KRKA

The wind of efficiency

2013 Annual Report

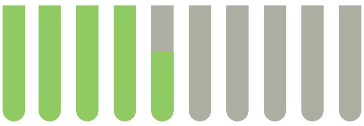
Krka Group highlights

+5%

Sales revenues went up by 5% and reached EUR 1,201 million.

+14%

EBITDA increased by 14% and amounted to EUR 322 million.



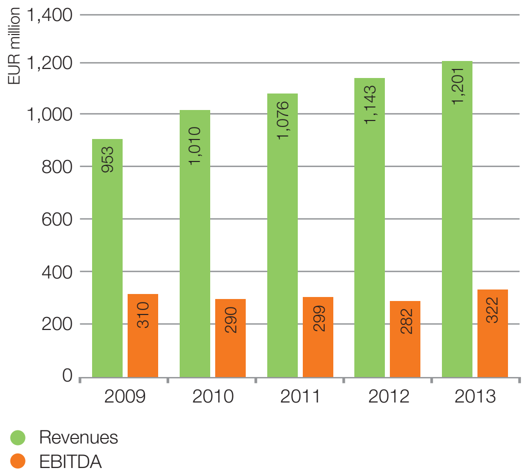
46%

The share of new* products in sales

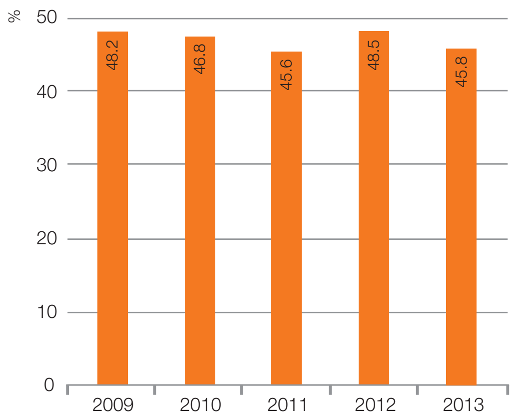
+8%

Profit advanced by 8% and totalled EUR 173 million, while market capitalisation at the year-end reached EUR 2,126 million.

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

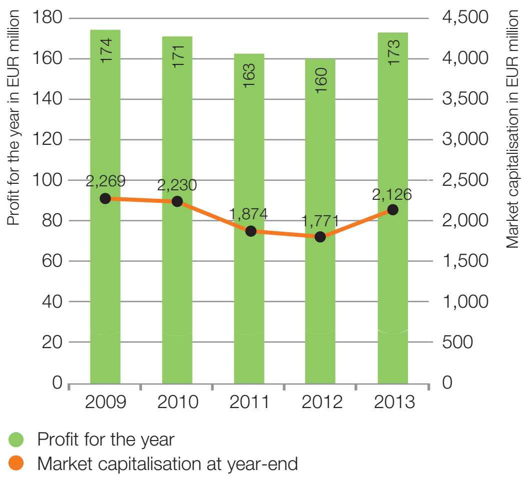


The proportion of new* products in sales



** New products are products launched on a particular market in the past five years.*

Profit for the year and market capitalisation



When comparing the operating results with the 2009 figures, please take into account 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 new provisions concerning a European Commission procedure (EUR 47.5 million).

