-time adopters as is granted to existing preparers of IFRS financial statements when applying IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

The Group estimates that, given the nature of operations, the amendment to IFRS 1 will not affect the financial statements.

IFRS 9 – *Financial Instruments*

The Standard replaces IAS 39. IFRS 9 *Financial Instruments* was published in November 2009 and contained requirements for financial assets. Requirements for financial liabilities were added to IFRS 9 in October 2010. Most of the requirements for financial liabilities were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities. In December 2011, the IASB amended IFRS 9 to require application for annual periods beginning on or after 1 January 2015 and to not require the restatement of comparative-period financial statements upon initial application.

Phase II of IFRS 9, relating to impairment, has been in the process of re-deliberations from January 2011. In September 2012, the IASB issued a review draft on general hedge accounting requirements (Phase III of IFRS 9) which will be added to IFRS 9 *Financial Instruments*.

The Group estimates that, given the nature of operations and the type of its financial instruments, the amendment to IFRS 9 will not affect the financial statements.

TRANSITION GUIDANCE (AMENDMENTS TO IFRS 10, IFRS 11 AND IFRS 12)

The guidance is effective for annual periods beginning on or after 1 January 2013. The IASB issued amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application in IFRS 10 is defined as 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'. The assessment of whether control exists is made at 'the date of initial application' rather than at the beginning of the comparative period. If the control assessment is different between IFRS 10 and IAS 27/SIC-12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons IASB has also amended IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* to provide transition relief.

The Group estimates that the amendment will not affect the financial statements.

The Group will apply new standards and interpretations in accordance with their requirements, if endorsed by the EU.

IMPROVEMENTS TO IFRS

In May 2012, the IASB issued its annual improvements to IFRSs which included improvements of some of the existing standards. The effective date for the amendments is for annual periods beginning on or after 1 January 2012, but the amendments have not been endorsed yet by the EU.

IAS 1 – *Presentation of Financial Statements: Clarification of the requirements for comparative information*

The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information (this is generally the previous period information). If an entity chooses to voluntarily provide comparative information beyond the minimum required comparative period, it must include comparative information also in the related notes to the financial statements.

Also, the amendment requires entities to present a third balance sheet (the opening balance sheet) (a) when an entity changes its accounting policies; or (b) makes retrospective restatements or makes reclassifications which have a material effect on the balance sheet. In such cases the entity is not required to provide supporting notes for the opening balance sheet.

The Group will consider the proposed improvements provided that it decides to disclose additional comparative data.

IAS 16 – *Property, plant and equipment: Classification of servicing equipment*

The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

The Group estimates that, given the nature of operations, the amendment to IAS 16 will not have a significant impact on the financial statements.

IAS 32 – *Financial instruments: Presentation: Tax effect of distributions to holders of equity instruments*

The amendment requires entities to apply the requirements in IAS 12 Income taxes to any income tax arising from distributions to equity holders.

The Group estimates that, given the nature of operations, the amendment to IAS 32 will not affect the financial statements.

IAS 34 – *Interim financial reporting: Interim financial reporting and segment information for total assets and liabilities*

This amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. It also ensures that interim disclosures are aligned with annual disclosures in IFRS 8 Operating segments.

The Group will consider the amendments to IAS 34, however it estimates that the amendments will not affect the financial statements.

The Group will apply the improvements to IFRS in accordance with their requirements, if endorsed by the EU.

3. Determination of fair value

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.

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.

Investments in equity securities

The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is determined by reference to their quoted closing bid price.

Trade and other receivables

The fair value of trade and other receivables is estimated at the present value of future cash flows discounted at the market rate of interest 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 information is given in Note 29 “Risks” of the consolidated financial statements.

Credit risk

The credit control procedure includes the credit rating of customers who on an annual basis purchase products from Group companies worth EUR 100,000 and more; the control procedure includes also active monitoring of payments by customers. More than 400 customers of the Krka Group are jointly included in the credit control system. The credit control system is used to monitor 90% of the value of the Group's sales.

On average, in 2012 payment terms remained unchanged. The receivable turnover rate improved as compared to the previous year.

At the end of the year, 49% of trade receivables were secured with the credit insurance. A part of receivables is secured with bank guarantees and letters of credit.

The quality of trade receivables in terms of maturity structure and assessed customer risk are estimated to have remained unchanged on average. This is confirmed by results of regular credit ratings of customers as well as an unchanged portion of receivables secured with prime instruments.

Write-offs of trade receivables did not affect the result of the Krka Group in 2012. Additional bad debt allowances were formed due to delays in individual customer's payments.

A detailed overview of trade receivables is provided in Note 19.

Liquidity risk

Successful performance of Krka, growth financing with own assets and a stable cash flow from operations continued to assure Krka’s traditionally strong financial structure and one of the best solvency ratings among Slovenian companies, as well as favourable financing conditions.

On the Group level, the liquidity risk is managed on a centralised basis, thus assuring clear and effective cash management as well as enabling financing under most favourable terms and conditions.

In 2012, several minor improvements in liquidity management were implemented. In the area of payment transactions, the former electronic payment system was upgraded, which has decreased the risk of wide-spread attempts of e-banking abuse.

Due to good performance and low indebtedness the liquidity risk of Krka is low. Krka is known among business partners for being a partner with consistent payment discipline.

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 Romanian leu, the Polish zloty, the Croatian kuna, the Serbian dinar, the Swedish krona, the Czech koruna, the Hungarian forint, and the Ukrainian hryvnia.

The Group's statement of financial position shows a surplus of assets over liabilities in all the currencies mentioned, which is considered a long currency position. The key accounting categories that form the long currency position are trade receivables and supplier payables.

The deterioration and broadening of the sovereign debt crisis from the Eurozone to emerging countries was in the first half of 2012 the key reason for major exchange rate volatility. Krka recorded exchange rate gains at the end of the first quarter as the Russian rouble and Polish zloty significantly gained against the euro in the first quarter of the year. However, the value of both these currencies depreciated in the second quarter and the negative trend from the beginning of the year continued also for the Romanian leu. As a result, the exchange rate gains from the first quarter were to a large extent neutralised.

Due to sovereign debt crisis measures in the second half of the year, the euro gained in value. Moreover, the volatility of key exchange rates used by Krka decreased. As a result of the strengthening of the Russian rouble and Polish zloty, at the end of the third quarter we again reported exchange rate gains. In the last quarter the impact of exchange rate fluctuation was neutralised and at year-end the Krka Group recorded exchange rate gains.

To reduce the impact of exchange rate fluctuation on the profit and loss of Krka, in the beginning of 2012 we hedged a portion of the open currency position in Russian rouble with ordinary future contracts. As a result of the appreciation of the Russian rouble, in the first quarter of the year we incurred losses from future contracts.

Interest rate risk

No new non-current borrowings were raised in 2012. As the annual instalments are regularly repaid, the long-term indebtedness of the Group dropped to the level where market interest rate changes no longer have a decisive impact on the Group's overall financial expense.

5. Segment reporting

The Group reports in terms of certain geographical segments. Revenues generated by individual segments are presented in terms of customers' geographical location.

Segment reporting

	European Union		South-East Europe	
EUR thousand	2012	2011	2012	2011
Revenues to non-Group companies	**664,411**	**678,928**	**89,769**	**86,438**
Revenues to Group companies	**80,269**	**124,608**	**66,992**	**54,902**
Revenues from reversal of long-term provisions and other operating income	4,870	6,303	540	297
Operating expenses	–555,908	–523,439	–61,389	–64,067
Operating expenses to Group companies	–206,680	–246,659	–94,485	–78,956
Operating profit	**113,373**	**161,792**	**28,920**	**22,668**
Interest revenue	1,138	357	8	8
Interest revenue to Group companies	1,011	1,453	0	0
Interest expenses	–1,581	–2,950	–5	–14
Interest expenses to Group companies	–805	–284	0	0
Net financial income/expenses	**–853**	**–3,715**	**–928**	**–597**
Income tax expense	–17,116	–28,257	–4,129	–3,838
Profit for the year	**95,404**	**129,820**	**23,863**	**18,233**
Investments	96,295	87,549	3,284	1,602
Depreciation of property, plant and equipment	56,816	58,283	5,785	4,639
Amortisation of intangible assets	6,317	7,205	564	552
Goodwill	42,644	42,644	0	0
Trademark	42,403	42,403	0	0
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Total assets	**1,164,129**	**1,155,647**	**101,436**	**91,825**
Total liabilities	**274,144**	**247,402**	**20,203**	**27,120**

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

Eastern Europe		Other markets		Elimination		Total	
2012	2011	2012	2011	2012	2011	2012	2011
354,213	**285,226**	**34,908**	**25,035**	**0**	**0**	**1,143,301**	**1,075,627**
143,208	**125,411**	**0**	**0**	**–290,469**	**–304,921**	**0**	**0**
3,116	525	0	0	0	0	8,526	7,125
–319,029	–262,648	–23,193	–21,037	0	0	–959,519	–871,191
–330,260	–270,547	–8	–9	631,433	596,171	0	0
38,300	**23,103**	**11,715**	**3,998**	**0**	**0**	**192,308**	**211,561**
16	13	0	0	0	0	1,162	378
234	200	0	0	–1,245	–1,653	0	0
–2	0	0	0	0	0	–1,588	–2,964
–212	0	0	0	1,017	284	0	0
112	**–6,177**	**–140**	**–1,097**	**0**	**0**	**–1,809**	**–11,586**
–8,368	–4,806	–1,047	–339	0	0	–30,660	–37,240
30,044	**12,120**	**10,528**	**2,562**	**0**	**0**	**159,839**	**162,735**
53,709	20,562	0	0	0	0	153,288	109,713
18,145	14,010	392	487	0	0	81,138	77,419
1,768	1,867	181	143	0	0	8,830	9,767
0	0	0	0	0	0	42,644	42,644
0	0	0	0	0	0	42,403	42,403
31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
350,559	**274,283**	**10,624**	**12,272**	**0**	**0**	**1,626,748**	**1,534,027**
76,507	**112,024**	**15,373**	**7,727**	**0**	**0**	**386,227**	**394,273**

6. Revenues

EUR thousand	2012	2011
Revenues from the sale of products	1,044,665	971,940
Revenues from the sale of services	32,822	40,869
Revenues from the sale of material and merchandise	65,737	62,738
Other sales revenues	77	80
Total sales revenues	**1,143,301**	**1,075,627**

7. Other income

EUR thousand	2012	2011
Reversal of provisions	49	44
Reversal of deferred revenue	1,780	1,239
Gain on sale of property, plant and equipment and intangible assets	534	382
Reversal of receivable allowance	1,618	2,404
Other operating income	4,545	3,056
Total other operating income	**8,526**	**7,125**

8. Costs by nature

EUR thousand	2012	2011
Cost of goods and material	294,935	271,754
Cost of services	228,619	214,864
Employee benefits cost	293,179	269,160
Depreciation and amortisation expense	89,968	87,186
Inventory write-offs and allowances	9,690	10,889
Impairments and write-offs of receivables	7,166	4,849
Formation of provisions for lawsuits	0	119
Other operating expenses	40,441	29,293
Total costs	**963,998**	**888,114**
Change in value of inventories	–4,479	–16,923
Total	**959,519**	**871,191**

9. Employee benefits cost

EUR thousand	2012	2011
Gross wages and salaries and continued pay	227,737	211,405
Social security contributions	18,236	16,565
Pension insurance contributions	30,932	29,339
Payroll tax	1,038	374
Retirement benefits and anniversary bonuses	3,512	–530
Other employee benefits cost	11,724	12,007
Total employee benefits cost	**293,179**	**269,160**

Other employee benefits cost in 2012 includes mostly the vacation bonus and commuting allowances.

EUR 3,471 thousand of retirement benefits and anniversary bonuses refer to the formation and reversal of provisions for retirement benefits and anniversary bonuses, which is explained in Note 24.

10. Other expenses

EUR thousand	2012	2011
Grants and assistance for humanitarian and other purposes	3,623	3,352
Environmental levies	2,957	2,486
Other taxes and levies	27,156	15,437
Loss on sale of property, plant and equipment and intangible assets	1,156	4,031
Other operating expenses	5,549	3,987
Total other expenses	**40,441**	**29,293**

11. Financial income and expenses

EUR thousand	2012	2011
Net foreign exchange gain	4,059	0
Interest income	1,162	378
Change in fair value of investments through profit or loss	78	0
Income from derivative financial instruments	102	0
Income from dividends and other interests in the profit	17	105
Other income	0	10
Total financial income	**5,418**	**493**
Net foreign exchange loss	0	–8,749
Interest expense	–1,588	–2,964
Change in fair value of investments through profit or loss	–3	–155
Expenses for derivative financial instruments	–4,987	0
Other expenses	–649	–211
Total financial expenses	**–7,227**	**–12,079**
Net financial expenses	**–1,809**	**–11,586**

12. Income tax expense

Adjustment to effective tax rate

EUR thousand	2012	2011
Income tax	30,232	38,458
Deferred tax	428	–1,218
Total income tax	**30,660**	**37,240**
Profit before tax	190,499	199,975
Income tax calculated using the 18% tax rate (2011: 20%)	34,290	39,995
Increased expenses	–183	0
Tax exempt expenses	4,918	2,453
Tax incentives	–11,821	–5,270
Revenues decreasing the tax base	–55	–150
Revenues increasing the tax base	101	0
Effect of tax rate changes in deferred tax	2,299	0
Effect of tax rate changes in income tax	993	–259
Other	118	471
Total income tax expenses	**30,660**	**37,240**
Effective tax rate	**16.1%**	**18.6%**

Investments in research and development and in property, plant and equipment account for the major portion of tax incentives.

For the next three years, the tax rate will decrease by one percentage point annually, dropping to 15% in 2015.

13. Property, plant and equipment

EUR thousand	31 Dec 2012	31 Dec 2011
Property	31,083	30,613
Plant	318,078	328,868
Equipment	293,397	298,971
Property, plant and equipment under construction	129,733	49,057
Total property, plant and equipment	**772,291**	**707,509**

The Group's largest investment in 2012, in the amount of EUR 11,410 thousand refers to the construction of the Plant for the production of solid pharmaceutical forms (2011: EUR 21,712 thousand). EUR 10,572 thousand was invested in the construction of the Notol 2 plant (2011: EUR 1,709 thousand), EUR 8,928 thousand in the increase of the sterile product production plant (2011: EUR 3,808 thousand), EUR 4,309 thousand in the construction of the Sinteza 1 plant for the production of active substances in Krško (2011: EUR 2,221 thousand), EUR 1,669 thousand in the replacement of the scrubber and noise reduction in the Notol plant (this is a new project, therefore no figures are available for 2011) and EUR 3,469 thousand in the construction of the Research and control centre (2011: EUR 11,238 thousand).

Moreover, production capacities are being increased in the subsidiary Krka-Rus (EUR 50,080 thousand in 2012 as compared with EUR 17,720 thousand in 2011). As for the company Farma GRS, there have been two investment projects in progress since 2011, namely the construction of the Production centre for finalizing active substances and the Chemical development centre. In 2012, EUR 22,985 thousand was invested in these two projects (2011: EUR 2,414 thousand).

Movement of property, plant and equipment (PPE)

EUR thousand	Property	Plant	Equipment	PPE under construction	Total
Cost of purchase					
Balance at 1 Jan 2011	**29,370**	**548,686**	**642,946**	**77,950**	**1,298,952**
Additions	0	0	0	102,092	102,092
Capitalisation – transfer from PPE under construction	1,296	46,585	82,585	–130,466	0
Disposals	0	–4,282	–16,534	0	–20,816
Exchange differences	–53	–2,183	–4,481	–519	–7,236
Transfer from intangible assets	0	0	199	0	199
Balance at 31 Dec 2011	**30,613**	**588,806**	**704,715**	**49,057**	**1,373,191**
Balance at 1 Jan 2012	**30,613**	**588,806**	**704,715**	**49,057**	**1,373,191**
Additions	0	0	0	145,133	145,133
Capitalisation – transfer from PPE under construction	441	11,372	52,614	–64,427	0
Disposals	0	–981	–12,355	0	–13,336
Exchange differences	29	1,527	3,350	31	4,937
Transfers	0	6	–6	–61	–61
Balance at 31 Dec 2012	**31,083**	**600,730**	**748,318**	**129,733**	**1,509,864**
Accumulated depreciation					
Balance at 1 Jan 2011	**0**	**–241,842**	**–368,309**	**0**	**–610,151**
Depreciation	0	–22,171	–55,248	0	–77,419
Disposals	0	3,085	15,706	0	18,791
Transfer from intangible assets	0	0	–179	0	–179
Exchange differences	0	990	2,286	0	3,276
Balance at 31 Dec 2011	**0**	**–259,938**	**–405,744**	**0**	**–665,682**
Balance at 1 Jan 2012	**0**	**–259,938**	**–405,744**	**0**	**–665,682**
Depreciation	0	–22,390	–58,748	0	–81,138
Disposals	0	542	11,450	0	11,992
Transfers, reclassification	0	–48	48	0	0
Exchange differences	0	–818	–1,927	0	–2,745
Balance at 31 Dec 2012	**0**	**–282,652**	**–454,921**	**0**	**–737,573**
Carrying amount					
Balance at 1 Jan 2011	**29,370**	**306,844**	**274,637**	**77,950**	**688,801**
Balance at 31 Dec 2011	**30,613**	**328,868**	**298,971**	**49,057**	**707,509**
Balance at 1 Jan 2012	**30,613**	**328,868**	**298,971**	**49,057**	**707,509**
Balance at 31 Dec 2012	**31,083**	**318,078**	**293,397**	**129,733**	**772,291**

Based on the contracts that had been signed in connection with the on-going investments, at year-end the Group accounted for EUR 116,252 thousand of future liabilities resulting from acquisition of property, plant and equipment (2011: EUR 82,353 thousand).

No borrowing costs refer to the items of property, plant and equipment in 2012.

The carrying amount of items of property, plant and equipment, which are temporarily not used, amounted to EUR 1,897 thousand as at 31 December 2012. 51% of total property, plant and equipment, which were used as at 31 December 2012, were written off.

14. Intangible assets

EUR thousand	31 Dec 2012	31 Dec 2011
Goodwill	42,644	42,644
Trademark	42,403	42,403
Concessions, patents, licenses and similar rights	28,627	30,234
Intangible assets under construction	4,833	3,801
Total intangible assets	**118,507**	**119,082**

The item of goodwill fully refers to the purchase of the company TAD Pharma and the item of trademark relates to TAD Pharma.

Movement of intangible assets (IA)

EUR thousand	Goodwill	Trademark	Concessions, patents, licenses and similar rights	IA under construction	Total
Cost of purchase					
Balance at 1 Jan 2011	**42,644**	**42,403**	**80,614**	**4,691**	**170,352**
Additions	0	0	0	7,621	7,621
Transfer from assets under construction	0	0	8,580	–8,580	0
Disposals	0	0	–3,051	0	–3,051
Transfer to PPE	0	0	–199	0	–199
Exchange differences	0	0	–192	69	–123
Balance at 31 Dec 2011	**42,644**	**42,403**	**85,752**	**3,801**	**174,600**
Balance at 1 Jan 2012	**42,644**	**42,403**	**85,752**	**3,801**	**174,600**
Additions	0	0	0	8,155	8,155
Transfers from assets under construction	0	0	7,123	–7,123	0
Disposals	0	0	–239	0	–239
Transfer to PPE	0	0	61	0	61
Exchange differences	0	0	191	0	191
Balance at 31 Dec 2012	**42,644**	**42,403**	**92,888**	**4,833**	**182,768**
Accumulated amortisation					
Balance at 1 Jan 2011	**0**	**0**	**–47,537**	**0**	**–47,537**
Amortisation	0	0	–9,767	0	–9,767
Disposals	0	0	1,532	0	1,532
Transfer to PPE	0	0	179	0	179
Exchange differences	0	0	75	0	75
Balance at 31 Dec 2011	**0**	**0**	**–55,518**	**0**	**–55,518**
Balance at 1 Jan 2012	**0**	**0**	**–55,518**	**0**	**–55,518**
Amortisation	0	0	–8,830	0	–8,830
Disposals	0	0	194	0	194
Exchange differences	0	0	–107	0	–107
Balance at 31 Dec 2012	**0**	**0**	**–64,261**	**0**	**–64,261**
Carrying amount					
Balance at 1 Jan 2011	**42,644**	**42,403**	**33,077**	**4,691**	**122,815**
Balance at 31 Dec 2011	**42,644**	**42,403**	**30,234**	**3,801**	**119,082**
Balance at 1 Jan 2012	**42,644**	**42,403**	**30,234**	**3,801**	**119,082**
Balance at 31 Dec 2012	**42,644**	**42,403**	**28,627**	**4,833**	**118,507**

38% of total intangible assets used at 31 December 2012 were written off.

Impairment testing for the TAD Pharma trademark and goodwill

Impairment testing was applied to the TAD trademark and associated goodwill which arose on the takeover of the German company TAD Pharma by the controlling entity Krka at the end of 2007.

The recoverable amount of the TAD trademark is based on the royalty relief method. The basis for the use of this method presents the estimated future net revenue from the sale of TAD branded products. The required return rate of the TAD trademark is 9.65% assessed as the weighted average cost of capital (WACC) of the company in the amount of 9.40% increased by 0.25 percentage point. The required pre-tax return rate is assessed at 11.2% based on the iterative method. Considering the above assumptions, the recoverable amount of the brand exceeds its carrying amount and therefore no impairment is required.

The recoverable amount of goodwill that arose on the acquisition of the stake in TAD Pharma was determined using the cash flow projection method based on five-year financial plans of the cash generating unit. The controlling entity Krka and TAD Pharma were considered cash generating units. A pre-tax discount rate of 12.50% was applied in the projection for the cash generating unit TAD Pharma and a pre-tax discount rate of 11.70% for the cash generating unit Krka; in the residual, a pre-tax discount rate of 9.40% and 10.31% was applied to the cash generating unit TAD Pharma and Krka respectively. Cash flows over 5 years were extrapolated using the average annual growth of 2.0% and 2.9% for the cash generating unit TAD Pharma and Krka respectively.

In the opinion of the Management Board, a reasonable change of the discount rate or growth rate would not result in goodwill impairment.

Considering the above assumptions, the assessed recoverable amount exceeds the carrying amount and therefore no impairment is required.

15. Loans

EUR thousand	31 Dec 2012	31 Dec 2011
Non-current loans	**5,387**	**4,821**
– loans	5,387	4,821
Current loans	**11,091**	**1,050**
– portion of non-current loans maturing next year	984	883
– current loans	10,069	162
– current interest receivable	38	5
Total loans	**16,478**	**5,871**

The item of current loans relates mostly to housing loans extended by the parent company and some subsidiaries to their employees in accordance with the internal acts of the Group. Loans of the controlling company bear the annual interest rate that equals the contractually agreed rate. This interest rate is defined by the Minister of Finance based on provisions of the Corporate Income Tax Act that stipulates the interest rate on transactions with related parties. The respective rate ranged between 1.263% and 2.740% in 2012. The maximum loan repayment period is 15 years.

16. Investments

EUR thousand	31 Dec 2012	31 Dec 2011
Non-current investments	**5,100**	**4,944**
– available-for-sale financial assets	5,100	4,944
Current investments including derivatives	**679**	**602**
– shares and interests held for trading	103	68
– other current investments	576	534
Total investments	**5,779**	**5,546**

EUR 892 thousand of available-for-sale financial assets refer to investments in shares and interests in companies in Slovenia (2011: EUR 720 thousand) and EUR 4,238 thousand to investments in shares of companies abroad (2011: EUR 4,224 thousand).

Other current investments refer to Slovenian mutual funds in the amount of EUR 302 thousand (2011: EUR 276 thousand) and assets under management in the amount of EUR 274 thousand (2011: EUR 258 thousand).

Movement in available-for-sale financial assets

EUR thousand	Available-for-sale financial assets
Balance at 1 January 2011	**5,238**
Purchase	89
Adjustment to market value	–383
Balance at 31 Dec 2011	**4,944**
Balance at 1 Jan 2012	**4,944**
Purchase	50
Adjustment to market value	106
Balance at 31 Dec 2012	**5,100**

Adjustments of non-current investments (available-for-sale financial assets) to the market value or fair value are recognised in the comprehensive income in the amount of EUR 106 thousand (2011: EUR –281 thousand). In 2012, adjustments were not recognised through the profit or loss (2011: EUR –102 thousand).

17. Deferred tax assets and liabilities

EUR thousand	Assets		Liabilities		Assets – liabilities	
	2012	2011	2012	2011	2012	2011
Investments, property, plant and equipment and intangible assets	1,072	580	13,973	14,217	–12,901	–13,637
Available-for-sale financial assets	187	20	367	386	–180	–366
Inventories	26	2,310	419	2,874	–393	–564
Receivables/liabilities	6,640	6,318	533	627	6,107	5,691
Provisions for lawsuits	8,820	9,800	0	0	8,820	9,800
Provisions for retirement benefits	7,310	8,280	0	0	7,310	8,280
Transfer of tax loss	457	32	0	0	457	32
Total	**24,512**	**27,340**	**15,292**	**18,104**	**9,220**	**9,236**

EUR thousand	Balance at 1 Jan 2011	Recognised in profit or loss	Translation reserve	Recognised in comprehensive income	Balance at 31 Dec 2011	Recognised in profit or loss	Recognised in comprehensive income	Translation reserve	Balance at 31 Dec 2012
Investments, property, plant and equipment, and intangible assets	**–14,468**	765	66	0	**–13,637**	856	–120	0	**–12,901**
Available-for-sale financial assets	**–442**	20	0	56	**–366**	167	0	19	**–180**
Inventories	**–1,301**	722	15	0	**–564**	188	–17	0	**–393**
Receivables/ liabilities	**4,910**	928	–147	0	**5,691**	157	259	0	**6,107**
Provisions for lawsuits	**9,800**	0	0	0	**9,800**	–980	0	0	**8,820**
Provisions for retirement benefits	**9,029**	–740	–9	0	**8,280**	–1,241	11	260	**7,310**
Transfer of tax loss	**509**	–477	0	0	**32**	425	0	0	**457**
Total	**8,037**	**1,218**	**–75**	**56**	**9,236**	**–428**	**133**	**279**	**9,220**

Unrecognised deferred tax on account of tax losses of subsidiaries amounted to EUR 2,074 thousand at the end of 2012 (2011: EUR 1,765 thousand).

18. Inventories

EUR thousand	31 Dec 2012	31 Dec 2011
Material	98,118	96,764
Work in progress	54,081	54,425
Products	92,711	95,236
Merchandise	4,638	6,783
Inventory advances	1,203	1,021
Total inventories	**250,751**	**254,229**

The write-down of inventories to net realisable value amounted to EUR 2,129 thousand EUR (2011: EUR 2,894 thousand), whereas write-offs of inventory totalled EUR 7,561 thousand (2011: EUR 7,995 thousand).

19. Trade and other receivables

EUR thousand	31 Dec 2012	31 Dec 2011
Current trade receivables	372,305	361,290
Other current receivables	42,928	32,804
Total receivables	**415,233**	**394,094**

Allowances for and write-offs of receivables recorded within financial expenses amounted to EUR 7,166 thousand in 2012 (2011: EUR 4,849 thousand).

Current trade receivables

EUR thousand	Gross value	Allowances for doubtful and disputable receivables	Net value at 31 Dec 2012	Net value at 31 Dec 2011
Domestic customers	12,979	431	12,548	12,459
Foreign customers	375,771	16,014	359,757	348,831
Total current trade receivables	**388,750**	**16,445**	**372,305**	**361,290**

49% of trade receivables (the same as in 2011) were secured with the SID – Prva kreditna zavarovalnica, d. d.

Other current receivables

Other current receivables refer mostly to receivables due by the state, in particular arising from corporate income tax and VAT credits.

20. Cash and cash equivalents

EUR thousand	31 Dec 2012	31 Dec 2011
Cash in hand	108	45
Bank balances	22,886	20,142
Total cash and cash equivalents	**22,994**	**20,187**

The Group concluded contracts with three different banks on the authorised overdraft limit on bank accounts in the total amount of EUR 2,000 thousand, the same as in 2011.

No negative balances were recorded on these bank accounts as at 31 December 2012, hence no overdraft limits were used.

21. Equity

Share capital

Share capital of the controlling company consists of 35,426,120 ordinary registered no-par value shares. There is only one class of shares, whereas the first and only issue of shares was carried out in 1995. The share capital was fully paid.

Treasury shares

As at 31 December 2012, the controlling company recorded 2,304,314 treasury shares, which accounts for 6.51% of the share capital value.

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 treasury shares, with the condition that the combined share of all treasury shares acquired and already held, could not exceed 10% of share capital or 3,542,612 of shares. Based on this authorisation, the Company was allowed to acquire treasury shares on the regulated market at respective market prices. The Company was also allowed to acquire shares outside regulated market. When purchasing treasury shares on regulated market or non-regulated market, the purchase price was not allowed to be lower than the book value based on the last published audited financial statements of the Krka Group. Also, the purchase price was not allowed to exceed 30-fold the earnings per share held by the majority stakeholders as stated in the last published audited financial statements of the Krka Group.

At the 16th Annual Meeting held on 7 July 2011, the shareholders revoked the authorisation that had been adopted at the 14th Annual Meeting and adopted a new resolution. According to the new resolution, the Company may acquire treasury shares on the regulated market at respective market prices. The Company may acquire treasury shares also outside the regulated market. When purchasing treasury shares on the regulated 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 published audited financial statements of the Krka Group.

Treasury shares acquired on the basis of this authorisation as well as previous authorisations from the General Meetings held on 5 November 1997 and 2 July 2009, may be disposed of in the following way:

- To be exchanged for equity-stakes in other companies, based on its M&A strategy,
- To be sold to a strategic partner,
- To be used for listing of Krka shares on stock exchange markets outside the Republic of Slovenia.

Repurchase of treasury shares by the controlling company in 2012

EUR thousand	Number of shares	Average share price (in EUR)	Value of shares (in EUR thousand)
Balance at 31 Dec 2011	**2,024,358**		**42,584**
Total repurchase of shares in 2012	279,956	46.69	13,072
Balance at 31 Dec 2012	**2,304,314**		**55,656**

The repurchases of treasury shares in 2012 refer to repurchases that were recorded in books of accounts in 2012. Due to the delay in recording, the number of shares differs from the actual repurchased number of shares in 2012, which was announced by the Company on the Ljubljana Stock Exchange website.

The 2012 repurchase of treasury shares in terms of days is illustrated within Enclosure 1 to the Financial Statements of the Krka Group and Krka, d. d., Novo mesto.

Reserves

The Group's reserves comprise reserves for treasury shares, the share premium, legal and statutory reserves, fair value reserves and translation reserves.

Reserves for treasury shares amounted to EUR 55,656 thousand as at the reporting date and increased by EUR 13,072 thousand based on their formation as a result of additional purchase of treasury shares.

The share premium is to be used under the terms and purposes as defined by the applicable act. The share premium was recorded at EUR 101,503 thousand as at 31 December 2012 and consists of the general equity revaluation adjustment (EUR 90,659 thousand) that was included among share premium during the transfer to IFRS, and the share premium (EUR 10,844 thousand) formed pursuant to a special regulation applicable in the ownership transformation of the controlling company. The amount may be used solely for the purpose of increasing share capital. No movements in share premium were recorded in 2012.

Legal reserves are to be formed up to 30% of the share capital. They amounted to EUR 14,990 thousand as at 31 December 2012 and remained unchanged over the previous period.

Statutory reserves amounted to EUR 30,000 thousand as at reporting date and remained unchanged over the previous period. Statutory reserves are formed by the Group up to the amount of EUR 30,000 thousand. Statutory reserves can be used for loss coverage, formation of reserves for treasury shares, for decreasing share capital by share withdrawal, and for regulating the dividend policy.

The fair value reserve includes the cumulative change in the fair value of available-for-sale financial assets. Compared to the previous period the fair value reserve increased by EUR 125 thousand and amounted to EUR 1,667 thousand as at 31 December 2012. The total change results from an increase in the fair value of available-for-sale financial assets (by EUR 106 thousand) and an increase of EUR 19 thousand referring to the related deferred tax effect.

The translation reserve increased by EUR 4,463 thousand compared to 2011 and amounted to EUR –11,747 thousand as at 31 December 2012. The increase is a result of exchange differences occurring during the translation of individual items in financial statements of foreign operations into the reporting currency.

Retained earnings

Retained earnings grew based on the majority shareholder's profit in the amount of EUR 159,915 thousand. The decrease, on the other hand, is a result of allocation of accumulated profit to dividend payout (EUR 49,938 thousand) in accordance with the resolution adopted by the 17th Annual Meeting held on 5 July 2012, of an additional formation of reserves for treasury shares by the controlling company in 2012 (EUR 13,072 thousand), and of the formation of actuarial pension calculation for the subsidiary TAD Pharma in the net amount of EUR 650 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 168 thousand (2011: EUR 98 thousand).

Dividends per share

In 2012, the declared gross dividend per share was EUR 1.50 (2011: EUR 1.40).

Non-controlling interests within equity

The non-controlling interests refer to the following Group companies:

	Non-controlling interest		Equity attributable to the non-controlling interest		Profit for the year attributable to the non-controlling interest	
EUR thousand	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Interest held by Terme Krka, d. o. o., in Golf Grad Otočec, d. o. o.	36.9%	36.9%	1,424	1,510	–86	–67
Interest held by Krka, d. d., Novo mesto in Farma GRS, d. o. o.	0.3%	0.3%	14	4	10	1
Total			**1,438**	**1,514**	**–76**	**–66**

22. Earnings per share

Basic earnings per share amounted to EUR 4.80 in 2012 and declined by 0.9% over the previous year, when it amounted to EUR 4.85. The calculation of earnings per share took account of the profit for the year attributable to the controlling interests in the amount of EUR 159,915 thousand (2011: EUR 162,801 thousand). The weighted average number of shares was accounted for in the calculation for both years, i. e. 33,285,030 shares for 2012 and 33,582,965 shares for 2011. Treasury 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

EUR thousand	31 Dec 2012	31 Dec 2011
Non-current borrowings	**12,900**	**25,500**
– borrowings from domestic banks	12,900	25,500
Current borrowings	**13,355**	**44,091**
– portion of non-current borrowings maturing next year	12,600	41,726
– borrowings from foreign banks	0	978
– borrowings from other entities	375	386
– current interest payable	380	1,001
Total borrowings	**26,255**	**69,591**

Non-current borrowings

EUR thousand	Currency	Maturity	Carrying amount	
			31 Dec 2012	31 Dec 2011
Borrowing from domestic bank	EUR	2012	0	5,000
Borrowing from domestic bank	EUR	2012	0	23,700
Borrowing from domestic bank	EUR	2012	0	271
Borrowing from foreign bank	EUR	2012	0	155
Borrowing from domestic bank	EUR	2014	13,500	20,100
Borrowing from domestic bank	EUR	2014	12,000	18,000
Total non-current borrowings			**25,500**	**67,226**

No new non-current borrowings were raised by the Group in 2012.

Non-current borrowings obtained from banks are neither secured by mortgages nor by bank guarantees.

Current borrowings are denominated in euro and were extended for the period of one year. These borrowings were not collateralised.

24. Provisions

EUR thousand	Balance at 31 Dec 2011	Formation	Utilisation	Reversal	Translation reserves	Balance at 31 Dec 2012
Provisions for retirement benefits and anniversary bonuses	50,915	3,471	–4,469	0	11	49,928
Other provisions	53,904	948	0	–49	15	54,818
– provisions for lawsuits	49,122	0	0	–22	0	49,100
– other provisions	4,782	948	0	–27	15	5,718
Total provisions	**104,819**	**4,419**	**–4,469**	**–49**	**26**	**104,746**

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. The provision in the amount of EUR 47,500 thousand, which was formed for potential liabilities related with proceedings of the European Commission regarding the alleged violation of the competition law in the sale of perindopril to EU markets, constitutes a majority part of provisions for lawsuits totalling EUR 49,100 thousand, whereas the provision in the amount of EUR 1,500 thousand was formed for the clopidogrel patent infringement case brought by Sanofi Aventis from France. External advisors for disputes referring to intellectual property are engaged for defining the anticipated amounts. Furthermore, the management each year verifies the calculated amount of provisions for each individual claim that is not yet closed. In addition to the above-mentioned lawsuits, there are 14 other intellectual property related lawsuits against the Company and its subsidiaries in the total amount of EUR 30,800 thousand, and 18 lawsuits from other areas (labour, civil disputes) in the total amount of EUR 1,100 thousand.

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 5.42% in the reporting period referring to the harmonised 10-term Slovenian government bond (Source: ECB). In the year 2011 discount rate of 5.75% was used;
- Currently applicable 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 rates calculated on the basis of last mortality tables available;
- Increase in wages by 2.55% (2011: 3.00%).

Actuarial deficits that have occurred in connection with retirement benefits and anniversary bonuses were recognised as increase in labour cost in the amount of EUR 3,471 thousand (see Note 9).

25. Deferred revenue

EUR thousand	Balance at 31 Dec 2011	New deferred revenue received	Reversal of deferred revenue	Balance at 31 Dec 2012
Grants received for the Beta production plant in Šentjernej	81	0	–44	37
Grants received for the Dolenjske and Šmarješke Toplice health resorts and Golf Grad Otočec	4,970	0	–295	4,675
Grants by the European Regional Development Fund	21	0	–4	17
Grants by the European Fund – development of new technologies (FBD project)	828	0	–97	731
Grants by the European Fund – Development Centres of the Slovene Economy	0	7,331	–954	6,377
Property, plant and equipment received for free	579	0	–14	565
Emission coupons	7	21	–6	22
Other deferred revenue	184	182	–366	0
Total other deferred revenue	**6,670**	**7,534**	**–1,780**	**12,424**

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

The 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

EUR thousand	31 Dec 2012	31 Dec 2011
Payables to domestic suppliers	37,074	36,955
Payables to foreign suppliers	62,978	49,623
Payables from advances	5,363	4,310
Total trade payables	**105,415**	**90,888**

27. Other current liabilities

EUR thousand	31 Dec 2012	31 Dec 2011
Accrued contractual discounts on products sold to other customers	70,895	57,926
Payables to employees – gross wages, other receipts and charges	32,505	29,082
Other	16,198	15,884
Total other current liabilities	**119,598**	**102,892**

28. Contingent liabilities

EUR thousand	31 Dec 2012	31 Dec 2011
Guarantees issued	16,779	12,068
Other	620	620
Total contingent liabilities	**17,399**	**12,688**

As for the guarantees, the highest figure refers to the performance guarantee issued in connection with the GRS project (EUR 5,300 thousand), followed by the guarantee for the timely payment of liabilities relating to customs duties and excise duties paid in Slovenia (EUR 2,845 thousand) and abroad (EUR 5,820 thousand).

An action by the European Commission against the Company is in progress, for which the Krka Group in the year 2009 set aside long-term provisions in the amount of EUR 47,500 thousand. In addition to this, 15 other lawsuits related to intellectual property and 18 lawsuits from other areas (labour, civil disputes) were brought against the Company and its subsidiaries in the total amount of EUR 36,600 thousand. Based on its familiarisation with the content of disputes and based on legal opinion of external experts, the Management of the Company assessed that the amount of potential liabilities relating to disputes and lawsuits would be EUR 1,600 thousand for which it formed long-term provisions.

The item 'Other' includes the affected property in Serbia (EUR 620 thousand).

29. Risks

Long-term stability of the Group's performance is managed by means of active risk management policies as presented in detail under Note 4. Due to the extensive scope of international import and export business, the Group is primarily exposed to foreign exchange and interest rate risks, as well as to credit risks. In order to decrease the effect of foreign currency exchange fluctuation on the result, a part of the open foreign exchange position in Russian rouble was hedged with futures contracts at the start of 2012.

Credit risk

Credit risk is mitigated by the assessment of the customers' credit rating as well as by active debt collection procedures.

CREDIT RISK EXPOSURE

The carrying amount of financial assets represents the biggest exposure to credit risk. As at the reporting date, the balances were as follows:

EUR thousand	Notes	31 Dec 2012	31 Dec 2011
Loans	15	16,478	5,871
Investments	16	5,779	5,546
Receivables	19	376,073	366,089
– thereof trade receivables		372,305	361,290
Cash and cash equivalents	20	22,994	20,187
Total		**421,324**	**397,693**

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:

EUR thousand	31 Dec 2012	31 Dec 2011
Slovenia	29,124	19,191
South-East Europe	101,698	87,602
Eastern Europe	146,308	135,383
Central Europe	59,012	58,169
Western Europe and overseas markets	56,409	71,615
Total	**392,551**	**371,960**

49% of trade receivables (the same as in 2011) were secured with the SID – Prva kreditna zavarovalnica, d. d.

Ageing structure of loans and receivables as at the reporting date

EUR thousand	Gross value 2012	Allowance 2012	Gross value 2011	Allowance 2011
Non-past due receivables	362,752	1,064	342,470	911
Up to 20 days past due	6,104	94	8,651	126
From 21 to 50 days past due	4,951	147	8,323	410
From 51 to 180 days past due	15,328	110	8,015	485
More than 180 days past due	19,910	15,079	20,118	13,685
Total	**409,045**	**16,494**	**387,577**	**15,617**

Movement of allowances for loans and receivables

EUR thousand	2012	2011
Balance at 1 January	**15,617**	**14,164**
Formation of allowance	4,942	4,840
Write-off of receivables	–2,656	–813
Reversal of impairment	–1,572	–2,404
Collection of written-off receivables	–5	0
Effect of exchange differences	168	–170
Balance at 31 December	**16,494**	**15,617**

Liquidity risk

Due to accurate planning of cash flows, low indebtedness and credit lines that were agreed with the banks in advance, no liquidity problems occurred in 2012 and liabilities were settled promptly.

MATURITY OF FINANCIAL LIABILITIES

Financial liabilities in terms of maturity are outlined in the tables below.