Financial highlights of the Krka Group's performance

EUR thousand	2013	2012	2011	2010	2009
Revenues	1,200,827	1,143,301	1,075,627	1,010,021	953,038
EBIT[1]	227,588	192,308	211,561	208,134	233,643
EBITDA	321,732	282,276	298,747	289,855	310,318
Profit for the year	172,766	159,839	162,735	170,918	173,685
Non-current assets (year-end)	973,954	926,000	863,865	848,847	810,086
Current assets (year-end)	785,930	700,748	670,162	639,357	530,946
Equity (year-end)	1,332,611	1,240,521	1,139,754	1,053,327	920,369
Non-current liabilities (year-end)	128,833	145,362	155,092	202,709	237,834
Current liabilities (year-end)	298,440	240,865	239,181	232,168	182,829
R&D costs	97,235	101,102	92,932	90,924	88,283
Investments	157,268	153,288	109,713	115,449	90,274
RATIOS	**2013**	**2012**	**2011**	**2010**	**2009**
EBIT margin	19.0%	16.8%	19.7%	20.6%	24.5%
EBITDA margin	26.8%	24.7%	27.8%	28.7%	32.6%
Profit margin (ROS)	14.4%	14.0%	15.1%	16.9%	18.2%
ROE[2]	13.4%	13.4%	14.8%	17.3%	20.4%
ROA[3]	10.2%	10.1%	10.8%	12.1%	13.3%
Liabilities/Equity	0.321	0.311	0.346	0.413	0.457
R&D costs/Revenues	8.1%	8.8%	8.6%	9.0%	9.3%
NUMBER OF EMPLOYEES	**2013**	**2012**	**2011**	**2010**	**2009**
Year-end	10,048	9,461	8,948	8,569	7,975
Average	9,783	9,197	8,789	8,328	7,816
SHARE INFORMATION	**2013**	**2012**	**2011**	**2010**	**2009**
Total number of shares issued	35,426,120	35,426,120	35,426,120	35,426,120	35,426,120
Earnings per share in EUR[4]	5.24	4.80	4.85	5.06	5.14
Dividend per share in EUR	1.61	1.50	1.40	1.10	1.05
Closing price at the Ljubljana Stock Exchange at the end of period in EUR	60.00	50.00	52.90	62.95	64.04
Price/Earnings ratio (P/E)	11.46	10.41	10.91	12.44	12.46
Book value in EUR[5]	37.62	35.02	32.17	29.73	25.98
Price/Book value (P/B)	1.60	1.43	1.64	2.12	2.46
Market capitalisation in EUR thousand (31 Dec)	2,125,567	1,771,306	1,874,042	2,230,074	2,268,689
EXCHANGE RATES	**2013**	**2012**	**2011**	**2010**	**2009**
USD (average)	1.328	1.285	1.392	1.326	1.395
USD (31.12.)	1.379	1.319	1.294	1.328	1.434

[1] *The difference between operating income and expenses*
[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 excluding treasury shares*
[5] *Equity as at 31 December/Total shares issued*

Along with quality and safety, efficiency is vital for Krka's pharmaceutical products and services. But it is also much more. It has become a part of Krka's culture and represents the contribution of Krka's employees to the development and expansion of Krka's business operations. It is also reflected in innovations and useful proposals for improving work processes, products and services.

Efficiency is like the wind scattering the seeds of Krka's creativity and innovation.

That is why we were able to push our development objectives further, even during the unfavourable global economic situation. Our planned stable growth continued. We recognised opportunities for further development in our internal and external environments and pursued them. In a year of considerable investments in new technologies and capacities, we became even more open to new ideas and suggestions. It is no coincidence that we surpassed several objectives and that at the same time the number of useful proposals given by our employees rose considerably. All of this provided a good starting point for Krka's 60th anniversary in 2014.

In the future, our corporate creativity will also stem from:

- the continuous improvement of business processes; and
- development of accessible solutions for effective treatment and for strengthening health.

Krka Group highlights
Financial highlights of the Krka Group's performance

The energy of efficiency

EUR 157
million

was invested by Krka in 2013 in production, quality assurance and the expansion of research and development capacities.

Over
EUR 97
million

was allocated to research and development.

20%

more
useful proposals were given than in 2012.

fast and responsive

decision making

Equipment maintenance costs remained **the same as in 2012**, even though production was up 5%.

>> 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.

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BUSINESS REPORT

SUSTAINABLE DEVELOPMENT

FINANCIAL REPORT

Efficiency and creativity are Krka's twins.

Efficiency is the other face of Krka's creativity, and they both form an inseparable part of our culture. Efficiency opens up the path to creativity with suggestions for improvement and with new answers to the questions of how to work better and how to use assets and resources more economically.