Maturity of financial liabilities as at 31 December 2012

EUR thousand	Carrying amount	Contractual cash flows				
		Total	Up to 6 months	From 6 months to 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Non-current borrowings from banks	25,877	26,569	6,730	6,624	13,215	0
Other current borrowings	378	379	299	80	0	0
Supplier payables	100,052	100,052	100,052	0	0	0
Total non-derivative financial liabilities	**126,307**	**127,000**	**107,081**	**6,704**	**13,215**	**0**
Total non-derivative financial assets/ liabilities	**0**	**0**	**0**	**0**	**0**	**0**
Total	**126,307**	**127,000**	**107,081**	**6,704**	**13,215**	**0**

Maturity of financial liabilities as at 31 December 2011

EUR thousand	Carrying amount	Contractual cash flows				
		Total	Up to 6 months	From 6 months to 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Non-current borrowings from banks	68,224	70,900	18,247	25,720	13,615	13,318
Current borrowings from banks	978	978	978	0	0	0
Other current borrowings	389	394	262	132	0	0
Supplier payables	86,578	86,578	86,578	0	0	0
Total non-derivative financial liabilities	**156,169**	**158,850**	**106,065**	**25,852**	**13,615**	**13,318**
Total derivatives/liabilities	**0**	**0**	**0**	**0**	**0**	**0**
Total	**156,169**	**158,850**	**106,065**	**25,852**	**13,615**	**13,318**

Foreign currency risk

EXPOSURE TO FOREIGN CURRENCY RISK

EUR thousand	31 Dec 2012					
	EUR*	USD	PLN	HRK	RUB	RON
Trade receivables	98,246	7,333	33,347	35,186	127,723	49,180
Borrowings from banks	–26,255	0	0	0	0	0
Trade payables	–83,222	–7,265	–1,250	–472	–8,140	–441
Financial position exposure (net)	**–11,231**	**67**	**32,097**	**34,715**	**119,583**	**48,739**

** EUR is the functional currency and does not represent exposure to foreign currency risk.*

EUR thousand	31 Dec 2011					
	EUR*	USD	PLN	HRK	RUB	RON
Trade receivables	112,171	11,042	32,368	26,149	117,375	47,659
Borrowings from banks	–69,591	0	0	0	0	0
Trade payables	–76,566	–8,072	–1,327	–326	–3,424	–359
Financial position exposure (net)	**–33,986**	**2,970**	**31,041**	**25,823**	**113,951**	**47,300**

** EUR is the functional currency and does not represent exposure to foreign currency risk.*

Significant foreign exchange rates

	Average exchange rate*		Final exchange rate*	
	2012	2011	2012	2011
USD	1.28	1.39	1.32	1.29
PLN	4.18	4.12	4.07	4.46
HRK	7.52	7.44	7.56	7.54
RUB	39.93	40.88	40.33	41.77
RON	4.46	4.24	4.44	4.32

** The number of local currency's units for one euro*

The above-stated exchange rates were used for the calculation of items in the financial statements as at 31 December 2012 and equal the exchange rate of the ECB effective on 31 December.

SENSITIVITY ANALYSIS

A 1% percent increase of the euro exchange rate in respect of currencies stated as at 31 December 2012 or 31 December 2011 would increase or decrease the profit by the amounts stated below.

The analysis, prepared in the same manner for both years, assumes that all other remaining elements, in particular interest rates, remain unchanged.

	Effect on the profit or loss before tax	
EUR thousand	**2012**	**2011**
USD	–1	–29
PLN	–318	–307
HRK	–344	–256
RUB	–1,184	–1,128
RON	–483	–468

A 1% decrease of the euro value in respect of currencies stated as at 31 December 2012 or 31 December 2011 would have the same effect – but in reverse direction – provided that all other elements remain unchanged.

Interest rate risk

EXPOSURE TO INTEREST RATE RISK

EUR thousand	**2012**	**2011**
Financial instruments at fixed interest rate	**16,065**	**4,502**
Financial assets	16,440	5,866
Financial liabilities	–375	–1,364
Financial instruments at variable interest rate	**–25,500**	**–67,226**
Financial assets	0	0
Financial liabilities	–25,500	–67,226

ANALYSIS OF SENSITIVITY OF 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 profit or loss.

ANALYSIS OF THE CASH FLOW'S SENSITIVITY BY APPLYING THE VARIABLE INTEREST RATE

Decrease/increase of the interest rate by 100 basis points would increase/decrease the profit or loss for 2012 by EUR 255 thousand (2011: EUR 672 thousand). The analysis, prepared in the same manner for both years, assumes that all other remaining elements, in particular the foreign exchange rate, remain unchanged.

A detailed schedule of non-current and current borrowings is presented below.

Non-current borrowings

EUR thousand	31 Dec 2012	31 Dec 2011
Non-current borrowings	25,500	67,226
– thereof current portion	12,600	41,726
Average balance of non-current borrowings	46,363	86,170
Interest paid in the financial year	1,477	2,526
Average interest rate of non-current borrowings (financial year)	3.19%	2.93%
Maturity of up to three years	100%	100%
Currency structure of non-current borrowings		
– EUR	100%	100%
Structure of non-current borrowings in terms of interest rates		
– variable	100%	100%

Current borrowings

EUR thousand	31 Dec 2012	31 Dec 2011
Current borrowings including current portion of non-current borrowings	12,975	43,090
– from banks	12,600	42,704
– other	375	386
Current borrowings exclusive of current portion of non-current borrowings	375	1,364
Average balance of current borrowings (financial year)	870	10,091
Interest paid in the financial year	67	410
Other cost of raising current borrowings	10	22
Average effective cost of current borrowings (financial year)	8.86%	4.28%
Currency structure of current borrowings		
– EUR	100%	100%
Structure of current borrowings in terms of interest rates		
– fixed	100%	100%

Capital management

Share capital of the Company consists of 35,426,120 ordinary registered no-par value shares. There is only one class of shares, whereas the first and only issue of shares was carried out in 1995. The share capital was fully paid.

The Group's capital management is aimed at ensuring a high credit rating and relevant financing indicators in order to ensure the proper development of its operations and to generate a maximum value for its shareholders.

The Group follows the changes in the economic environment by managing and adjusting its equity structure, whereby it applies the policy of moderately increasing the dividend amount, paid out on an annual basis. The Group has no specific goals as regards the ownership share held by employees or share options plans.

There were no changes in the Group's approach to capital management in 2012 and 2011.

Krka monitors capital using a gearing ratio, which is net debt divided by total net debt plus total equity. Within net debt, the Company includes interest bearing borrowings and operating liabilities, less cash and cash equivalents.

EUR thousand	2012	2011
Borrowings	26,255	69,591
Trade and other current liabilities	225,013	193,780
Cash and cash equivalents	–22,994	–20,187
Net debt	**228,274**	**243,184**
Equity	1,240,521	1,139,754
Equity and net debt	**1,468,795**	**1,382,938**
Gearing (debt/equity) ratio	**15.5%**	**17.6%**

Fair value

	2012		2011	
EUR thousand	Carrying amount	Fair value	Carrying amount	Fair value
Non-current loans	5,387	5,387	4,821	4,821
Available-for-sale financial assets	5,100	3,526	4,944	3,424
Current loans	11,091	11,091	1,050	1,050
Current investments	679	679	602	602
– shares and interests held for trading	103	103	68	68
– other current investments	576	576	534	534
Trade and other receivables	415,233	415,233	394,094	394,094
Cash and cash equivalents	22,994	22,994	20,187	20,187
Borrowings	–26,255	–26,198	–69,591	–69,972
Trade and other payables	–227,510	–227,510	–195,089	–195,089
Total	**206,719**	**205,202**	**161,018**	**159,117**

The manner of the fair value measurement of the individual types of financial instruments is outlined below.

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 for both years was computed based on the 5-percent annual interest rate. The Group estimates that it could raise a 5-year borrowing at the stated interest rate at the end of the year.

INVESTMENTS

In terms of fair value, investments are classified in three levels:

- Level 1 – assets at market price;
- Level 2 – assets not classified within level 1 and the value of which is determined directly or indirectly based on observable market data;
- Level 3 – assets the value of which cannot be determined using observable market data.

Only assets from level 1 are presented at fair value. The table below presents fair values of such assets.

EUR thousand	2012	2011
Available-for-sale financial assets	3,526	3,424
Shares and interests held for trading	103	68
Other current investments (mutual funds and assets in management)	576	534
Total	**4,205**	**4,026**

As at 31 December 2012, the Group's financial investments measured at cost amounted to EUR 1,574 thousand (2011: EUR 1,520 thousand).

The fair value of securities held for trading is computed on the basis of the stock exchange quotation of the respective securities as at reporting date, and it is not decreased by any costs that may arise upon the sale or purchase of securities.

Lease liabilities

EUR thousand	31 Dec 2012	31 Dec 2011
Up to 1 year	5,107	4,890
From 1 to 5 years	7,477	10,319
More than 5 years	303	383
Total lease liabilities	**12,888**	**15,592**

RECEIVABLES AND LIABILITIES

Short-term receivables and liabilities are recorded at carrying amount which reflects their fair value.

30. Related party transactions

Data on groups of persons

By the end of the year, members of the Management Board of the controlling company held 37,050 of Krka shares, i.e. 0.105% of total equity or 0.112% of voting rights, whereas members of the Supervisory Board of the controlling company held 13,845 shares, i.e. 0.042% of total equity or 0.041% of voting rights, and the Managing Directors of subsidiaries held 38,695 of shares, i.e. 0.109% of the total equity or 0.117% of voting rights.

A questionnaire on related entities is completed by the Members of the Management Board 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 2012.

Equity stakes held by members of the Management and the Supervisory Boards and their shares of voting rights

	31 Dec 2012			31 Dec 2011		
	Number of shares	Equity share (%)	Share of voting rights (%)	Number of shares	Equity share (%)	Share of voting rights (%)
Members of the Management Board						
Jože Colarič	22,500	0.0635	0.0679	22,500	0.0635	0.0674
Aleš Rotar	12,770	0.0360	0.0386	12,770	0.0360	0.0382
Zvezdana Bajc	1,660	0.0047	0.0050	1,660	0.0047	0.0050
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 Members of the Management Board	**37,050**	**0.1045**	**0.1119**	**37,050**	**0.1045**	**0.1109**
Members of the Supervisory Board						
Jože Lenič	180	0.0005	0.0005	180	0.0005	0.0005
Julijana Kristl	230	0.0006	0.0007	230	0.0006	0.0007
Vincenc Manček	11,543	0.0326	0.0349	11,543	0.0326	0.0346
Mojca Osolnik Videmšek	452	0.0013	0.0014	452	0.0013	0.0014
Matjaž Rakovec	400	0.0011	0.0012	400	0.0011	0.0012
Sergeja Slapničar	0	0.0000	0.0000	0	0.0000	0.0000
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 Members of the Supervisory Board	**13,845**	**0.0391**	**0.0418**	**13,845**	**0.0391**	**0.0415**
Total	**50,895**	**0.1436**	**0.1537**	**50,895**	**0.1436**	**0.1524**

Treasury shares were eliminated from the calculation of voting rights (2,307,739 treasury shares as at 31 December 2012 and 2,025,117 as at 31 December 2011).

Remuneration paid to groups of persons (gross)

EUR thousand	2012	2011
Members of the Management Board of the controlling company	2,286	2,185
Managers of subsidiaries	2,275	1,969
Members of the Supervisory Board of the controlling company	228	109
Members of the Supervisory and Management Boards of subsidiaries	100	82
Total gross remuneration paid to groups of persons	**4,889**	**4,345**

Remuneration paid to Members of the Management Board in the controlling company and managers of subsidiaries includes wages and salaries, fringe benefits and any other earnings.

Remuneration paid to Members of the Supervisory Board in the controlling company represent earnings in connection with exercising the function within the Supervisory Board. Remuneration paid to Members of the Supervisory and Management Boards in subsidiaries, who simultaneously act as Members of the Management Board in the controlling company or are employed under individual employment contracts, include also solely earnings for exercising the function within the Supervisory and Management Boards.

Gross earnings paid to employees employed under individual employment contracts were in 2012 recorded at EUR 16,759 thousand (2011: EUR 17,113 thousand).

Remuneration paid to Members of the Management Board in the controlling company in 2012

	Salary – fixed part			Salary – variable part		Total	
EUR thousand	Gross	Net payout	Net bonuses and other earnings	Gross	Net	Gross	Net
Jože Colarič	360	160	10	372	158	732	328
Aleš Rotar	284	126	10	246	105	530	241
Zvezdana Bajc	260	114	12	223	95	483	221
Vinko Zupančič	209	91	13	175	75	384	179
Danica Novak Malnar	136	63	8	20	10	156	81
Total Members of the Management Board	**1,249**	**554**	**53**	**1,036**	**443**	**2,285**	**1,050**

	Net bonuses and other earnings					
EUR thousand	Executive health insurance	Supplementary pension insurance	Other bonuses	Refund of work-related costs	Vacation bonus	Total
Jože Colarič	5.06	2.76	1.76	0.06	0.63	10.26
Aleš Rotar	4.03	2.76	2.34	0.83	0.63	10.59
Zvezdana Bajc	4.03	2.76	3.24	0.92	0.63	11.57
Vinko Zupančič	4.03	2.76	4.82	0.72	0.64	12.97
Danica Novak Malnar	1.75	2.76	1.73	0.89	0.65	7.78
Total Members of the Management Board	**18.90**	**13.78**	**13.89**	**3.41**	**3.18**	**53.16**

Remuneration paid to Members of the Management Board in the controlling company in 2011

EUR thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net payout	Net bonuses and other earnings	Gross	Net payout	Net bonuses and other earnings	Gross
Jože Colarič	352	156	9	307	141	659	306
Aleš Rotar	281	123	12	240	110	521	245
Zvezdana Bajc	257	111	13	217	100	474	224
Vinko Zupančič	208	88	14	171	79	379	181
Danica Novak Malnar	132	61	7	20	10	152	78
Total Members of the Management Board	**1,230**	**539**	**55**	**955**	**440**	**2,185**	**1,034**

EUR thousand	Net bonuses and other earnings					
	Executive health insurance	Supplementary pension insurance	Other bonuses	Refund of work-related costs	Vacation bonus	Total
Jože Colarič	5.34	2.68	0.05	0.06	0.63	8.76
Aleš Rotar	4.26	2.68	3.33	0.86	0.63	11.76
Zvezdana Bajc	4.10	2.68	4.40	0.93	0.63	12.74
Vinko Zupančič	4.30	2.68	6.04	0.76	0.64	14.42
Danica Novak Malnar	1.88	2.68	0.74	0.86	0.65	6.81
Total Members of the Management Board	**19.88**	**13.40**	**14.56**	**3.47**	**3.18**	**54.49**

The item of other bonuses includes the use of a company car for private purposes as well as other similar bonuses. Refund of work-related costs consists of commuting and meal allowances.

Members of the Management Board do not receive attendance fees or any other income for exercising their functions in the Management and Supervisory boards in subsidiaries.

Remuneration paid to Members of the Supervisory Board in the controlling company in 2012

EUR thousand	Basic pay for exercising the function		Attendance fees		Commuting allowances		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Jože Lenič	25.19	19.52	3.85	2.98	0.09	0.07	29.12	22.57
Julijana Kristl	20.99	16.27	1.76	1.36	0.42	0.33	23.17	17.96
Vincenc Manček	20.99	16.27	2.75	2.13	0.00	0.00	23.74	18.40
Mojca Osolnik Videmšek	23.09	17.89	2.75	2.13	0.50	0.39	26.34	20.42
Matjaž Rakovec	22.67	17.57	2.48	1.92	0.33	0.26	25.48	19.74
Sergeja Slapničar	20.99	16.27	2.75	2.13	0.87	0.67	24.61	19.07
Franc Šašek	22.67	17.57	2.75	2.13	0.00	0.00	25.42	19.70
Tomaž Sever	20.99	16.27	2.75	2.13	0.50	0.39	24.24	18.79
Mateja Vrečer	23.09	17.89	2.75	2.13	0.00	0.00	25.84	20.03
Total remuneration paid to Members of the Supervisory Board	**200.66**	**155.51**	**24.59**	**19.05**	**2.72**	**2.10**	**227.96**	**176.67**

In accordance with a resolution adopted at the 16th Annual Meeting held on 7 July 2011, Members of the controlling company's Supervisory Board are entitled to an attendance fee, which for each individual member of the controlling company's Supervisory Board amounts to EUR 275.00 gross. Members of the Supervisory Board Commission receive an attendance fee for their participation in sessions, which for each individual Commission member amounts to 80% of the attendance fee for Supervisory Board sessions. The attendance fee for participating in correspondence sessions amounts to 80% of the general attendance fee. Irrespective of the aforesaid or the number of attendances, each member of the Supervisory Board is in every financial year entitled to receive attendance fees until the total amount of these attendance fees – whether relating to sessions of the Supervisory Board or sessions of the Supervisory Board Commissions – reaches 50% of the basic pay for exercising the function for each Supervisory Board member taking into account the actual payouts on an annual level.

In addition to attendance fees, members of the controlling company's Supervisory Board receive on an annual basis also a basic pay for exercising the function in the amount of EUR 15,500 gross each. The President of the Supervisory Board is further entitled to an extra fee in the amount of 50% of the basic pay for exercising the function of Member of the Supervisory Board, whereas Deputy President of the Supervisory Board is entitled to an extra fee of 10% of the basic pay for exercising the function of a Member of the Supervisory Board. Members of the Supervisory Board Commission receive an extra fee for exercising the function in the amount of 25% of the basic pay for exercising the function of a Member of the Supervisory Board. Chairman of the Commission is further entitled to a bonus corresponding to 50% of the extra fee for exercising the function of a member the Supervisory Board Commission.

Members of the controlling company's Supervisory Board and members of the Supervisory Board Commission receive a basic pay and an extra fee for exercising the function, in proportionate monthly payments to which they are entitled to during their mandate. The monthly payment amounts to one twelfth of the aforesaid annual amounts. Each member of the Supervisory Board Commission is in every financial year entitled – regardless of the above-mentioned or the number of commissions he is a member of or presides over – to receive bonuses until the total amount of these bonuses reaches 50% of the basic pay for exercising the function for each Member of the Supervisory Board taking into account the actual payouts on an annual level.

Loans to groups of persons

	Balance		Repayments	
EUR thousand	31 Dec 2012	31 Dec 2011	2012	2011
Members of the Management Board in the controlling company	5	6	1	3
Managers of subsidiaries	0	0	0	0
Members of the Supervisory Board in the controlling company	0	0	0	0
Members of the Supervisory and Management Boards in subsidiaries	0	0	0	0
Total loans to groups of persons	**5**	**6**	**1**	**3**

Loans granted to staff employed under individual employment contracts were as at 31 December 2012 recorded at EUR 64 thousand (2011: EUR 88 thousand). Repayments of the respective loans amounted in the reporting period to EUR 24 thousand (2011: EUR 30 thousand).

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.

	Equity stake	Share capital at 31 Dec 2012	Currency	Number of employees at 31 Dec 2012	Number of employees at 31 Dec 2011
Controlling company					
KRKA, d. d., Novo mesto		59,126,194	EUR	4495	4379
Subsidiaries					
TERME KRKA, d. o. o., Novo mesto*	100%	14,753,239	EUR	627	653
Farma GRS, d. o. o., Novo mesto	99.7%	1,003,000	EUR	52	51
KRKA-FARMA, d.o.o., Zagreb, Croatia	100%	143,027,200	HRK	182	182
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	37,000	RON	211	221
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	111,080	RSD	61	53
KRKA-FARMA DOOEL Skopje, Skopje, Macedonia	100%	49,060,618	MKD	32	29
KRKA FARMA d.o.o., Sarajevo, Sarajevo, Bosnia and Herzegovina	100%	20,000	BAM	1	1
KRKA-RUS LLC, Istra, Russian Federation	100%	2,011,374,765	RUB	216	177
KRKA FARMA LLC, Sergiev Posad, Russian Federation	100%	3,874,800	RUB	1419	1253
KRKA UKRAINE LLC, Kiev, Ukraine	100%	100,000	UAH	345	345
LLC “KRKA Kazakhstan”, Almaty, Kazakhstan	100%	13,500	USD	88	0
KRKA - POLSKA, Sp. z o.o., Warsaw, Poland	100%	17,490,000	PLN	804	755
KRKA ČR, s. r. o., Prague, Czech Republic	100%	100,000	CZK	247	236
KRKA Magyarország Kft., Budapest, Hungary	100%	44,880,000	HUF	159	195
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10,000	EUR	114	117
UAB KRKA Lietuva, Vilnius, Lithuania	100%	34,000	LTL	84	85
SIA KRKA Latvija, Riga, Latvia	100%	7,000	LVL	33	0
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650,000	EUR	175	174
Krka Sverige AB, Stockholm, Sweden	100%	150,000	SEK	5	3
KRKA Pharma GmbH, Wien, Vienna, Austria	100%	36,500	EUR	12	14
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10,000	EUR	18	18
KRKA FARMACÉUTICA, S.L., Madrid, Spain	100%	10,000	EUR	27	4
KRKA FARMACEUTICI MILANO S.R.L., Milan, Italy	100%	10,000	EUR	23	0
KRKA France Eurl, Paris, France	100%	10,000	EUR	24	0
KRKA Belgium, SA, Brussels, Belgium	95%	71,250	EUR	0	0
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1,000	EUR	7	3
KRKA USA LLC, Wilmington, USA	100%	10,000	USD	0	0

** As at 31 December 2012, the subsidiary Terme Krka held 63.10% of stake in the company Golf Grad Otočec, d. o. o.*

32. Educational structure of employees

	2012		2011	
	Headcount	**Share (%)**	**Headcount**	**Share (%)**
PhD	101	1.1	93	1.1
MSc	272	3.0	256	2.9
University education	4,350	47.3	4,180	47.6
Higher professional education	1,015	11.0	860	9.8
Vocational college education	261	2.8	254	2.9
Secondary school education	1,817	19.8	1,735	19.7
Skilled workers	987	10.7	1,262	14.4
Unskilled workers	394	4.3	149	1.7
Total (average for the period)	**9,197**	**100.0**	**8,789**	**100.0**

33. Transactions with audit firms

The annual fee for auditing the Group in 2012 amounted to EUR 475 thousand (2011: EUR 420 thousand).

34. Events after the reporting period

Below we present the events that occurred in the period from the end of the reporting period until 31 March 2013.

At the end of January, Krka received the judgement by the Court of Appeal of Helsinki about the patent litigation filed by Merck Frosst Canada Limited, Canada, Merck Sharp & Dohme B. V., the Netherlands and MSD Finland Oy, Finland against Krka, d. d., Novo mesto and its subsidiary Krka Sverige AB. The dispute arose due to an alleged infringement of two MSD patents protecting manufacturing processes in Finland for the active pharmaceutical ingredient montelukast. The Court of Appeal of Helsinki upheld the appeal of MSD and reversed the decision of the court of first instance and decided that Krka did not prove its manufacturing processes for the active ingredient montelukast had not violated the patent-protected MSD process in Finland. Krka was ordered to pay MSD damages in the amount of EUR 629,737.20 with interest accrued from 31 December 2010. Krka filed an extraordinary appeal at the Supreme Court of Finland against the decision of Court of Appeal of Helsinki.

Krka received a judgement of the Supreme Court of Slovenia by which it dismissed the request for audit filed by Merck Frosst Canada Limited in the litigation about an alleged patent infringement related to the active substance montelukast and confirmed the judgement of the Higher Court in Ljubljana of 10 May 2012.

In this period the controlling company repurchased 45,967 treasury shares. At the end of March 2013, Krka held 2,353,706 treasury shares, which represents 6.644% of the Company's share capital.

The above events had no impact on the financial statements of the Krka Group for the year ended 31 December 2012.

Independent Auditor's Report

ERNST & YOUNG

INDEPENDENT AUDITOR'S REPORT

To the owners of Krka, d.d., Novo mesto

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Krka Group, which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Consolidated financial statements as at December 31, 2011 were audited by other auditor, which issued unqualified opinion on March 5, 2012.

Management's Responsibility for the 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 European Union] and with the requirements of the Slovenian Companies Act related to the preparation of the consolidated financial statements, 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 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 Krka Group, as of December 31, 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act related to the preparation of the financial statements.

Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing the business report in accordance with the Slovenian Companies Act. Our responsibility is to assess whether the business report is consistent with the audited financial statements. Our work regarding the business report is performed in accordance with ISA 720, and restricted to assessing whether the business report is consistent with the financial statements and does not include reviewing other information originated from non-audited financial records.

The business report is consistent with the audited consolidated financial statements.

Ljubljana, March 22, 2013

ERNST & YOUNG
Revizija, poslovno svetovanje d.o.o., Ljubljana 1

Janez Uranič
Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

Lidija Šinkovec
Certified auditor

Financial Statements of Krka, d. d., Novo mesto

STATEMENT OF FINANCIAL POSITION

EUR thousand	Notes	31 Dec 2012	31 Dec 2011
Assets			
Property, plant and equipment	13	519,219	524,532
Intangible assets	14	29,908	29,654
Investments in subsidiaries	15	259,455	225,444
Deferred tax assets	18	16,987	18,577
Non-current loans	16	32,837	9,571
Non-current investments	17	4,891	4,735
Other non-current assets		145	155
Total non-current assets		**863,442**	**812,668**
Inventories	19	190,555	193,301
Trade and other receivables	20	432,935	395,645
Current loans	16	65,305	46,209
Current investments	17	679	602
Cash and cash equivalents	21	13,369	15,023
Total current assets		**702,843**	**650,780**
Total assets		**1,566,285**	**1,463,448**
Equity			
Share capital	22	59,126	59,126
Treasury shares	22	–55,656	–42,584
Reserves	22	203,816	190,619
Retained earnings	22	1,024,929	933,324
Total equity		**1,232,215**	**1,140,485**
Liabilities			
Non-current borrowings	24	13,700	25,500
Provisions	25	96,491	97,505
Deferred revenue	26	2,752	3,439
Deferred tax liabilities	18	367	386
Total non-current liabilities		**113,310**	**126,830**
Trade payables	27	118,496	95,550
Current borrowings	24	58,917	60,556
Income tax liabilities		0	0
Other current liabilities	28	43,347	40,027
Total current liabilities		**220,760**	**196,133**
Total liabilities		**334,070**	**322,963**
Total equity and liabilities		**1,566,285**	**1,463,448**

The accompanying notes are an integral part of the financial statements and should be read in conjunction with these.

INCOME STATEMENT

EUR thousand	Notes	2012	2011
Revenues	6	1,035,280	957,653
Cost of sales		–433,531	–383,258
Gross profit		**601,749**	**574,395**
Other income	7	2,316	4,774
Distribution expenses		–288,695	–257,483
R&D costs		–98,446	–87,202
Administrative expenses		–55,542	–56,334
Operating profit		**161,382**	**178,150**
Financial income	11	22,431	14,046
Financial expenses	11	–7,690	–11,822
Net financial income		**14,741**	**2,224**
Profit before tax		**176,123**	**180,374**
Income tax expense		–21,508	–29,982
Profit for the year		**154,615**	**150,392**
Basic earnings per share (in EUR)	**23**	**4.65**	**4.48**
Diluted earnings per share (in EUR)	**23**	**4.65**	**4.48**

The accompanying notes are an integral part of the financial statements and should be read in conjunction with these.

STATEMENT OF COMPREHENSIVE INCOME

EUR thousand	Notes	2012	2011
Profit for the year	**22**	**154,615**	**150,392**
Other comprehensive income for the year			
Change in fair value of available-for-sale financial assets	22	106	–281
Deferred tax effect – change in fair value of available-for-sale financial assets	22	19	56
Total other comprehensive income for the year		**125**	**–225**
Total comprehensive income for the year		**154,740**	**150,167**

The accompanying notes are an integral part of the financial statements and should be read in conjunction with these.

STATEMENT OF CHANGES IN EQUITY

EUR thousand	Share capital	Treasury shares	Reserves for treasury shares	Share premium
Balance at 1 Jan 2012	**59,126**	**–42,584**	**42,584**	**101,503**
Profit for the year	**0**	**0**	**0**	**0**
Other comprehensive income for the year				
Change in fair value of available-for-sale-financial assets	0	0	0	0
Deferred tax effect – change in fair value of available-for-sale-financial assets	0	0	0	0
Total other comprehensive income for the year	**0**	**0**	**0**	**0**
Total comprehensive income for the year	**0**	**0**	**0**	**0**
Transactions with owners, recognised directly in equity				
Formation of statutory reserves	0	0	0	0
Formation of other revenue reserves under the resolution of the Management and Supervisory Boards	0	0	0	0
Transfer of previous period's profit to retained earnings	0	0	0	0
Transfer to other revenue reserves under the resolution of the Annual Shareholders Meeting	0	0	0	0
Formation of reserves for treasury shares	0	0	13,072	0
Repurchase of treasury shares	0	–13,072	0	0
Dividends paid	0	0	0	0
Total transactions with owners, recognised directly in equity	**0**	**–13,072**	**13,072**	**0**
Balance at 31 Dec 2012	**59,126**	**–55,656**	**55,656**	**101,503**

The accompanying notes are an integral part of the financial statements and should be read in conjunction with these.

Reserves				Retained earnings			
	Legal reserves	Statutory reserves	Fair value reserves	Other revenue reserves	Profit for the year	Retained earnings	Total equity
	14,990	**30,000**	**1,542**	**760,611**	**111,741**	**60,972**	**1,140,485**
	0	**0**	**0**	**0**	**154,615**	**0**	**154,615**
	0	0	106	0	0	0	106
	0	0	19	0	0	0	19
	0	**0**	**125**	**0**	**0**	**0**	**125**
	0	**0**	**125**	**0**	**154,615**	**0**	**154,740**
	0	0	0	0	0	0	0
	0	0	0	25,000	–25,000	0	0
	0	0	0	0	–111,741	111,741	0
	0	0	0	61,387	0	–61,387	0
	0	0	0	0	–13,072	0	0
	0	0	0	0	0	0	–13,072
	0	0	0	0	0	–49,938	–49,938
	0	**0**	**0**	**86,387**	**–149,813**	**416**	**–63,010**
	14,990	**30,000**	**1,667**	**846,998**	**116,543**	**61,388**	**1,232,215**

EUR thousand	Share capital	Treasury shares	Reserves for treasury shares	Share premium
Balance at 1 Jan 2011	**59,126**	**–21,749**	**21,749**	**101,503**
Profit for the year	**0**	**0**	**0**	**0**
Other comprehensive income for the year				
Change in fair value of available-for-sale financial assets	0	0	0	0
Deferred tax effect – change in fair value of available-for-sale financial assets	0	0	0	0
Total other comprehensive income for the year	**0**	**0**	**0**	**0**
Total comprehensive income for the year	**0**	**0**	**0**	**0**
Transactions with owners, recognised directly in equity				
Formation of statutory reserves	0	0	0	0
Formation of other revenue reserves under the resolution of the Management and Supervisory Boards	0	0	0	0
Transfer of previous period's profit to retained earnings	0	0	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting of Shareholders	0	0	0	0
Formation of reserves for treasury shares	0	0	20,835	0
Repurchase of treasury shares	0	–20,835	0	0
Dividends paid	0	0	0	0
Total transactions with owners, recognised directly in equity	**0**	**–20,835**	**20,835**	**0**
Balance at 31 Dec 2011	**59,126**	**–42,584**	**42,584**	**101,503**

The accompanying notes are an integral part of the financial statements and should be read in conjunction with these.

Reserves				Retained earnings			
	Legal reserves	Statutory reserves	Fair value reserves	Other revenue reserves	Profit for the year	Retained earnings	Total equity
	14,990	**27,184**	**1,767**	**684,639**	**106,660**	**62,285**	**1,058,154**
	0	**0**	**0**	**0**	**150,392**	**0**	**150,392**
	0	0	–281	0	0	0	–281
	0	0	56	0	0	0	56
	0	**0**	**–225**	**0**	**0**	**0**	**–225**
	0	**0**	**–225**	**0**	**150,392**	**0**	**150,167**
	0	2,816	0	0	–2,816	0	0
	0	0	0	15,000	–15,000	0	0
	0	0	0	0	–106,660	106,660	0
	0	0	0	60,972	0	–60,972	0
	0	0	0	0	–20,835	0	0
	0	0	0	0	0	0	–20,835
	0	0	0	0	0	–47,001	–47,001
	0	**2,816**	**0**	**75,972**	**–145,311**	**–1,313**	**–67,836**
	14,990	**30,000**	**1,542**	**760,611**	**111,741**	**60,972**	**1,140,485**

STATEMENT OF CASH FLOWS

EUR thousand	Notes	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**154,615**	**150,392**
Adjustments for:		**81,917**	**88,872**
– amortisation/depreciation	13, 14	69,612	66,414
– foreign exchange differences		–103	735
– investment income		–17,515	–14,265
– investment expense		5,714	2,711
– interest expense and other financial expense		2,701	3,295
– income tax	12	21,508	29,982
Operating profit before changes in net operating current assets		**236,532**	**239,264**
Change in trade receivables		–34,352	30,615
Change in inventories		2,746	–29,010
Change in trade payables		22,946	–14,003
Change in provisions		–1,014	–4,127
Change in deferred revenue		–687	771
Change in other current liabilities		2,893	–1,310
Income taxes paid		–21,848	–43,206
Net cash from operating activities		**207,216**	**178,994**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,980	2,021
Dividends received		17	16
Proportionate profit of subsidiaries		13,661	11,978
Proceeds from sale of property, plant and equipment		5,110	1,762
Purchase of intangible assets	14	–6,340	–6,248
Purchase of property, plant and equipment	13	–63,620	–73,368
Acquisition of subsidiaries and a share of minority interest without obtained assets		–33,938	–1,220
Refund of subsequent payments in subsidiaries		185	3,185
Non-current loans		–25,384	–2,641
Proceeds from repayment of non-current loans		3,261	6,822
Acquisition of non-current investments		–89	–50
Proceeds from sale of non-current investments		47	60
Payments/Proceeds in connection with current investments and loans		–19,918	1,766
Payments in connection with derivative financial instruments		–4,987	–8
Proceeds from derivative financial instruments		102	5
Net cash used in investing activities		**–129,913**	**–55,920**
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		–3,293	–3,416
Repayment of non-current borrowings		–41,300	–37,036
Non-current borrowings		800	0
Acquisition/Repayment of current borrowings		28,057	–776
Dividends paid		–49,770	–46,902
Repurchase of treasury shares	21	–13,072	–20,835
Net cash used in financing activities		**–78,578**	**–108,965**
Net decrease/increase in cash and cash equivalents		**–1,275**	**14,109**
Cash and cash equivalents at beginning of year		15,023	1,547
Effect of exchange rate fluctuations on cash held		–379	–633
Net cash and cash equivalents at end of period		**13,369**	**15,023**

The accompanying notes are an integral part of the financial statements and should be read in conjunction with these.

NOTES TO THE FINANCIAL STATEMENTS

Krka, d. d., Novo mesto 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 and non-prescription products) and animal health products.

1. Basis for the preparation of financial statements

Statement of compliance

The financial statements of Krka have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB ("IFRIC"), as adopted by the European Union, and in compliance with the Companies Act.

At the date of the statement of financial position, due to the endorsement process of the EU, there is no difference in the policies applied by the Company between IFRS and IFRS adopted by the EU.

The financial statements were approved by the Company's Management Board on 18 February 2013.

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.

The use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the carrying amounts of assets and liabilities of the Company as well as the reported income and expenses for the period.

These include, among others: determination of the useful life and residual value of property, plant and equipment, as well as intangible assets; allowances made for inventories and receivables; assumptions material to the actuarial calculation of defined employee benefits; assumptions used in the calculation of potential provisions for disputes, as well as assumptions and estimates relating to impairment of goodwill and trademarks. Regardless of the fact that management duly considers all factors that may impact the preparation of these assumptions, the actual consequences of business events may differ from those estimates. In the process of making accounting estimates, management makes judgements while considering potential changes in the business environment, new business events, new and additional information that may be available, as well as experience.

Key estimates and assumptions as at the day of the statement of financial position that are associated with future operations and which could result in significant adjustment of the book values of assets and liabilities are presented below.

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

- Note 25 Measurement of defined benefit obligations

  Defined benefit obligations include the present value of termination benefits on retirement and anniversary bonuses. They are recognised on the basis of the actuarial calculation approved by the management. The actuarial calculation is made by using assumptions and estimates effective at the time of the calculation, and may, as a result of future changes, differ from actual assumptions applicable at that future time. This applies primarily to determination of the discount rate, assessment of employee turnover, mortality assessment, as well as assessment of the increase in salaries. Due to the complexity of the actuarial calculation and the long-term nature of the item, defined benefit obligations are sensitive to changes in the above estimates and assessments.

- Note 25 Provisions for lawsuits and contingent liabilities

  Several lawsuits and claims have been brought against individual companies in the Group for alleged breaches of patent rights or competition law. A provision is recognised when companies have present obligations (legal or constructive) as a result of past events, a reliable estimate can be made of the amount of obligation, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Potential obligations are not recognised in the financial statements as their actual existence will be confirmed only upon the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of these companies. The management of individual companies continually assess contingent liabilities to determine whether an outflow of resources embodying economic benefits has become probable. In this case, a provision is recognised in the financial statements of the period in which the change in probability occurs.

2. Significant accounting policies

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

The accounting policies and calculation methods used are consistent with those applied in the year ended 31 December 2011, except for the adoption of new standards and interpretations, which are noted below and which have been applied if relevant events occurred in Group companies in the reporting period.

Newly adopted standards and interpretations

The accounting policies used are consistent with those applied in the financial year ended 31 December 2011, except for the amended standard, which is noted below.

IFRS 7 – *Financial Instruments: Disclosures – Transfer of Financial Assets*

The amendments are effective for periods beginning on or after 1 July 2011 and were issued to improve the disclosure requirements relating to the transfer of financial assets. Amendments require disclosures for transfers of financial assets that are derecognised in their entirety, as well as those that are not, to enable the user of the financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. The amendment requires retrospective application. The amendment has no impact on the Company's financial statements.

The amendment has no impact on the Company's financial position or performance.

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. Hence, in the consolidated statement of financial position advances on fixed assets and inventories are included in property, plant and equipment and inventories respectively, instead of in receivables, and in the consolidated income statement, the reversal of receivable allowance is disclosed in other income (in previous years, it was included among financial income), whereas impairments and write-offs of receivables are presented in cost of sales or as an individual item included in costs by nature (in previous years, they were presented among financial expenses).

Foreign currencies

FOREIGN CURRENCY TRANSACTIONS

Transactions and balances in foreign currencies are translated to euro (the functional currency of the Company) at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated to euro at the exchange rate applicable on the reporting date. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are retranslated to euro at the exchange rate at the date that the fair value was determined. Foreign currency differences are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, 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 chapter "Financial income and 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 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.

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 treasury shares

When treasury shares recognised as a part of share equity are repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

Dividends

Dividends are recognised in the Company's consolidated financial statements 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 income" or "other expenses" in profit or loss.

As from 1 January 2009, costs of borrowings that may be directly attributable to the acquisition, construction or production of an asset under construction, are also part of the cost of an item of property, plant and equipment of the Group. If borrowings raised by the Company are earmarked and they cannot be attributed directly to the acquisition of an asset under construction, the pro-rata amount of costs is capitalised only when borrowings exceed 10% of the value of all investments of the accounting period. The pro-rata amount of costs is calculated using the capitalisation rate as the weighted average costs of borrowings that have not been settled in the accounting period. The pro-rata amount of costs increases the cost of significant assets under construction, i.e. assets that account for more than 10% of total investments in the period and the construction of which extends over a period of more than 6 months.

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

DEPRECIATION
Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land and assets being acquired are not depreciated.

The estimated useful lives are as follows:

- For buildings 15 to 60 years,
- For plant and equipment 2 to 20 years,
- For furniture 5 years,
- For computer equipment 4 to 6 years,
- 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 profit or loss as incurred.

OTHER INTANGIBLE ASSETS
Other intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses (see accounting policy "Impairment").

SUBSEQUENT EXPENDITURE
Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

AMORTISATION
Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are 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, which are usually connected with the sale.

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. Fixed price variances are determined in accordance with the current evaluating of inventories using production costs. 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 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.

Current employee benefits

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

Non-current employee benefits

PROVISIONS FOR RETIREMENT BENEFITS AND ANNIVERSARY BONUSES

Pursuant to the local legislation, the Company is liable to pay to its employees anniversary bonuses and termination benefits upon retirement. Provisions are formed for these obligations. 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 from sale of goods and services rendered

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. Revenues from services rendered are 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 revenues are 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 when the sale is made, including those granted for early payment.

Deferred revenue

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

Financial income and expenses

Financial income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and foreign exchange gains and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in the income statement on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Financial expenses comprise interest expense on borrowings, foreign exchange losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method, except those that are attributable to property, plant and equipment under construction.

Income tax expense

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

An operating 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 Group'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.

Amendments to standards and interpretations

STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The Company has not early adopted any standard or interpretation issued but not yet effective. The Company intends to adopt these standards, if applicable, when they become effective.

The following new and amended standards will be applied in future periods as required by IFRSs and the European Union:

IFRS 7 – *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (amended)*

The amendment is effective for annual periods beginning on or after 1 January 2013. The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied.

The Company estimates that, given the nature of operations and the type of its financial assets, the amendments to IFRS 7 will not have a significant impact on the financial statements.

IFRS 10 – *Consolidated Financial Statements*

This standard replaces the part of IAS 27 *Consolidated and Separate Financial Statements* which refers to consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation – Special Purpose Entities. The standard is applicable in the EU for periods beginning on or after 1 January 2014. IFRS 10 establishes a single control model that applies to all entities. This will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent. The standard also changes the definition of control.

The Company estimates that the amendments to IFRS 10 will not impact the financial statements.

IFRS 11 – *Joint Arrangements*

This standard replaces IAS 31 *Interest in Joint Ventures* and SIC 13 Jointly-controlled entities – non-monetary contributions by venturers. The new standard addresses only two forms of joint arrangements (joint operations and joint ventures), where there is joint control. IFRS 11 uses the principle of control in IFRS 10. In addition, IFRS 11 removes the option to account for jointly-controlled entities using proportionate consolidation, leaving only the option to use the equity method. The standard is effective in the EU for periods beginning on or after 1 January 2014.

The Company estimates that the amendments to IFRS 11 will not impact the financial statements.

IFRS 12 – *Disclosure of Interests in Other Entities*

This standard is effective in the EU for periods beginning on or after 1 January 2014 and includes disclosure requirements that were previously in IAS 27 *Consolidated and Separate Financial Statements* related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 28 *Investments in Associates* and IAS 31 *Interest in Joint Ventures*. A number of new disclosures are also required, especially regarding judgments made to determine whether an entity controls another entity.

The Company estimates that the amendments to IFRS 12 will not impact the financial statements.

IFRS 13 – *Fair Value Measurement*

The new standard is applicable for periods beginning on or after 1 January 2013. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRSs.

The Company will consider the amendments to IFRS 13; however, it estimates that the amendments will not significantly impact the financial statements.

IAS 1 – *Presentation of Financial Statements: Presentation of Items in Other Comprehensive Income*

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items which will never be reclassified. The amendments are effective for periods beginning on or after 1 July 2012.

The Company will consider the amendments to IAS 1; however, the amendments will not significantly impact the financial statements.

IAS 12 – *Deferred Tax (amended)*

The amendment is effective in the EU for annual periods beginning on or after 1 January 2013. This amendment concerns the determination of deferred tax on investment property measured at fair value. The aim of this amendment is to include a) a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and b) a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis.

The Company estimates that, given the nature of operations, the amendment to IAS 12 will not have a significant impact on the financial statements.

IAS 19 – *Employee Benefits (amended)*

In June 2011, the International Accounting Standards Board ("the IASB") issued numerous amendments to IAS 19. The key amendment refers to the removal of the corridor mechanism for recognising changes in the value of defined benefit plans. This means all changes in the value of defined benefit plans will be recognised as they occur depending on the type of change either in profit or loss or in other comprehensive income. The amendments are effective for periods beginning on or after 1 January 2013.

The Company will consider the amendment to IAS 19 and it estimates that it will impact the financial statements.