Hand in hand, they facilitate new solutions in all areas of business operations. Together, they search for new knowledge and findings in the area of maintaining and strengthening health, they foster cooperation with scientific and research institutions, and motivate young talents.

For over

40

years, we have been encouraging research and professional development with Krka Prizes.

In 2013 we awarded

30

young researchers,

5

of them for outstanding research achievements.

Statement by the President of the Management Board

Jože Colarič, President of the Management Board and Chief Executive

I am pleased to say that our operating results were very good, even though 2013 was a challenging year for the pharmaceutical market. Our significant advantage is that we use our own know-how to develop products, that we make them in our own production plants, and that Krka products are marketed and sold by our employees in over 70 countries. In all these operations, we act economically and with reasonable care and diligence.

In 2013 Krka Group sales increased by 5%, with sales of products and services amounting to EUR 1.2 billion. Our operating profit rose by 18% to EUR 228 million and profit for the year by 8% to EUR 173 million. We launched 17 new products in 35 pharmaceutical forms, made investments in production facilities, recruited new employees and entered new markets, including promising overseas markets.

With EUR 428 million worth of sales and 22% sales growth, Region East Europe was Krka's largest and fastest growing market in 2013. Growth was achieved in all Eastern European markets in which we are present. Krka's brands are a gold standard in many places in this region and in the Russian Federation we hold the position of a local producer, which we strengthened in 2013 with our largest investment to date in this country, namely, the production and distribution centre Krka-Rus 2. The Ukrainian, Kazakh, Uzbek, Belarus and smaller markets in the region are also important and hold potential.

In Central Europe, which also includes Krka's three key markets – Poland, the Czech Republic and Hungary – we sold EUR 283 million worth of products, which is comparable to 2012. Despite unfavourable conditions in most markets in Central Europe, we increased our sales in Poland, our biggest market in this region, by 9% and thereby compensated for the lower sales in certain other markets in the region.

In Western Europe we sold EUR 258 million worth of products, which is 4% less than in 2012. This was not only the result of falling market prices, but also of lower sales of prescription medicines through third partners. We responded by strengthening our own sales network and establishing a new sales region Overseas Markets, which includes the Middle and Far East, Africa, and the Americas.

In the markets of South-Eastern Europe we sold EUR 146 million worth of products, which is a little lower than in 2012, although we increased the value of sales in Romania, Macedonia and Kosovo.

We sold EUR 87 million worth of products and services in the Slovenian market in 2013. Operations were strongly affected by austerity measures so sales did not achieve the levels of 2012. Nevertheless, Krka maintains its leading market share of the domestic market.

We invested EUR 97 million in research and development in 2013. We currently have 175 new products in the pipeline and are applying new developments to existing brands. Krka is currently best known for its medicinal products for the treatment of cardiovascular diseases, alimentary and metabolic diseases, and diseases of the central nervous system. In the next few years, we will expand our portfolio with medicinal products for the treatment of diabetes, pain relief, antimicrobial medicines and medicines for the treatment of cancer.

In 2013 the Krka Group allocated over EUR 157 million for investments and currently over 20 investment projects are underway. The largest is Notol 2 which will increase the current production capacity of pharmaceutical solid dosage forms of 12 billion a year by about 4.5 billion. We have also been expanding and modernising other production facilities. We have been strengthening our product development and increasing product sales through our own sales network by investing in research and development, and our own production and distribution centres around the world.

For the first time in Krka's history, the number of employees exceeded 10,000 at the end of 2013. A little less than half are employed in Slovenia, while the others are employed in Krka's subsidiaries and representative offices abroad. The development of our employees is carefully planned. By providing training in leadership, personal growth and quality management coupled with learning foreign languages and the use of modern information technology, we enable them to develop and advance.