IAS 27 – *Separate Financial Statements*

This revised standard was issued in May 2011 as a result of the new standards IFRS 10, IFRS 11 and IFRS 12. IAS 27 contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The standard is effective in the EU for periods beginning on or after 1 January 2014.

The Company will consider the amendments to IAS 27; however, this will not significantly impact the financial statements.

IAS 28 – *Investments in Associates and Joint Ventures*

This revised standard was issued in May 2011 as a result of the new standards IFRS 10, IFRS 11 and IFRS 12. IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This revised standard is effective in the EU for periods beginning on or after 1 January 2014.

The Company will consider the amendments to IAS 28; however, the amendments will not impact the financial statements.

IAS 32 – *Financial Instruments: Presentation (amended) – Offsetting Financial Assets and Financial Liabilities*

The amendment is effective for annual periods beginning on or after 1 January 2014. This amendment clarifies the meaning of 'currently has a legally enforceable right to set-off' and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosures required by the IFRS 7 – *Offsetting Financial Assets and Financial Liabilities* amendments.

The Company estimates that, given the nature of operations and the type of its financial instruments, the amendment to IAS 32 will not have a significant impact on the financial statements.

In compliance with the requirements of IFRSs and subject to the endorsement by the European Union, the Company will have to apply in future periods the following amended and revised standards and interpretations:

IFRS 1 – *First-time Adoption of International Financial Reporting Standards: Government loans (Amendment)*

The amendment is effective for annual periods beginning on or after 1 January 2013. This amendment sets out how a first-time adopter would account for a government loan with a below-market rate of interest when they transition to IFRSs. This amendment provides the same relief to first-time adopters as is granted to existing preparers of IFRS financial statements when applying IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

The Company estimates that, given the nature of operations, the amendment to IFRS 1 will not have a significant impact on the financial statements.

IFRS 9 – *Financial Instruments*

The Standard replaces IAS 39. IFRS 9 *Financial Instruments* was published in November 2009 and contained requirements for financial assets. Requirements for financial liabilities were added to IFRS 9 in October 2010. Most of the requirements for financial liabilities were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities. In December 2011, the IASB amended IFRS 9 to require application for periods beginning on or after 1 January 2015 and to not require the restatement of comparative-period financial statements upon initial application.

Phase II of IFRS 9, relating to impairment, has been in the process of re-deliberations from January 2011. In September 2012, the IASB issued a review draft on general hedge accounting requirements (Phase III of IFRS 9) which will be added to IFRS 9 *Financial Instruments*.

The Company estimates that, given the nature of operations and the type of its financial instruments, the amendment will not have a significant impact on the financial statements.

TRANSITION GUIDANCE (AMENDMENTS TO IFRS 10, IFRS 11 AND IFRS 12)

The guidance is effective for annual periods beginning on or after 1 January 2013. The IASB issued amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application in IFRS 10 is defined as ‘the beginning of the annual reporting period in which IFRS 10 is applied for the first time’. The assessment of whether control exists is made at ‘the date of initial application’ rather than at the beginning of the comparative period. If the control assessment is different between IFRS 10 and IAS 27/SIC-12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons IASB has also amended IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* to provide transition relief.

The Company estimates that the amendments will not have a significant impact on the financial statements.

The Company will apply new standards and interpretations in accordance with their requirements, if endorsed by the EU.

IMPROVEMENTS TO IFRS

In May 2012, the IASB issued its annual improvements to IFRSs which included improvements of some of the existing standards. The effective date for the amendments is for annual periods beginning on or after 1 January 2012, but the amendments have not been endorsed yet by the EU.

IAS 1 – *Presentation of Financial Statements: Clarification of the requirements for comparative information*

The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information (this is generally the previous period information). If an entity chooses to voluntarily provide comparative information beyond the minimum required comparative period, it must include comparative information also in the related notes to the financial statements.

Also, the amendment requires entities to present a third balance sheet (the opening balance sheet) (a) when an entity changes its accounting policies; or (b) makes retrospective restatements or makes reclassifications which have a material effect on the balance sheet. In such cases the entity is not required to provide supporting notes for the opening balance sheet.

The Company will consider the proposed improvements provided that it decides to disclose additional comparative data.

IAS 16 – *Property, plant and equipment: Classification of servicing equipment*

The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

The Company estimates that the amendment or improvement of the standard will not have a significant impact on the financial statements.

IAS 32 – *Financial instruments: Presentation: Tax effect of distributions to holders of equity instruments*

The amendment requires entities to apply the requirements in IAS 12 Income taxes to any income tax arising from distributions to equity holders.

The Company estimates that, given the nature of operations, the amendment to IAS 32 will not have a significant impact on the financial statements.

IAS 34 – *Interim financial reporting: Interim financial reporting and segment information for total assets and liabilities*

This amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. It also ensures that interim disclosures are aligned with annual disclosures in IFRS 8 Operating segments.

The Company will consider the improvement, however this will not impact the financial statements.

The Company will apply the improvements to IFRS in accordance with their requirements, if endorsed by the EU.

3. Determination of fair value

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 securities

The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is determined by reference to their quoted closing bid price.

Trade and other receivables

The fair value of trade and other receivables is estimated at the present value of future cash flows discounted at the market rate of interest 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 information is given in Note 30 "Risks" of the financial statements.

Credit risk

The credit control procedure includes the credit rating of customers who on an annual basis purchase products from the Company worth EUR 100,000 and more; the control procedure includes also active monitoring of payments by customers. More than 400 customers are jointly included in the credit control system. The credit control system is used to monitor 87% of the value of Company's sales to non-Group customers.

On average, payment terms remained unchanged in 2012. Receivable turnover improved as compared to the previous year.

At the end of the year, 41% of trade receivables were secured with the credit insurance. A part of receivables are secured with bank guarantees and letters of credit.

The quality of trade receivables in terms of maturity structure and assessed customer risk are estimated to have remained unchanged on average. This is confirmed by results of regular credit ratings of customers as well as an unchanged portion of receivables secured with prime instruments.

Write-offs of trade receivables did not affect the result of the Company in 2012. Additional receivables allowances were formed due to delays in individual customer's payments.

A detailed overview of trade receivables is provided in Note 20.

Liquidity risk

Successful performance of Krka, growth financing with mainly own assets and a stable cash flow from operations continued to assure Krka's traditionally strong financial structure and one of the best solvency ratings among Slovenian companies, as well as favourable financing conditions.

The Company manages the liquidity risk on a centralised basis, including for its subsidiaries, assures an effective cash management, plans the needs for cash in Group companies and enables them sources of financing. This assures a clear and effective cash management and achieving the most favourable financing terms and conditions.

In 2012, several minor improvements in liquidity management area were implemented. In the area of payment transactions, the former electronic payment system was upgraded, which has decreased the risk of wide-spread attempts of e-banking abuse.

Due to good performance and low indebtedness the liquidity risk of the Company was low. The Company is known among business partners for being a partner with consistent payment discipline.

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 Romanian leu, the Polish zloty, the Croatian kuna, the Serbian dinar, the Swedish krona, the Czech koruna, the Hungarian forint, and the Ukrainian hryvnia.

The Company's statement of financial position shows a surplus of assets over liabilities in all the currencies mentioned, which is considered a long currency position. The key accounting categories that form the long currency position are trade receivables and operating liabilities.

The deterioration and broadening of the sovereign debt crisis from the Eurozone to emerging countries was in the first half of 2012 the key reason for major exchange rate volatility. Krka recorded exchange rate gains at the end of the first quarter as the Russian rouble and Polish zloty significantly gained against the euro in the first quarter of the year. However, the value of both these currencies depreciated in the second quarter and the negative trend from the beginning of the year continued also for the Romanian leu. As a result, the exchange rate gains from the first quarter were to a large extent neutralised.

Due to sovereign debt crisis measures in the second half of the year, the euro gained in value. Moreover, the volatility of key exchange rates used by Krka decreased. As a result of the strengthening of the Russian rouble and Polish zloty, at the end of the third quarter we again reported exchange rate gains. In the last quarter the impact of exchange rate fluctuation was neutralised and at year-end the Krka Group recorded exchange rate gains.

To reduce the impact of exchange rate fluctuation on the profit and loss of Krka, in the beginning of 2012 we hedged a portion of the open currency position in Russian rouble with ordinary future contracts. As a result of the appreciation of the Russian rouble, in the first quarter of the year we incurred losses from future contracts.

Interest rate risk

No new non-current borrowings were raised in 2012. As the annual instalments are regularly repaid, the long-term indebtedness of the Group dropped to the level where market interest rate changes no longer have a decisive impact on the Group's overall financial expense.

5. Segment reporting

The Company reports in terms of certain geographical segments. Revenues generated by individual segments are presented in terms of customers' geographical location.

Segment reporting

	European Union		South-East Europe		Eastern Europe		Other markets		Total	
EUR thousand	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Revenues	**614,423**	**609,762**	**94,196**	**82,143**	**295,612**	**242,698**	**31,049**	**23,050**	**1,035,280**	**957,653**
Revenues from reversal of provisions and other income	1,922	4,129	79	79	315	566	0	0	2,316	4,774
Operating expenses	–507,783	–467,920	–69,328	–65,382	–275,910	–229,937	–23,193	–21,038	–876,214	–784,277
Operating profit	**108,562**	**145,971**	**24,947**	**16,840**	**20,017**	**13,327**	**7,856**	**2,012**	**161,382**	**178,150**
Interest revenue	1,986	1,757	0	0	235	201	0	0	2,221	1,958
Interest expenses	–2,351	–3,200	0	0	–212	0	0	0	–2,563	–3,200
Net financial income/ expenses	**14,897**	**9,544**	**–46**	**–235**	**30**	**–5,988**	**–140**	**–1,097**	**14,741**	**2,224**
Income tax expense	–14,468	–24,566	–3,325	–2,834	–2,668	–2,243	–1,047	–339	–21,508	–29,982
Profit for the year	**108,991**	**130,949**	**21,576**	**13,771**	**17,379**	**5,096**	**6,669**	**576**	**154,615**	**150,392**
Investments	69,959	79,617	0	0	0	0	0	0	69,959	79,617
Depreciation of property, plant and equipment	45,943	47,910	3,656	2,459	13,583	9,609	392	487	63,574	60,465
Amortisation of intangible assets	3,584	3,788	549	510	1,724	1,508	181	143	6,038	5,949
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Total assets	**1,116,425**	**1,154,960**	**90,417**	**60,845**	**348,820**	**235,380**	**10,623**	**12,263**	**1,566,285**	**1,463,448**
Total liabilities	**237,212**	**205,393**	**20,264**	**27,684**	**61,221**	**82,159**	**15,373**	**7,727**	**334,070**	**322,963**

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

6. Revenues

EUR thousand	2012	2011
Revenues from the sale of products	931,842	859,151
Revenues from the sale of services	1,588	5,637
Revenues from the sale of material and merchandise	101,773	92,785
Other revenues	77	80
Total revenues	**1,035,280**	**957,653**

7. Other income

EUR thousand	2012	2011
Reversal of deferred revenue	708	770
Gain on sale of property, plant and equipment and intangible assets	427	219
Collected written-off receivables	46	1,958
Other income	1,135	1,827
Total other income	**2,316**	**4,774**

8. Costs by nature

EUR thousand	2012	2011
Cost of goods and material	290,493	273,672
Cost of services	297,064	269,358
Employee benefit cost	178,045	164,555
Depreciation and amortisation expense	69,612	66,414
Inventory write-off and allowances	6,704	7,474
Receivables impairments and write-offs	4,353	4,106
Other operating expenses	28,357	17,085
Total costs	**874,628**	**802,664**
Change in the value of inventories	1,586	–18,387
Total	**876,214**	**784,277**

9. Employee benefits cost

EUR thousand	2012	2011
Gross wages and salaries and continued pay	139,174	131,045
Social security contributions	10,400	9,727
Pension insurance contributions	17,634	16,635
Retirement benefits and anniversary bonuses	3,233	–583
Other employee benefits cost	7,604	7,731
Total employee benefits cost	**178,045**	**164,555**

The item of retirement benefits and anniversary bonuses refers to the reversal of related provisions as explained in Note 25.

Other employee benefits cost primarily includes the vacation bonus and commuting allowances.

Compulsory pension and disability insurance (comprising both the employee's and the employer's contribution) payable in 2012 amounted to EUR 33,749 thousand (2011: EUR 31,476 thousand). Additional pension insurance amounted to EUR 4,873 thousand (2011: EUR 4,703 thousand).

10. Other expenses

EUR thousand	2012	2011
Grants and assistance for humanitarian and other purposes	1,641	1,419
Environmental levies	2,207	2,035
Other taxes and levies	20,907	9,161
Loss on the sale of property, plant and equipment and intangible assets and write-offs	724	2,548
Other costs	2,878	1,922
Total other expenses	**28,357**	**17,085**

11. Financial income and expenses

EUR thousand	2012	2011
Net foreign exchange gain	5,344	0
Interest income	2,221	1,958
Change in fair value of investments through profit or loss	78	0
Derivatives income	102	5
– income	102	5
Income from dividends and other shares of the profit	14,686	12,083
– dividends	17	105
– profits of Group companies	14,669	11,978
Total financial income	**22,431**	**14,046**
Net foreign exchange differences	0	8,363
Interest expense	–2,563	–3,200
Change in fair value of investments through profit or loss	–3	–155
Derivatives expenses	–4,987	–8
– expenses	–4,987	–8
Other expenses	–137	–96
Total financial expenses	**–7,690**	**–11,822**
Net financial result	**14,741**	**2,224**

12. Income tax expense

Adjustment to effective tax rate

EUR thousand	2012	2011
Income tax	19,918	29,397
Deferred tax	1,590	585
Total income tax	**21,508**	**29,982**
Profit before tax	176,123	180,374
Income tax calculated using the 18% tax rate (2011: 20%)	31,702	36,075
Tax exempt expenses	1,764	1,919
Tax incentives	–11,349	–5,716
Revenues decreasing the tax base	–2,467	–2,296
Effect of changed tax rate on deferred taxes	1,858	0
Total income tax expenses	**21,508**	**29,982**
Effective tax rate	**12.2%**	**16.6%**

Investments in research and development and in property, plant and equipment account for the major portion of tax incentives.

For the next three years, the tax rate will decrease by one percentage point annually, dropping to 15% in 2015.

13. Property, plant and equipment

EUR thousand	31 Dec 2012	31 Dec 2011
Property	19,020	18,579
Plant	218,714	229,580
Equipment	235,022	252,874
Property, plant and equipment under construction	46,463	23,499
Total property, plant and equipment	**519,219**	**524,532**

The Company's largest investment in 2012, in the amount of EUR 11,410 thousand refers to the construction of the Plant for the production of solid pharmaceutical forms (2011: EUR 21,712 thousand). EUR 10,572 thousand was invested in the construction of the Notol 2 plant (2011: EUR 1,709 thousand), EUR 8,928 thousand in the increase of the sterile product production plant (2011: EUR 3,808 thousand), EUR 4,309 thousand in the construction of the Sinteza 1 plant for the production of active substances in Krško (2011: EUR 2,221 thousand), EUR 1,668 thousand in the replacement of a scrubber and noise reduction in the Notol plant (this is a new project, therefore no figures are available for 2011) and EUR 3,469 thousand in the construction of the Research and control centre (2011: EUR 11,238 thousand).

EUR 3,486 thousand were earmarked for information technology and telecommunications projects (2011: EUR 4,774 thousand) and EUR 2,202 thousand for infrastructural projects and acquisitions of property (2011: EUR 2,706 thousand).

Movement of property, plant and equipment (PPE)

EUR thousand	Property	Plant	Equipment	PPE under construction	Total
Cost of purchase					
Balance at 1 Jan 2011	**17,283**	**370,821**	**537,187**	**72,958**	**998,249**
Additions	0	0	0	73,369	73,369
Capitalisation – transfer from PPE under construction	1,296	45,963	75,569	–122,828	0
Disposals	0	–4,264	–15,500	0	–19,764
Transfers from intangible assets	0	0	199	0	199
Balance at 31 Dec 2011	**18,579**	**412,520**	**597,455**	**23,499**	**1,052,053**
Balance at 1 Jan 2012	**18,579**	**412,520**	**597,455**	**23,499**	**1,052,053**
Additions	0	0	0	63,619	63,619
Capitalisation – transfer from PPE under construction	441	6,478	33,736	–40,655	0
Disposals, deficit, surplus	0	–959	–12,697	0	–13,656
Transfers within PPE	0	63	–63	0	0
Balance at 31 Dec 2012	**19,020**	**418,102**	**618,431**	**46,463**	**1,102,016**
Accumulated depreciation					
Balance at 1 Jan 2011	**0**	**–169,486**	**–313,441**	**0**	**–482,927**
Depreciation	0	–16,534	–43,931	0	–60,465
Disposals, deficit, surplus	0	3,080	12,970	0	16,050
Transfers from intangible assets	0	0	–179	0	–179
Balance at 31 Dec 2011	**0**	**–182,940**	**–344,581**	**0**	**–527,521**
Balance at 1 Jan 2012	**0**	**–182,940**	**–344,581**	**0**	**–527,521**
Depreciation	0	–16,905	–46,669	0	–63,574
Disposals, deficit, surplus	0	520	7,778	0	8,298
Transfers within PPE	0	–63	63	0	0
Balance at 31 Dec 2012	**0**	**–199,388**	**–383,409**	**0**	**–582,797**
Carrying amount					
Balance at 1 Jan 2011	**17,283**	**201,335**	**223,746**	**72,958**	**515,322**
Balance at 31 Dec 2011	**18,579**	**229,580**	**252,874**	**23,499**	**524,532**
Balance at 1 Jan 2012	**18,579**	**229,580**	**252,874**	**23,499**	**524,532**
Balance at 31 Dec 2012	**19,020**	**218,714**	**235,022**	**46,463**	**519,219**

Based on the contracts that had been signed in connection with the on-going investments, at 2012 year-end EUR 88,712 thousand relates to future liabilities resulting from acquisition of property, plant and equipment (2011: EUR 28,009 thousand).

No borrowing costs refer to the item of property, plant and equipment in 2012.

The carrying amount of items of property, plant and equipment, which are temporarily not used, amounted to EUR 1,365 thousand as at 31 December 2012.

51% of total property, plant and equipment, which were used as at 31 December 2012, were written off completely.

14. Intangible assets

EUR thousand	31 Dec 2012	31 Dec 2011
Concessions, patents, licenses and similar rights	25,671	26,182
Intangible assets under construction	4,237	3,472
Total intangible assets	**29,908**	**29,654**

Intangible assets refer to software and registration documentation for new pharmaceuticals.

Movement of intangible assets (IA)

EUR thousand	Concessions, patents, licenses and similar rights	IA under construction	Total
Cost of purchase			
Balance at 1 Jan 2011	**59,817**	**4,377**	**64,194**
Additions	0	6,248	6,248
Transfer from assets under construction	7,153	–7,153	0
Disposals	–965	0	–965
Transfer within intangible assets	–199	0	–199
Balance at 31 Dec 2011	**65,806**	**3,472**	**69,278**
Balance at 1 Jan 2012	**65,806**	**3,472**	**69,278**
Additions	0	6,340	6,340
Transfers from assets under construction	5,575	–5,575	0
Disposals	–200	0	–200
Balance at 31 Dec 2012	**71,181**	**4,237**	**75,418**
Accumulated amortisation			
Balance at 1 Jan 2011	**–34,442**	**0**	**–34,442**
Amortisation	–5,949	0	–5,949
Disposals	588	0	588
Transfer to PPE	179	0	179
Balance at 31 Dec 2011	**–39,624**	**0**	**–39,624**
Balance at 1 Jan 2012	**–39,624**	**0**	**–39,624**
Amortisation	–6,038	0	–6,038
Disposals	152	0	152
Balance at 31 Dec 2012	**–45,510**	**0**	**–45,510**
Carrying amount			
Balance at 1 Jan 2011	**25,375**	**4,377**	**29,752**
Balance at 31 Dec 2011	**26,182**	**3,472**	**29,654**
Balance at 1 Jan 2012	**26,182**	**3,472**	**29,654**
Balance at 31 Dec 2012	**25,671**	**4,237**	**29,908**

26% of total intangible assets in use as at 31 December 2012 were written off completely.

15. Investments in subsidiaries

Movement of investments in subsidiaries 2012

EUR thousand	Investments in subsidiaries
Cost at 1 Jan 2012	**225,444**
Establishment of new companies	82
Subsequent payments	3,017
Share capital increase	31,097
Refund of subsequent payments	–185
Balance at 31 Dec 2012	**259,455**
Carrying amount at 1 Jan 2012	**225,444**
Carrying amount at 31 Dec 2012	**259,455**

Movement of investments in subsidiaries 2011

EUR thousand	Investments in subsidiaries
Cost at 1 Jan 2011	**227,409**
Establishment of new companies	1,220
Refund of subsequent payments	–3,185
Balance at 31 Dec 2011	**225,444**
Carrying amount at 1 Jan 2011	**227,409**
Carrying amount at 31 Dec 2011	**225,444**

Interests in subsidiaries

EUR thousand	Share in equity	Share capital	Value of share – carrying amount	
	31 Dec 2012	31 Dec 2012	31 Dec 2012	31 Dec 2011
TERME KRKA, d. o. o., Novo mesto	100%	14,753	45,407	45,407
Farma GRS, d. o. o., Novo mesto	99.7%	1,003	1,000	1,000
KRKA-FARMA, d.o.o., Zagreb, Croatia	100%	18,925	19,738	19,738
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	8	10	10
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	1	1,279	1,279
KRKA-FARMA DOOEL Skopje, Skopje, Macedonia	100%	798	802	802
KRKA FARMA d.o.o., Sarajevo, Sarajevo, Bosnia and Herzegovina	100%	10	10	10
KRKA-RUS LLC, Istra, Russian Federation	100%	49,874	64,116	33,019
KRKA FARMA LLC, Sergiev Posad, Russian Federation	100%	96	492	492
KRKA UKRAINE LLC, Kiev, Ukraine	100%	9	9	9
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	100%	10	11	0
KRKA - POLSKA, Sp. z o.o., Warsaw, Poland	100%	4,293	18,697	18,697
KRKA ČR, s. r. o., Prague, Czech Republic	100%	4	1,403	1,403
KRKA Magyarország Kft., Budapest, Hungary	100%	154	918	1,103
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10	610	610
UAB KRKA Lietuva, Vilnius, Lithuania	100%	10	10	10
SIA KRKA Latvija, Riga, Latvia	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, Wien, Vienna, Austria	100%	37	2,344	2,344
KRKA France Eurl, Paris, France	100%	10	1,162	10
KRKA Belgium, SA, Brussels, Belgium	95%	71	71	0
KRKA FARMACEUTICI MILANO S.R.L., Milan, Italy	100%	10	805	10
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10	2,266	2,266
KRKA FARMACÉUTICA, S.L., Madrid, Spain	100%	10	1,260	190
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1	1	1
KRKA USA LLC, Wilmington, USA	100%	8	8	8
Total			**259,455**	**225,444**

16. Loans

EUR thousand	31 Dec 2012	31 Dec 2011
Non-current loans	**32,837**	**9,571**
– loans to subsidiaries	27,744	5,064
– loans to others	5,093	4,507
Current loans	**65,305**	**46,209**
– portion of non-current loans maturing next year	1,307	2,363
– loans to subsidiaries	53,550	43,596
– loans to others	10,043	87
– current interest receivable	405	163
Total loans	**98,142**	**55,780**

Non-current loans to other entities comprise non-current 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 2012, the interest rate ranged between 1.263% and 2.740%. The maximum repayment period is 15 years.

Loans granted to subsidiaries including related current interest receivable

EUR thousand	31 Dec 2012	31 Dec 2011
Non-current loans to subsidiaries	**27,931**	**5,108**
KRKA ROMANIA S.R.L., Bucharest, Romania	1,968	2,449
KRKA FARMA LLC, Sergiev Posad, Russian Federation	22,479	590
UAB KRKA Lietuva, Vilnius, Lithuania	829	829
KRKA UKRAINE LLC, Kiev, Ukraine	1,509	1,240
LLC “KRKA Kazakhstan”, Almaty, Kazakhstan	846	0
SIA KRKA Latvija, Riga, Latvia	300	0
Current loans to subsidiaries	**54,209**	**45,309**
TERME KRKA, d. o. o., Novo mesto	41,924	43,710
KRKA FARMA LLC, Sergiev Posad, Russian Federation	0	1,599
Farma GRS, d. o. o., Novo mesto	11,803	0
GRS TEHFARMA, d. o. o., Novo mesto	2	0
KRKA ROMANIA S.R.L., Bucharest, Romania	480	0
Total loans to subsidiaries	**82,140**	**50,417**

17. Investments

EUR thousand	31 Dec 2012	31 Dec 2011
Non-current investments	**4,891**	**4,735**
– available-for-sale financial assets	4,891	4,735
Current investments including derivatives	**679**	**602**
– shares and interests held for trading	103	68
– derivatives	0	0
– other current investments	576	534
Total investments	**5,570**	**5,337**

EUR 654 thousand of available-for-sale financial assets refer to investments in shares and interests in companies in Slovenia (2011: EUR 512 thousand) and EUR 4,237 thousand to investments in shares of companies abroad (2011: EUR 4,223 thousand).

Other current investments refer to Slovenian mutual funds in the amount of EUR 302 thousand (2011: EUR 276 thousand) and assets under management in the amount of EUR 274 thousand (2011: EUR 258 thousand).

Movement in available-for-sale financial assets

EUR thousand	Available-for-sale financial assets
Balance at 1 January 2011	**5,029**
Purchase	89
Disposal	0
Adjustment to market value	–383
Balance at 31 Dec 2011	**4,735**
Balance at 1 Jan 2012	**4,735**
Purchase	50
Disposal	0
Adjustment to market value	106
Balance at 31 Dec 2012	**4,891**

Adjustments of non-current investments – available-for-sale financial assets – to the market value or fair value are recognised in the comprehensive income in the amount of EUR 106 thousand (2011: EUR –281 thousand). In 2012, adjustments were not recognised through the profit or loss (2011: EUR –102 thousand).

18. Deferred tax assets and liabilities

EUR thousand	Assets		Liabilities		Assets – liabilities	
	2012	2011	2012	2011	2012	2011
Available-for-sale financial assets	187	20	367	386	–180	–366
Receivables	1,679	1,230	0	0	1,679	1,230
Provisions for lawsuits	8,820	9,800	0	0	8,820	9,800
Provisions for retirement benefits	6,301	7,527	0	0	6,301	7,527
Total	**16,987**	**18,577**	**367**	**386**	**16,620**	**18,191**

EUR thousand	Balance at 1 Jan 2011	Recognised in profit or loss	Recognised in comprehensive income	Balance at 31 Dec 2011	Recognised in profit or loss	Recognised in comprehensive income	Balance at 31 Dec 2012
Available-for-sale financial assets	**–442**	20	56	**–366**	167	19	**–180**
Receivables	**1,010**	220	0	**1,230**	449	0	**1,679**
Provisions for lawsuits	**9,800**	0	0	**9,800**	–980	0	**8,820**
Provisions for retirement benefits	**8,352**	–825	0	**7,527**	–1,226	0	**6,301**
Total	**18,720**	**–585**	**56**	**18,191**	**–1,590**	**19**	**16,620**

19. Inventories

EUR thousand	31 Dec 2012	31 Dec 2011
Material	88,138	83,058
Work in progress	45,085	44,809
Products	50,650	57,770
Merchandise	6,399	7,662
Inventory advances	283	2
Total inventories	**190,555**	**193,301**

The write-down of inventories to net realisable value amounted to EUR 234 thousand EUR (2011: EUR 271 thousand), whereas write-offs of inventory totalled EUR 6,470 thousand (2011: EUR 7,203 thousand).

20. Trade and other receivables

EUR thousand	31 Dec 2012	31 Dec 2011
Current receivables due from subsidiaries	226,858	205,637
Current receivables due from customers other than Group companies	185,998	169,746
Current receivables relating to dividends of subsidiaries	1,008	0
Other current receivables	19,071	20,262
Total receivables	**432,935**	**395,645**

Current receivables due from subsidiaries

EUR thousand	31 Dec 2012	31 Dec 2011
KRKA-FARMA, d.o.o., Zagreb, Croatia	24,966	16,398
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	11,412	8,464
KRKA-FARMA DOOEL Skopje, Skopje, Macedonia	6,584	5,408
KRKA-RUS LLC, Istra, Russian Federation	95,502	59,090
KRKA FARMA LLC, Sergiev Posad, Russian Federation	53,780	83,779
KRKA UKRAINE LLC, Kiev, Ukraine	1,483	1,446
KRKA - POLSKA, Sp. z o.o., Warsaw, Poland	9,787	15,181
TAD Pharma Gmbh, Cuxhaven, Germany	11,662	12,067
Krka Sverige AB, Stockholm, Sweden	6,154	2,346
KRKA Pharma GmbH, Wien, Vienna, Austria	1,415	842
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	1,064	427
KRKA FARMACEUTICI MILANO S.R.L., Milan, Italy	931	0
KRKA FARMACÉUTICA, S.L., Madrid, Spain	867	0
KRKA France Eurl, Paris, France	700	0
Receivables due from other Group companies	551	189
Total current receivables due from subsidiaries	**226,858**	**205,637**

Current trade receivables due from customers other than Group companies

EUR thousand	Gross value	Allowances for doubtful and disputable receivables	Net value at 31 Dec 2012	Net value at 31 Dec 2011
Domestic customers (other than Group companies)	11,099	157	10,942	11,004
Foreign customers (other than Group companies)	188,181	13,125	175,056	158,742
Total trade receivables	**199,280**	**13,282**	**185,998**	**169,746**

The receivable write-offs and allowances for receivables that are disclosed among financial expenses amounted to EUR 4,353 thousand in 2012 (2011: EUR 4,106 thousand).

41% of trade receivables due from customers other than Group Companies) were secured with the SID – Prva kreditna zavarovalnica, d. d. (2011: 39%).

Other current receivables

Other current receivables in the total amount of EUR 19,119 thousand refer mostly to receivables due by the state arising from corporate income tax (EUR 7,152 thousand) and VAT (EUR 6,337 thousand).

The Company recorded EUR 870 thousand of advances for services (2011: EUR 336 thousand).

21. Cash and cash equivalents

EUR thousand	31 Dec 2012	31 Dec 2011
Cash in hand	7	8
Bank balances	13,362	15,015
Total cash and cash equivalents	**13,369**	**15,023**

The Company concluded contracts with three different banks on the authorised overdraft limit on bank accounts in the total amount of EUR 2,000 thousand, the same as in 2011.

No negative balances were recorded on these bank accounts, hence no overdraft limits were used.

22. Equity

Share capital

Share capital of the Company consists of 35,426,120 ordinary registered no-par value shares. There is only one class of shares, whereas the first and only issue of shares was carried out in 1995. The share capital was fully paid.

Treasury shares

As at 31 December 2012, the Company recorded 2,304,314 treasury shares, which accounts for 6.50% of the share capital value.

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 treasury shares, with the proviso that the combined share of all treasury shares acquired and already held, could not exceed 10% of share capital or 3,542,612 of shares. Based on this authorisation, the Company was allowed to acquire treasury shares on the regulated market at respective market prices. The Company was also allowed to acquire shares outside regulated market. When purchasing treasury shares on regulated market or non-regulated market, the purchase price was not allowed to be lower than the book value based on the last published audited financial statements of the Krka Group. Also, the purchase price was not allowed to exceed 30-fold the earnings per share held by the majority stakeholders as stated in the last published audited financial statements of the Krka Group.

At the 16th Annual Meeting held on 7 July 2011, the shareholders revoked the authorisation that had been adopted at the 14th Annual Meeting of Shareholders of the Company and adopted a new resolution. According to the new resolution, the Company may acquire treasury shares on the regulated market at respective market prices. The Company may acquire treasury shares also outside the regulated market. When purchasing treasury shares on the regulated 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 published audited financial statements of the Krka Group.

Treasury shares acquired on the basis of this authorisation as well as previous authorisations from the General Meetings of the Company held on 5 November 1997 and 2 July 2009, may be disposed of in the following way:

- To be exchanged for equity-stakes in other companies, based on its M&A strategy,
- To be sold to a strategic partner,
- To be used for listing of Krka shares on stock exchange markets outside the Republic of Slovenia.

Repurchase of treasury shares in 2012

EUR thousand	Number of shares	Average share price (in EUR)	Value of shares (in EUR thousand)
Balance at 31 Dec 2011	**2,024,358**		**42,584**
Total repurchase of shares in 2012	279,956	46.69	13,072
Balance at 31 Dec 2012	**2,304,314**		**55,656**

The repurchases of treasury shares in 2012 refer to repurchases that were recorded in books of accounts in 2012. Due to the delay in recording, the number of shares differs from the actual repurchased number of shares in 2012, which was announced by the Company on the Ljubljana Stock Exchange website.

The 2012 repurchase of treasury shares in terms of days is illustrated within Enclosure 1 to the Financial Statements of the Krka Group and Krka, d. d., Novo mesto.

Reserves

The Company's reserves comprise reserves for treasury shares, the share premium, legal and statutory reserves and fair value reserves.

Reserves for treasury shares amounted to EUR 55,656 thousand as at the reporting date and increased by EUR 13,072 thousand based on their formation as a result of additional purchase of treasury shares.

The share premium is to be used under the terms and purposes as defined by the applicable act. The share premium was recorded at EUR 101,503 as at 31 December 2012 and consists of the general equity revaluation adjustment (EUR 90,659 thousand) that was included among share premium during the transfer to IFRS, and the share premium (EUR 10,844 thousand) formed pursuant to a special regulation applicable in the ownership transformation of the controlling company. The amount may be used solely for the purpose of increasing share capital. No movements in share premium were recorded in 2012.

Legal reserves are to be formed up to 30% of the share capital. They amounted to EUR 14,990 thousand as at 31 December 2012 and remained unchanged over the previous period.

Statutory reserves amounted to EUR 30,000 thousand as at reporting date and remained unchanged over the previous period. Statutory reserves are formed by the Company up to the amount of EUR 30,000 thousand. Statutory reserves can be used for loss coverage, formation of reserves for treasury shares, for decreasing share capital by share withdrawal, and for regulating the dividend policy.

The fair value reserve includes the cumulative change in the fair value of available-for-sale financial assets. Compared to the previous period the fair value reserve increased by EUR 125 thousand and amounted to EUR 1,667 thousand as at 31 December 2012. The total change results from a decrease in the fair value of available-for-sale investments (by EUR 106 thousand) and an increase of EUR 19 thousand referring to the related deferred tax effect.

Retained earnings

Retained earnings grew based on the profit in the amount of EUR 154,663 thousand. The decrease, on the other hand, is a result of allocation of accumulated profit to dividend payout (EUR 49,938 thousand) in accordance with the resolution adopted by the 17th Annual Meeting held on 5 July 2012, and of an additional formation of reserves for treasury shares formed for the related purchase by the Company in 2012 (EUR 13,072 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 166 thousand (2011: EUR 98 thousand).

Dividends per share

In 2012, the declared gross dividend per share was EUR 1.50 (2011: EUR 1.40).

Distributable profit

EUR thousand	2012	2011
Compulsory appropriation of profit		
Profit for the year	**154,615**	**150,392**
– to cover the loss from previous periods	0	0
– allocation to legal reserves	0	0
– allocation to reserves for treasury shares	–13,072	–20,835
– allocation to statutory reserves	0	–2,816
Profit after compulsory appropriation	**141,543**	**126,741**
– formation of other income reserves pursuant to a decision adopted by the Management and Supervisory Boards	–25,000	–15,000
Surplus of profit	**116,543**	**111,741**
Identification of distributable profit		
– surplus of profit	116,543	111,741
– retained earnings from previous periods	61,388	60,972
Distributable profit	**177,931**	**172,713**

23. Earnings per share

Basic earnings per share amounted to EUR 4.65 EUR in 2012 and grew by 3.8% over the previous year, when it amounted to EUR 4.48. The calculation of earnings per share took account of the profit for the year in the amount of EUR 154,615 thousand (2011: EUR 150,392 thousand). The weighted average number of shares was accounted for in the calculation for both years, i.e. 33,285,030 shares for 2012 and 33,582,965 shares for 2011. Treasury 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

EUR thousand	31 Dec 2012	31 Dec 2011
Non-current borrowings	**13,700**	**25,500**
– borrowings from subsidiaries	800	0
– borrowings from domestic banks	12,900	25,500
Current borrowings	**58,917**	**60,556**
– portion of non-current borrowings maturing next year	12,600	41,300
– borrowings from subsidiaries	45,463	17,798
– borrowings from other entities	375	386
– current interest payable	479	1,072
Total borrowings	**72,617**	**86,056**

Non-current borrowings

EUR thousand	Currency	Maturity	Carrying amount	
			31 Dec 2012	31 Dec 2011
Borrowing from domestic bank	EUR	2012	0	5,000
Borrowing from domestic bank	EUR	2012	0	23,700
Borrowing from domestic bank	EUR	2014	13,500	20,100
Borrowing from domestic bank	EUR	2014	12,000	18,000
Total non-current borrowings			**25,500**	**66,800**

No new non-current borrowings were raised in 2012.

Non-current borrowings obtained from banks are neither secured by mortgages nor by bank guarantees.

Current borrowings are denominated in euro and were extended for the period of one year. These borrowings were not secured.

Borrowings from subsidiaries, including short-term interest payables

EUR thousand	31 Dec 2012	31 Dec 2011
Non-current borrowings from subsidiaries	**800**	**0**
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	800	0
Current borrowings from subsidiaries	**45,563**	**17,871**
TERME KRKA, d. o. o., Novo mesto	103	94
Farma GRS, d. o. o., Novo mesto	0	2,743
TAD Pharma GmbH, Cuxhaven, Germany	45,099	15,034
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	361	0
Total borrowings from subsidiaries	**46,363**	**17,871**

25. Provisions

EUR thousand	Balance at 31 Dec 2011	Formation	Utilisation	Balance at 31 Dec 2012
Provisions for retirement benefits and anniversary bonuses	48,505	3,233	–4,247	47,491
Provisions for lawsuits	49,000	0	0	49,000
Total provisions	**97,505**	**3,233**	**–4,247**	**96,491**

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. The provision (EUR 47,500 thousand) formed for potential liabilities related to proceedings by the European Commission against the Company and its subsidiaries regarding the alleged violation of the competition law in the sale of the pharmaceutical perindopril to EU markets constitutes a majority part of provisions for lawsuits totalling EUR 49,000 thousand, whereas the provision in the amount of EUR 1,500 thousand was set aside for the clopidogrel patent infringement case brought by Sanofi Aventis from France. External advisors for disputes referring to intellectual property are engaged for defining the anticipated amounts. Furthermore, the management each year verifies the calculated amount of provisions for each individual claim that is not yet closed. In addition to the above-mentioned lawsuits, there are nine other intellectual property related lawsuits against the Company in the total amount of EUR 29,900 thousand, and six lawsuits from other areas (labour, civil disputes) in the total amount of EUR 420 thousand.

Provisions for lawsuits remained unchanged in 2012.

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 5.42% in the reporting period referring to the harmonised 10-term Slovenian government bond (Source: ECB). In the year 2011 discount rate of 5.75% was used;
- Currently applicable amounts of retirement benefits and anniversary bonuses as defined by internal acts;
- Employee turnover depending in particular upon the employees' age;
- Mortality rates calculated on the basis of last mortality tables available;
- Increase in wages by 2.55% (2011: 3.00%).

The estimates and the assumptions that have been applied reflect 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 were recognised as increase in labour cost in the amount of EUR 3,233 thousand (see Note 9).

26. Deferred revenue

EUR thousand	Balance at 31 Dec 2011	New deferred revenue received	Reversal of deferred revenue	Balance at 31 Dec 2012
Grants received for the Beta production plant in Šentjernej	81	0	–44	37
Grants by the European Regional Development Fund	21	0	–4	17
Grants by the European Fund – development of new technologies (FBD project)	828	0	–97	731
Property, plant and equipment received for free	579	0	–14	565
Emission coupons	7	21	–6	22
Other deferred revenue	1,923	0	–543	1,380
Total other deferred revenue	**3,439**	**21**	**–708**	**2,752**

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

The 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

EUR thousand	31 Dec 2012	31 Dec 2011
Payables to subsidiaries	41,571	26,973
Payables to domestic suppliers	32,479	32,469
Payables to foreign suppliers	42,710	35,355
Payables from advances	1,736	753
Total trade payables	**118,496**	**95,550**

Payables to subsidiaries

EUR thousand	31 Dec 2012	31 Dec 2011
TERME KRKA, d. o. o., Novo mesto	78	109
Farma GRS, d. o. o., Novo mesto	1,590	589
GRS TEHFARMA, d. o. o, Novo mesto	12	0
GRS VIZFARMA, d. o. o, Novo mesto.	9	0
KRKA-FARMA, d.o.o., Zagreb, Croatia	3,174	2,060
KRKA ROMANIA S.R.L., Bucharest, Romania	4,046	4,181
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	464	504
KRKA-FARMA DOOEL Skopje, Skopje, Macedonia	365	283
KRKA FARMA d.o.o., Sarajevo, Sarajevo, Bosnia and Herzegovina	18	12
KRKA FARMA LLC, Sergiev Posad, Russian Federation	8,960	64
KRKA-RUS LLC, Istra, Russian Federation	54	0
KRKA UKRAINE LLC, Kiev, Ukraine	2,950	1,828
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	313	0
KRKA – POLSKA, Sp. z o.o., Warsaw, Poland	9,117	6,538
KRKA Magyarország Kft., Budapest, Hungary	1,939	1,324
KRKA ČR, s. r. o., Prague, Czech Republic	3,475	2,689
KRKA Slovensko, s.r.o., Bratislava, Slovakia	1,547	1,069
UAB KRKA Lietuva, Vilnius, Lithuania	843	738
TAD Pharma Gmbh, Cuxhaven, Germany	2,039	4,445
Krka Sverige AB, Stockholm, Sweden	10	18
KRKA Pharma GmbH, Wien, Vienna, Austria	268	133
KRKA USA LLC, Wilmington, USA	2	3
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	39	295
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	50	91
KRKA FARMACÉUTICA, S.L., Madrid, Spain	4	0
KRKA FARMACEUTICI MILANO S.R.L., Milan, Italy	33	0
KRKA France Eurl, Paris, France	172	0
Total payables to subsidiaries	**41,571**	**26,973**

28. Other current liabilities

EUR thousand	31 Dec 2012	31 Dec 2011
Accrued contractual discounts on products sold to other customers	12,373	11,543
Payables relating to unpaid equity of subsidiaries	258	0
Payables to employees – gross wages, other receipts and charges	25,612	23,903
Other	5,104	4,581
Total other current liabilities	**43,347**	**40,027**

29. Contingent liabilities

EUR thousand	31 Dec 2012	31 Dec 2011
Guarantees issued	19,273	14,896
Other	620	620
Total contingent liabilities	**19,893**	**15,516**

Major items of guarantees issued include a contract bond issued on behalf of subsidiary Farma GRS in the amount of EUR 5,300 thousand, counter guarantee for due payment of potential liabilities from issued customs guarantee of EUR 4,000 thousand in Belarus, guarantee for receivables of TAD Pharma in the amount of EUR 3,000 thousand and guarantee issued to the Customs Administration of the Republic of Slovenia in the amount of EUR 2,000 thousand.

An action by the European Commission against the Company were in progress, for which the Company in the year 2009 set-aside long-term provisions in the amount of EUR 47,500 thousand. In addition to this, ten other lawsuits related with intellectual property and six lawsuits from other areas (labour, civil disputes) were brought against the Company in the total amount of EUR 35,000 thousand. Based on its familiarisation with the content of disputes and based on legal opinion of external experts, the Management of the Company assessed that the amount of potential liabilities relating to disputes and lawsuits would be EUR 1,500 thousand for which it formed long-term provisions.

The item 'Other' includes the affected property in Serbia in the amount of EUR 620 thousand.

30. Risks

Long-term stability of the Company's performance is managed by means of active risk management policies as presented in detail under Note 4. Due to the extensive scope of international import and export business, the Company is primarily exposed to foreign exchange and interest rate risks, as well as to credit risks. In 2012, the Company hedged a part of the open foreign exchange position in Russian rouble with futures contracts.

Credit risk

CREDIT RISK EXPOSURE

The carrying amount of financial assets represents the biggest exposure to credit risk. As at the reporting date, the balances were as follows:

EUR thousand	Notes	31 Dec 2012	31 Dec 2011
Loans	16	98,142	55,780
Investments	17	5,570	5,337
Receivables less receivables due by state and advances given	20	416,039	377,582
– thereof trade receivables (including subsidiaries)		412,856	375,383
Cash and cash equivalents	21	13,369	15,023
Total		**533,120**	**453,722**

As for the financial assets exposed to credit risk, the loans and receivables were the major items. Their maximum exposure to credit risk is shown in terms of geographic regions:

EUR thousand	31 Dec 2012	31 Dec 2011
Slovenia	81,764	61,226
South-East Europe	97,743	83,655
Eastern Europe	218,089	179,437
Central Europe	67,346	47,448
Western Europe and overseas markets	49,239	61,596
Total	**514,181**	**433,362**

41% of trade receivables due from customers (other than Group Companies) were secured with the SID – Prva kreditna zavarovalnica, d. d. (2011: 39%).

Ageing structure of loans and receivables as at the reporting date

EUR thousand	Gross value 2012	Allowance 2012	Gross value 2011	Allowance 2011
Non-past due	475,528	703	403,855	472
Up to 20 days past due	10,158	44	8,623	70
From 21 to 50 days past due	10,738	141	6,089	191
From 51 to 180 days past due	12,542	74	7,166	242
More than 180 days past due	18,546	12,369	17,366	8,762
Total	**527,512**	**13,331**	**443,099**	**9,737**

Movement of allowances for loans and receivables

EUR thousand	2012	2011
Balance at 1 January	**9,737**	**8,329**
Formation of allowance	3,603	4,097
Write-off of receivables	–1	–735
Collected written-off receivables	–5	–1,958
Effect of exchange differences	–3	4
Balance at 31 December	**13,331**	**9,737**

Liquidity risk

Due to an accurate planning of cash flows, low indebtedness and credit lines that were agreed with the banks in advance, no liquidity problems occurred in 2012 and liabilities were settled promptly.

MATURITY OF FINANCIAL LIABILITIES

Financial liabilities in terms of maturity are outlined in the tables below.

Maturity of financial liabilities as at 31 December 2012

		Contractual cash flows				
EUR thousand	Carrying amount	Total	Up to 6 months	From 6 months to 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Non-current borrowings from banks	25,877	26,569	6,730	6,624	13,215	0
Other non-current borrowings	800	833	5	5	14	809
Other current borrowings	45,940	46,114	45,566	548	0	0
Payables to subsidiaries and supplier payables	116,760	116,760	116,760	0	0	0
Total non-derivative financial liabilities	**189,377**	**190,276**	**162,762**	**0**	**0**	**0**
Total derivative assets/liabilities	**0**	**0**	**0**	**0**	**0**	**0**
Total	**189,377**	**190,276**	**162,762**	**0**	**0**	**0**

Maturity of financial liabilities as at 31 December 2011

EUR thousand	Carrying amount	Contractual cash flows				
		Total	Up to 6 months	From 6 months to 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Non-current borrowings from banks	67,797	70,480	17,900	25,647	13,615	13,318
Other current borrowings	18,259	18,422	18,197	225	0	0
Payables to subsidiaries and supplier payables	94,797	94,797	94,797	0	0	0
Total non-derivative financial liabilities	**180,853**	**183,699**	**130,894**	**25,872**	**13,615**	**13,318**
Total derivative assets/liabilities	**0**	**0**	**0**	**0**	**0**	**0**
Total	**180,853**	**183,699**	**130,894**	**25,872**	**13,615**	**13,318**

Foreign currency risk

EXPOSURE TO FOREIGN CURRENCY RISK

EUR thousand	31 Dec 2012				
	EUR*	USD	PLN	RUB	RON
Trade receivables	146,362	7,202	35,324	170,158	49,189
Borrowings from banks	–72,617	0	0	0	0
Trade payables	–87,987	–7,361	–9,122	–8,965	–2,917
Financial position exposure (net)	**–14,242**	**–159**	**26,203**	**161,193**	**46,272**

** EUR is the functional currency and does not represent exposure to foreign currency risk.*

EUR thousand	31 Dec 2011				
	EUR*	USD	PLN	RUB	RON
Trade receivables	136,165	10,965	21,636	156,727	47,668
Borrowings from banks	–86,056	0	0	0	0
Trade payables	–69,337	–15,136	–6,538	–56	–1,674
Financial position exposure (net)	**–19,228**	**–4,171**	**15,098**	**156,671**	**45,994**

** EUR is the functional currency and does not represent exposure to foreign currency risk.*

Significant foreign exchange rates

EUR thousand	Average exchange rate*		Final exchange rate*	
	2012	2011	2012	2011
USD	1.28	1.39	1.32	1.29
PLN	4.18	4.12	4.07	4.46
RUB	39.93	40.88	40.33	41.77
RON	4.46	4.24	4.44	4.32

** The number of local currency's units for one euro*

The above-stated exchange rates were used for the calculation of items in the financial statements as at 31 December 2012 and equal the exchange rate of the ECB effective on 31 December.

SENSITIVITY ANALYSIS

A 1% percent increase of the euro exchange rate in respect of currencies stated as at 31 December 2012 or 31 December 2011 would increase or decrease the profit by the amounts stated below. The analysis, prepared in the same manner for both years, assumes that all other remaining elements, in particular interest rates, remain unchanged.

	Effect on the profit or loss before tax	
EUR thousand	2012	2011
USD	2	41
PLN	–259	–149
RUB	–1,596	–1,551
RON	–458	–455

A 1% decrease of the euro value in respect of currencies stated as at 31 December 2012 or 31 December 2011 would have the same effect – but in reverse direction – provided that all other elements remain unchanged.

Interest rate risk

EXPOSURE TO INTEREST RATE RISK

EUR thousand	2012	2011
Financial instruments at fixed interest rate	**6,764**	**34,986**
Financial assets	53,402	53,170
Financial liabilities	–46,638	–18,184
Financial instruments at variable interest rate	**18,835**	**–64,353**
Financial assets	44,335	2,447
Financial liabilities	–25,500	–66,800

ANALYSIS OF SENSITIVITY OF FINANCIAL INSTRUMENTS’ FAIR VALUE BY APPLYING THE FIXED INTEREST RATE

The Company 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 profit or loss.

ANALYSIS OF THE CASH FLOW’S SENSITIVITY BY APPLYING THE VARIABLE INTEREST RATE

Decrease/increase of the interest rate by 100 basis points would increase/decrease the profit or loss for 2012 by EUR 188 thousand (2011: 644 thousand). The analysis, prepared in the same manner for both years, assumes that all other remaining elements, in particular the foreign exchange rate, remain unchanged.

A detailed schedule of non-current and current borrowings is presented below.

Non-current borrowings

EUR thousand	31 Dec 2012	31 Dec 2011
Non-current borrowings	26,300	66,800
– thereof current portion	12,600	41,300
Average balance of non-current borrowings	46,550	85,318
Interest paid in the financial year	1,475	2,500
Other expenses for non-current borrowings	0	0
Average interest rate of non-current borrowings (financial year)	3.17%	2.93%
Maturity of up to three years	100%	100%
Currency structure of non-current borrowings		
– EUR	100%	100%
Structure of non-current borrowings in terms of interest rates		
– variable	94%	100%
– fixed	6%	0%

Current borrowings

EUR thousand	31 Dec 2012	31 Dec 2011
Current borrowings including current portion of non-current borrowings	58,438	59,484
– from banks	12,600	41,300
– other	45,838	18,184
Current borrowings exclusive of current portion of non-current borrowings	45,838	18,184
Average balance of current borrowings (financial year)	32,011	18,572
Interest paid in the financial year	1,078	685
Other cost of raising current borrowings	10	22
Average effective cost of current borrowings (financial year)	3.40%	3.81%
Currency structure of current borrowings		
– EUR	100%	100%
Structure of current borrowings in terms of interest rates		
– fixed	100%	100%

Capital management

Share capital of the Company consists of 35,426,120 ordinary registered no-par value shares. There is only one class of shares, whereas the first and only issue of shares was carried out in 1995. The share capital was fully paid.

The Company's capital management is aimed at ensuring a high credit rating and relevant financing indicators in order to ensure the proper development of its transactions and to generate a maximum value for its shareholders.

The Company follows the changes in the economic environment by managing and adjusting its equity structure, whereby it applies the policy of moderately increasing the dividend amount, paid out on an annual basis. The Company has no specific goals as regards the ownership share held by employees, as well as no share option plans.

There were no changes in the Company's approach to capital management in 2012 and 2011.

Krka monitors capital using a gearing ratio, which is net debt divided by total net debt plus total equity. Within net debt, the Company includes interest bearing borrowings less cash and cash equivalents.

EUR thousand	2012	2011
Loans	72,617	86,056
Trade and other current liabilities	161,843	135,577
Cash and cash equivalents	–13,369	–15,023
Net indebtedness	**221,091**	**206,610**
Equity	1,232,215	1,140,485
Equity and net indebtedness	**1,453,306**	**1,347,095**
Gearing (debt/equity) ratio	**15.2%**	**15.3%**

Fair value

	2012		2011	
EUR thousand	Carrying amount	Fair value	Carrying amount	Fair value
Non-current loans	32,837	32,115	9,571	9,332
Available-for-sale financial assets	4,891	3,526	4,735	3,424
Current loans	65,305	65,305	46,209	46,209
Current investments	679	679	602	602
– shares and interests held for trading	103	103	68	68
– other current investments	576	576	534	534
Trade and other receivables	432,935	432,935	395,645	399,250
Cash and cash equivalents	13,369	13,369	15,023	15,023
Borrowings	–72,617	–72,560	–86,056	–86,438
Trade and other payables	–161,843	–161,843	–135,577	–135,577
Total	**315,556**	**313,526**	**250,152**	**251,825**

The manner of the fair value measurement of the individual types of financial instruments is outlined below.

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 for both years was computed based on the 5-percent annual interest rate. The Company forecasts that it could raise a 5-year borrowing at the stated interest rate at the end of the year.

INVESTMENTS

In terms of fair value, investments are classified in three levels:

- Level 1 – assets at market price;
- Level 2 – assets not classified within level 1 and the value of which is determined directly or indirectly based on observable market data;
- Level 3 – assets the value of which cannot be determined using observable market data.

Only assets from level 1 are presented at fair value. The table below presents fair values of such assets:

EUR thousand	2012	2011
Available-for-sale financial assets	3,526	3,424
Shares and interests held for trading	103	68
Other current investments (mutual funds and assets in management)	576	534
Total	**4,205**	**4,026**

The fair value of securities held for trading is computed on the basis of the stock exchange quotation of the respective securities as at reporting date, and it is not decreased by any costs that may arise upon the sale or purchase of securities.

As at 31 December 2012, the Company's financial investments measured at cost amounted to EUR 1,365 thousand (2011: EUR 1,311 thousand).

RECEIVABLES AND LIABILITIES

Current receivables and liabilities are recorded at carrying amount which reflects their fair value.

Lease receivables

EUR thousand	31 Dec 2012	31 Dec 2011
Up to 1 year	130	130
Total lease receivables	**130**	**130**

Lease liabilities

EUR thousand	31 Dec 2012	31 Dec 2011
Up to 1 year	480	687
From 1 to 5 years	510	610
More than 5 years	200	200
Total lease liabilities	**1,190**	**1,497**

31. Related party transactions

Intragroup transactions

Transactions with Group companies in 2012 are presented below.

EUR thousand	Sales	Expenses	Borrowings	Loans
TERME KRKA, d. o. o., Novo mesto*	237	789	103	12,815
Farma GRS, d. o. o., Novo mesto*	138	6,378	590	20,419
KRKA-FARMA, d.o.o., Zagreb, Croatia	42,700	24,213	0	0
KRKA ROMANIA S.R.L., Bucharest, Romania	0	24,673	0	0
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	11,836	2,378	0	0
KRKA-FARMA DOOEL Skopje, Skopje, Macedonia	12,452	1,344	0	0
KRKA FARMA d.o.o., Sarajevo, Sarajevo, Bosnia and Herzegovina	4	329	0	0
KRKA-RUS LLC, Istra, Russian Federation	61,585	98	16,962	22,356
KRKA FARMA LLC, Sergiev Posad, Russian Federation	81,590	70,133	0	0
KRKA UKRAINE LLC, Kiev, Ukraine	33	14,220	0	267
LLC “KRKA Kazakhstan”, Almaty, Kazakhstan	0	1,313	0	842
KRKA - POLSKA, Sp. z o.o., Warsaw, Poland	27,984	42,286	0	0
KRKA ČR, s. r. o., Prague, Czech Republic	51	17,767	0	0
KRKA Magyarország Kft., Budapest, Hungary	11	16,948	0	0
KRKA Slovensko, s.r.o., Bratislava, Slovakia	1	6,773	0	0
UAB KRKA Lietuva, Vilnius, Lithuania	1	5,198	0	0
SIA KRKA Latvija, Riga, Latvia	0	2,112	0	300
TAD Pharma GmbH, Cuxhaven, Germany	24,898	13,596	36,000	0
Krka Sverige AB, Stockholm, Sweden	20,028	83	0	0
KRKA Pharma GmbH, Wien, Vienna, Austria	1,231	1,989	0	0
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	2,874	482	800	0
KRKA FARMACÉUTICA, S.L., Madrid, Spain	867	729	0	0
KRKA FARMACEUTICI MILANO S.R.L., Milan, Italy	931	591	0	0
KRKA France Eurl, Paris, France	700	0	0	80
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	316	120	375	0
KRKA USA LLC, Wilmington, USA	0	8	0	0
Total	**290,469**	**254,550**	**54,830**	**57,079**

* *Including the subsidiary Golf Grad Otočec, d. o. o.*
** *Including the subsidiaries GRS TEHFARMA, d. o. o. and GRS VIZFARMA, 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

By the end of the year, Members of the Management Board of the Company held 37,050 of Krka shares, i. e. 0.105% of total equity or 0.112% of voting rights.

Members of the Supervisory Board of the Company held 13,845 shares, i. e. 0.039% of total equity or 0.042% of voting rights.

Equity stakes held by members of the Management and the Supervisory Boards of the Company and their shares of voting rights

	31 Dec 2012			31 Dec 2011		
	Number of shares	Equity share (%)	Share of voting rights (%)	Number of shares	Equity share (%)	Share of voting rights (%)
Members of the Management Board						
Jože Colarič	22,500	0.0635	0.0679	22,500	0.0635	0.0674
Aleš Rotar	12,770	0.0360	0.0386	12,770	0.0360	0.0382
Zvezdana Bajc	1,660	0.0047	0.0050	1,660	0.0047	0.0050
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 Members of the Management Board	**37,050**	**0.1045**	**0.1119**	**37,050**	**0.1045**	**0.1109**
Members of the Supervisory Board						
Jože Lenič	180	0.0005	0.0005	180	0.0005	0.0005
Julijana Kristl	230	0.0006	0.0007	230	0.0006	0.0007
Vincenc Manček	11,543	0.0326	0.0349	11,543	0.0326	0.0346
Mojca Osolnik Videmšek	452	0.0013	0.0014	452	0.0013	0.0014
Matjaž Rakovec	400	0.0011	0.0012	400	0.0011	0.0012
Sergeja Slapničar	0	0.0000	0.0000	0	0.0000	0.0000
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 Members of the Supervisory Board	**13,845**	**0.0391**	**0.0418**	**13,845**	**0.0391**	**0.0415**
Total	**50,895**	**0.1436**	**0.1537**	**50,895**	**0.1436**	**0.1524**

Treasury shares were eliminated from the calculation of voting rights (2,307,739 treasury shares as at 31 December 2012 and 2,025,117 as at 31 December 2011).

A questionnaire on related entities is completed 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 existence of any other business relations between the company and the employees. No such business relations were recorded in 2012.

Gross remuneration paid to groups of persons

EUR thousand	2012	2011
Members of the Management Board	2,285	2,185
Members of the Supervisory Board	228	109
Total gross remuneration paid to groups of persons	**2,513**	**2,294**

Gross earnings paid to employees employed under individual employment contracts were in 2012 recorded at EUR 15,321 thousand (2011: EUR 15,292 thousand).

Remuneration paid to Members of the Management Board in 2012

EUR thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net payout	Net bonuses and other earnings	Gross	Net	Gross	Net
Jože Colarič	360	160	10	372	158	732	328
Aleš Rotar	284	126	10	246	105	530	241
Zvezdana Bajc	260	114	12	223	95	483	221
Vinko Zupančič	209	91	13	175	75	384	179
Danica Novak Malnar	136	63	8	20	10	156	81
Total remuneration paid to Members of the Management Board	**1,249**	**554**	**53**	**1,036**	**443**	**2,285**	**1,050**

EUR thousand	Net bonuses and other earnings					
	Executive health insurance	Supplementary pension insurance	Other bonuses	Refund of work-related costs	Vacation bonus	Total
Jože Colarič	5.06	2.76	1.76	0.06	0.63	10.26
Aleš Rotar	4.03	2.76	2.34	0.83	0.63	10.59
Zvezdana Bajc	4.03	2.76	3.24	0.92	0.63	11.57
Vinko Zupančič	4.03	2.76	4.82	0.72	0.64	12.97
Danica Novak Malnar	1.75	2.76	1.73	0.89	0.65	7.78
Total net bonuses and other earnings – Members of the Management Board	**18.90**	**13.78**	**13.89**	**3.41**	**3.18**	**53.16**

Remuneration paid to Members of the Management Board in 2011

EUR thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net payout	Net bonuses and other earnings	Gross	Net	Gross	Net
Jože Colarič	352	156	9	307	141	659	306
Aleš Rotar	281	123	12	240	110	521	245
Zvezdana Bajc	257	111	13	217	100	474	224
Vinko Zupančič	208	88	14	171	79	379	181
Danica Novak Malnar	132	61	7	20	10	152	78
Total remuneration paid to Members of the Management Board	**1,230**	**539**	**55**	**955**	**440**	**2,185**	**1,034**

EUR thousand	Net bonuses and other earnings					
	Executive health insurance	Supplementary pension insurance	Other bonuses	Refund of work-related costs	Vacation bonus	Total
Jože Colarič	5.34	2.68	0.05	0.06	0.63	8.76
Aleš Rotar	4.26	2.68	3.33	0.86	0.63	11.76
Zvezdana Bajc	4.10	2.68	4.40	0.93	0.63	12.74
Vinko Zupančič	4.30	2.68	6.04	0.76	0.64	14.42
Danica Novak Malnar	1.88	2.68	0.74	0.86	0.65	6.81
Total net bonuses and other earnings – Members of the Management Board	**19.88**	**13.40**	**14.56**	**3.47**	**3.18**	**54.49**

The item of other bonuses includes the use of a company car for private purposes as well as other similar bonuses. Refund of work-related costs consists of commuting and meal allowances.

Members of the Management Board do not receive attendance fees or any other income for exercising their functions in the Management and Supervisory boards in subsidiaries.

Remuneration paid to Members of the Supervisory Board in 2012

EUR thousand	Basic pay for exercising the function		Attendance fees		Commuting allowances		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Jože Lenič	25.19	19.52	3.85	2.98	0.09	0.07	29.12	22.57
Julijana Kristl	20.99	16.27	1.76	1.36	0.42	0.33	23.17	17.96
Vincenc Manček	20.99	16.27	2.75	2.13	0.00	0.00	23.74	18.40
Mojca Osolnik Videmšek	23.09	17.89	2.75	2.13	0.50	0.39	26.34	20.42
Matjaž Rakovec	22.67	17.57	2.48	1.92	0.33	0.26	25.48	19.74
Sergeja Slapničar	20.99	16.27	2.75	2.13	0.87	0.67	24.61	19.07
Franc Šašek	22.67	17.57	2.75	2.13	0.00	0.00	25.42	19.70
Tomaž Sever	20.99	16.27	2.75	2.13	0.50	0.39	24.24	18.79
Mateja Vrečer	23.09	17.89	2.75	2.13	0.00	0.00	25.84	20.03
Total remuneration paid to Members of the Supervisory Board	**200.66**	**155.51**	**24.59**	**19.05**	**2.72**	**2.10**	**227.96**	**176.67**

In accordance with a resolution adopted at the 16th Annual Meeting held on 7 July 2011, Members of the Supervisory Board of the Company are entitled to an attendance fee, which for each individual member of the Company's Supervisory Board amounts to EUR 275.00 gross. Members of the Supervisory Board Commission receive an attendance fee for their participation in sessions, which for each individual Commission member amounts to 80% of the attendance fee for Supervisory Board sessions. The attendance fee for participating in correspondence sessions amounts to 80% of the general attendance fee. Irrespective of the aforesaid or the number of attendances, each member of the Supervisory Board is in every financial year entitled to receive attendance fees until the total amount of these attendance fees – whether relating to sessions of the Supervisory Board or sessions of the Supervisory Board Commissions – reaches 50% of the basic pay for exercising the function for each Supervisory Board member taking into account the actual payouts on an annual level.

In addition to attendance fees, members of the Company's Supervisory Board receive on an annual basis also a basic pay for exercising the function in the amount of EUR 15,500 gross each. The President of the Supervisory Board is further entitled to an extra fee in the amount of 50% of the basic pay for exercising the function of Member of the Supervisory Board, whereas Deputy President of the Supervisory Board is entitled to an extra fee of 10% of the basic pay for exercising the function of a Member of the Supervisory Board. Members of the Supervisory Board Commission receive an extra fee for exercising the function in the amount of 25% of the basic pay for exercising the function of a Member of the Supervisory Board. President of the Commission is further entitled to a bonus corresponding to 50% of the extra fee for exercising the function of a member the Supervisory Board Commission.

Members of the Company's Supervisory Board and members of the Supervisory Board Commission receive a basic pay and an extra fee for exercising the function, in proportionate monthly payments to which they are entitled to during their mandate. The monthly payment amounts to one twelfth of the aforesaid annual amounts. Each member of the Supervisory Board Commission is in every financial year entitled – regardless of the above-mentioned or the number of commissions he is a member of or presides over – to receive bonuses until the total amount of these bonuses reaches 50% of the basic pay for exercising the function for each Supervisory Board member taking into account the actual payouts on an annual level.

Loans to groups of persons

EUR thousand	Balance 31 Dec 2012	Balance 31 Dec 2011	Repayments 2012	Repayments 2011
Members of the Management Board	5	6	1	3
Members of the Supervisory Board (employee representatives)	0	0	0	0
Total loans to groups of persons	**5**	**6**	**1**	**3**

Loans granted to staff employed under individual employment contracts were as at 31 December 2012 recorded at EUR 50 thousand (2011: EUR 71 thousand). Repayments of the respective loans amounted in the reporting period to EUR 20 thousand (2011: EUR 25 thousand). The loans granted to the above-mentioned persons were used for housing purposes.

32. Educational structure of employees

	2012		2011	
	Headcount	**Share (%)**	**Headcount**	**Share (%)**
PhD	76	1.7	74	1.7
MSc	196	4.4	197	4.5
University education	1,273	28.6	1,276	29.2
Higher professional education	410	9.2	378	8.6
Vocational college education	198	4.5	189	4.3
Secondary school education	1,188	26.7	1,120	25.6
Skilled workers	1,043	23.4	1,060	24.3
Unskilled workers	64	1.4	76	1.7
Total (average for the period)	**4,448**	**100.0**	**4,370**	**100.0**

33. Transactions with the audit firm

The fee for the audit services performed in 2012 by the audit firm ERNST & YOUNG Revizija, poslovno svetovanje, d. o. o., amounted to EUR 129 thousand (2011: EUR 0 thousand).

No other services were performed for Krka by the audit firm in 2012.

34. Events after the reporting period

Below we present the events that occurred in the period from the end of the reporting period until 31 March 2013.

At the end of January, Krka received the judgement by the Court of Appeal of Helsinki about the patent litigation filed by Merck Frosst Canada Limited, Canada, Merck Sharp & Dohme B. V., the Netherlands and MSD Finland Oy, Finland against Krka, d. d., Novo mesto and its subsidiary Krka Sverige AB. The dispute arose due to an alleged infringement of two MSD patents protecting manufacturing processes in Finland for the active pharmaceutical ingredient montelukast. The Court of Appeal of Helsinki upheld the appeal of MSD and reversed the decision of the court of first instance and decided that Krka did not prove its manufacturing processes for the active ingredient montelukast had not violated the patent-protected MSD process in Finland. Krka was ordered to pay MSD damages in the amount of EUR 629,737.20 with interest accrued from 31 December 2010. Krka filed an extraordinary appeal at the Supreme Court of Finland against the decision of Court of Appeal of Helsinki.

Krka received a judgement of the Supreme Court of Slovenia by which it dismissed the request for audit filed by Merck Frosst Canada Limited in the litigation about an alleged patent infringement related to the active substance montelukast and confirmed the judgement of the Higher Court in Ljubljana of 10 May 2012.

In this period the Krka company repurchased 45,967 treasury shares. At the end of March 2013, Krka held 2,353,706 treasury shares, which is 6.644% of the Company's share capital.

The above events had no impact on the financial statements of the Krka Group for the year ended 31 December 2012.

Independent Auditor's Report

ERNST & YOUNG

INDEPENDENT AUDITOR'S REPORT

To the owners of Krka, d.d., Novo mesto

Report on the Financial Statements

We have audited the accompanying financial statements of Krka d.d., which comprise the statement of financial position as at December 31, 2012, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Financial statements as at December 31, 2011 were audited by other auditor, which issued unqualified opinion on March 5, 2012.

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 the European Union] and with the requirements of the Slovenian Companies Act related to the preparation of the financial statements, 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 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 of December 31, 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act related to the preparation of the financial statements.

Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing the business report in accordance with the Slovenian Companies Act. Our responsibility is to assess whether the business report is consistent with the audited financial statements. Our work regarding the business report is performed in accordance with ISA 720, and restricted to assessing whether the business report is consistent with the financial statements and does not include reviewing other information originated from non-audited financial records.

The business report is consistent with the audited financial statements.

Ljubljana, March 22, 2013

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Director
Ernst & Young d.o.o.
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Lidija Šinkovec
Certified auditor

ENCLOSURE 1:

Repurchased treasury shares in 2012 by days

Date	Number of shares	Average share price (in EUR)	Value of treasury shares (in EUR thousand)	Date	Number of shares	Average share price (in EUR)	Value of treasury shares (in EUR thousand)	Date	Number of shares	Average share price (in EUR)	Value of treasury shares (in EUR thousand)
Balance at 31 Dec 2011	**2,024,358**		**42,584**								
2 Jan 2012	759	52.70	40	5 Mar 2012	2,071	52.18	108	12 Jun 2012	2,239	42.60	95
3 Jan 2012	1,891	52.57	99	6 Mar 2012	2,934	52.15	153	13 Jun 2012	1,888	42.21	80
4 Jan 2012	4,702	52.31	246	7 Mar 2012	3,738	52.32	196	14 Jun 2012	2,056	42.48	87
5 Jan 2012	1,598	51.39	82	8 Mar 2012	3,469	52.44	182	15 Jun 2012	4,056	42.77	173
20 Jan 2012	1,708	49.09	84	9 Mar 2012	740	51.54	38	19 Jun 2012	647	43.31	28
23 Jan 2012	1,194	49.29	59	12 Mar 2012	559	51.14	29	20 Jun 2012	4,169	43.47	181
24 Jan 2012	976	49.11	48	13 Mar 2012	631	51.08	32	21 Jun 2012	2,519	43.52	110
25 Jan 2012	744	49.77	37	14 Mar 2012	2,122	51.01	108	22 Jun 2012	1,815	43.35	79
26 Jan 2012	314	50.07	16	15 Mar 2012	2,465	51.09	126	26 Jun 2012	1,409	42.64	60
27 Jan 2012	105	49.75	5	22 May 2012	460	47.15	22	27 Jun 2012	3,633	42.24	153
30 Jan 2012	609	50.01	30	23 May 2012	2,251	46.12	104	30 Jul 2012	2,885	41.92	121
31 Jan 2012	1,336	50.29	67	24 May 2012	2,635	46.08	121	31 Jul 2012	990	41.94	42
1 Feb 2012	1,556	51.05	79	25 May 2012	1,055	46.13	49	1 Aug 2012	2,925	41.95	123
2 Feb 2012	1,535	51.15	79	28 May 2012	807	45.59	37	2 Aug 2012	1,651	41.96	69
3 Feb 2012	2,299	51.34	118	29 May 2012	611	45.39	28	3 Aug 2012	3,602	42.14	152
6 Feb 2012	2,470	51.18	126	30 May 2012	2,687	44.08	118	6 Aug 2012	2,529	42.13	107
7 Feb 2012	1,584	50.48	80	31 May 2012	1,829	43.00	79	7 Aug 2012	3,193	41.98	134
9 Feb 2012	1,211	51.20	62	1 Jun 2012	3,605	42.53	153	8 Aug 2012	1,381	41.73	58
10 Feb 2012	2,119	51.25	109	4 Jun 2012	2,558	43.06	110	9 Aug 2012	2,048	41.75	86
13 Feb 2012	2,135	51.56	110	5 Jun 2012	2,548	43.44	111	10 Aug 2012	1,977	42.13	83
14 Feb 2012	2,629	51.68	136	6 Jun 2012	1,434	43.10	62	20 Aug 2012	356	41.97	15
15 Feb 2012	2,211	51.49	114	7 Jun 2012	2,943	43.07	127	21 Aug 2012	1,913	42.04	80
16 Feb 2012	609	50.91	31	8 Jun 2012	1,812	42.09	76	22 Aug 2012	1,409	42.04	59
2 Mar 2012	753	51.89	39	11 Jun 2012	2,130	42.13	90	23 Aug 2012	1,779	42.15	75

Repurchased treasury shares in 2012 by days

Date	Number of shares	Average share price (in EUR)	Value of treasury shares (in EUR thousand)	Date	Number of shares	Average share price (in EUR)	Value of treasury shares (in EUR thousand)	Date	Number of shares	Average share price (in EUR)	Value of treasury shares (in EUR thousand)
24 Aug 2012	1,696	42.26	72	1 Oct 2012	1,567	50.08	78	23 Nov 2012	541	47.20	26
27 Aug 2012	2,761	42.31	117	2 Oct 2012	2,628	49.92	131	26 Nov 2012	1,268	47.15	60
28 Aug 2012	1,005	42.28	42	4 Oct 2012	1,606	50.22	81	27 Nov 2012	886	47.08	42
29 Aug 2012	3,624	42.28	153	5 Oct 2012	2,762	50.09	138	28 Nov 2012	1,111	47.58	53
30 Aug 2012	1,275	42.49	54	8 Oct 2012	1,000	49.29	49	29 Nov 2012	976	47.40	46
31 Aug 2012	880	42.66	38	9 Oct 2012	486	48.46	24	30 Nov 2012	412	47.35	20
3 Sep 2012	985	42.79	42	10 Oct 2012	1,190	48.13	57	3 Dec 2012	1,769	46.78	83
4 Sep 2012	1,487	43.28	64	11 Oct 2012	1,095	47.16	52	4 Dec 2012	2,903	47.43	138
5 Sep 2012	2,913	43.82	128	12 Oct 2012	1,322	46.82	62	5 Dec 2012	2,589	47.06	122
6 Sep 2012	2,461	43.41	107	15 Oct 2012	1,221	46.28	57	6 Dec 2012	848	46.93	40
7 Sep 2012	2,650	44.43	118	16 Oct 2012	798	46.45	37	7 Dec 2012	1,628	47.23	77
10 Sep 2012	2,656	44.38	118	17 Oct 2012	1,188	48.04	57	10 Dec 2012	1,745	46.81	82
11 Sep 2012	2,800	44.03	123	18 Oct 2012	1,592	48.18	77	11 Dec 2012	612	47.06	29
12 Sep 2012	1,263	44.08	56	19 Oct 2012	1,145	49.03	56	12 Dec 2012	1,964	47.07	92
13 Sep 2012	2,415	44.96	109	22 Oct 2012	399	48.47	19	13 Dec 2012	6,849	47.53	326
14 Sep 2012	1,228	45.91	56	23 Oct 2012	593	48.54	29	14 Dec 2012	39	47.54	2
17 Sep 2012	3,318	47.72	158	24 Oct 2012	932	47.96	45	17 Dec 2012	830	47.25	39
18 Sep 2012	3,816	46.45	177	25 Oct 2012	2,690	47.67	128	18 Dec 2012	2,176	48.41	105
19 Sep 2012	3,052	45.96	140	26 Oct 2012	3,730	47.60	178	19 Dec 2012	1,552	49.17	76
20 Sep 2012	1,158	47.14	55	29 Oct 2012	5	47.17	0	20 Dec 2012	4,809	49.81	240
21 Sep 2012	2,689	46.91	126	30 Oct 2012	33	47.79	2	21 Dec 2012	3,811	50.07	191
24 Sep 2012	1,404	47.71	67	16 Nov 2012	3,075	46.88	144	27 Dec 2012	4,190	50.99	214
25 Sep 2012	3,623	48.66	176	19 Nov 2012	2,038	46.99	96	**Total purchases**	**279,956**	**46.69**	**13,072**
26 Sep 2012	2,045	48.89	100	20 Nov 2012	4,187	46.83	196				
27 Sep 2012	2,899	49.68	144	21 Nov 2012	1,345	46.73	63	**Balance at 31 Dec 2012**	**2,304,314**		**55,656**
28 Sep 2012	2,396	50.04	120	22 Nov 2012	1,112	47.08	52				

Signing of the 2012 Annual Report and its constituent parts

The Chairman and Members of the Management Board of Krka, d. d., Novo mesto hereby confirm to be acquainted with the content of constituent parts and thus of the 2012 annual report of the Company and the Krka Group. It is herewith adopted and confirmed by respective signatures.

Jože Colarič, President of the Management Board and CEO

Aleš Rotar PhD, Member of the Management Board

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

Who's who in Krka

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Aleš Rotar
Member of the Management Board and Director of Research and Development

Zvezdana Bajc
Member of the Management Board and Director of Accounting and Controlling

Danica Novak Malnar
Member of the Management Board – Worker Director

Borut Lekše
Deputy Chief Executive and Head of Legal Affairs

Dušan Dular
Senior Professional Consultant

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Medical Director and Director of Strategic Marketing

Samo Komel
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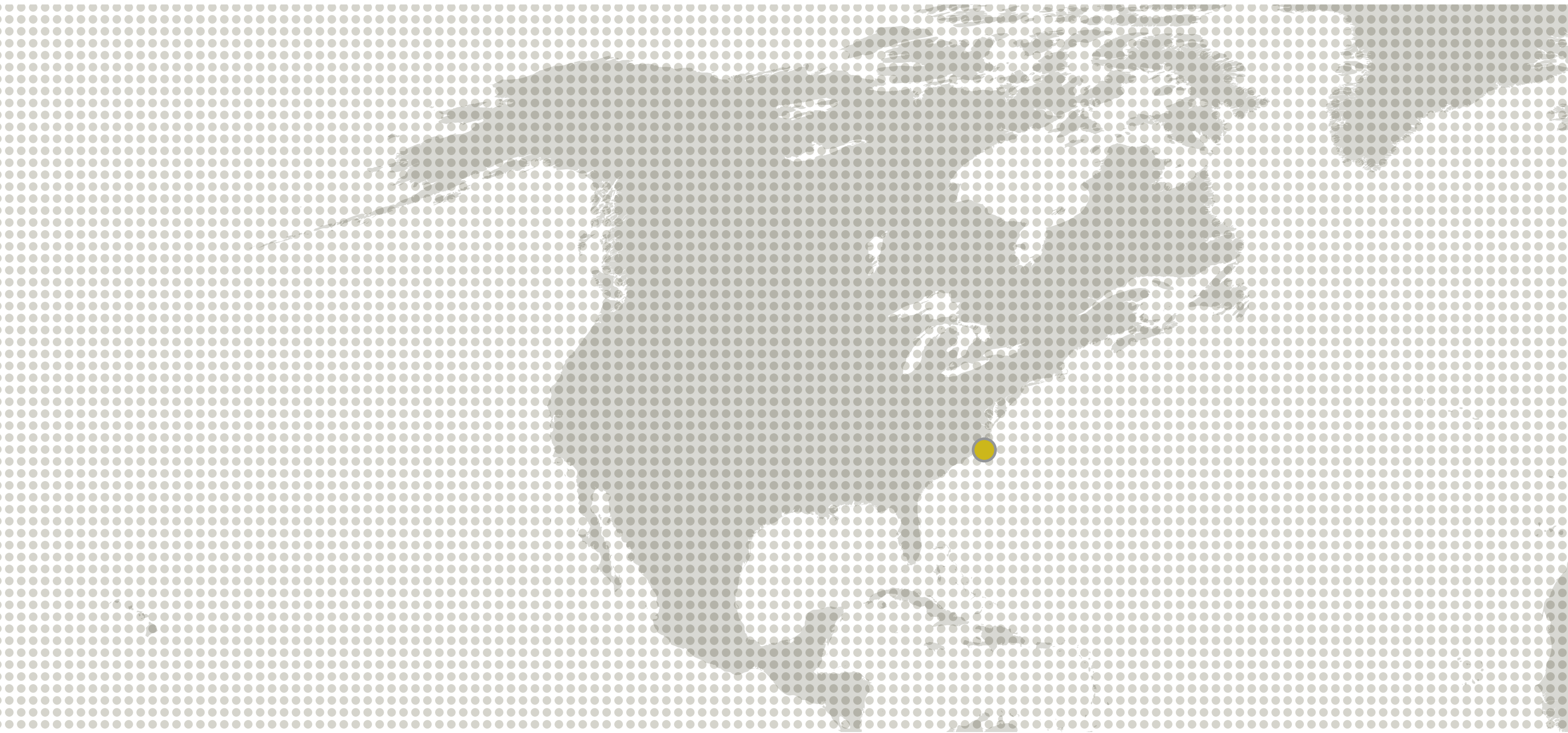
Mira Rataj Siročić
Head of Internal Audit

Mojca Vidmar Berus
Head of Department for Companies and Representative Offices Abroad

Krka Group in the world



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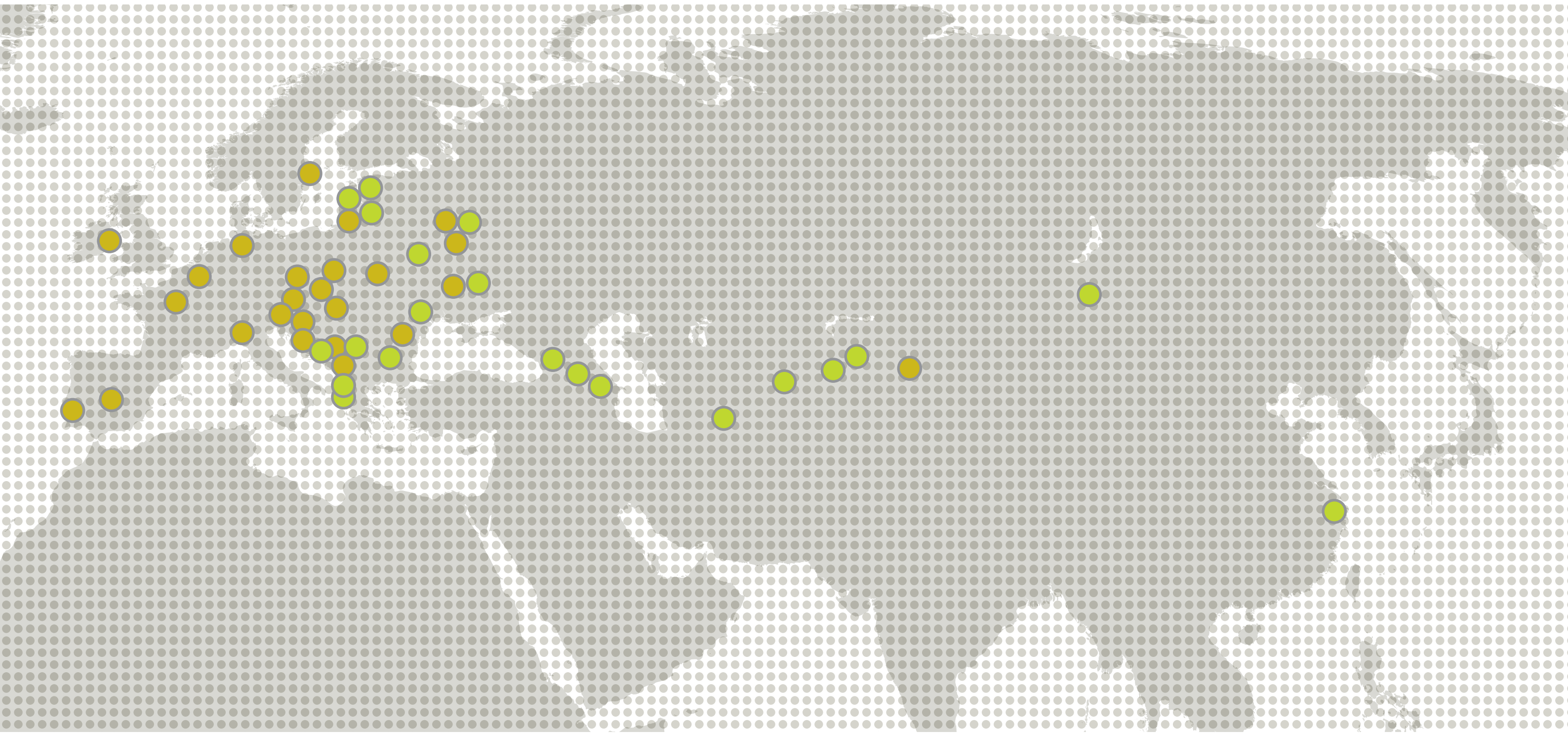

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