In 2013 the price of a Krka share rose by 20% as the result of the good operations, partial recovery of the financial markets and regular contacts between Krka and its investors. The new five-year development strategy we adopted in November 2013 includes an altered dividend policy. In the years between 2014 and 2018 we will not allocate up to one-third of the previous year's profit for dividends, but up to 50%, taking into consideration Krka's financial needs for investments and potential larger acquisitions.

New challenges lie ahead of us. Despite the uncertainties, global market trends indicate that the generic pharmaceutical industry will continue to develop, although additional efforts will have to be taken to achieve success. At Krka we believe that the right answer is new products and our own development, production, marketing and sales. We expect this business model to generate an average of at least 5% annual sales growth in the next few years, exceeding the anticipated 3% market growth.

Steady growth, investment and development projects, entering new markets and therapeutic areas, risk management and due diligence are the foundations of Krka's development. We will continue to enter global markets with new products that we will successfully market and sell, creating the conditions for the continuing development of this company with a 60-year tradition.

Jože Colarič
President of the Management Board and Chief Executive

2013 Report of the Supervisory Board

Jože Lenič MSc, President of the Supervisory Board

Dear Shareholders,

At the six Supervisory Board meetings and eight Supervisory Board Committee meetings held in 2013, the Board diligently and responsibly monitored the operations of the Krka Company and Krka Group throughout the year, evaluated the work of the Board, kept under review the opinions of the external expert public about Krka, strengthened the good practice of the Supervisory Board's operations and engaged in other supervisory activities in line with the legislation, good practice and internal acts.

The work of the Supervisory Board

The composition of the Supervisory Board allows for productive discussions and the making of sound decisions based on the range of experience held by its members. In 2013 the Krka Supervisory Board had nine members, four women and five men aged 43 to 71 who are experts in pharmacy, chemistry, economics, mechanical engineering and organisational sciences 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 achieving its objectives at the Company and Group levels. Meetings offer an opportunity for board members to voice their opinions and concerns, while working to reconcile any differences in opinion in order to pass unanimous resolutions. Also in 2013 board members had all the necessary data, reports and information available to them. They received the materials in advance so they had enough time to be able to prepare and discuss each item on the agenda. Krka's professional services helped organise the meetings, while promptly implementing improvements and support.

The members attended meetings regularly. Apart from two male members who were absent twice, both times on justifiable grounds and two female members who were absent once each, again both on justifiable grounds, all members attended all board meetings in 2013. The Board was twice joined by certified auditors from the auditing firm Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana, whereas board meetings are usually only attended by members of the Supervisory Board and Management Board and by the Secretary to the Supervisory Board.

In the 40 items on its agenda in 2013 the Supervisory Board discussed Krka's past operations, the Krka Group's Development Strategy for 2014–2018 and plans for 2014, was promptly informed about human resources, investments, products and implementation of the current strategy, and followed expert opinions about Krka and the operations of its competitors, and kept up to date with new developments in the Company, the pharmaceutical industry and the business environment. Through a self-evaluation according to the methodology of the Slovenian Directors' Association and by attending training on new legislation, the Supervisory Board again strengthened the good practice of its operations in 2013.

The areas most discussed by the Supervisory Board members in 2013 were:

The Annual Report Within the statutory time frame, the Supervisory Board thoroughly examined the 2012 report of the Company and the Krka Group, and discussed the auditor's report in which the auditor Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana found that the financial statements which form part of the Annual Report give a true and fair view of the financial position of the Krka Company and Krka Group, their operating profit, cash flow and changes in equity. The Board had no comments on the auditor's work and the report. The Board also compiled and adopted a report on its work in 2012 and, together with the Management Board, drew up the Krka Statement of Compliance with the Corporate Governance Code and the Code of Best Practice for Warsaw Stock Exchange Listed Companies. Krka also received an award for the best annual report among large companies for 2012.

Interim results The Supervisory Board regularly reviewed the first-quarter, half-year and nine-month reports of the operations of the Krka Company and Group. The Audit Committee considered the accounting and financial aspects of the interim results and reported to the Supervisory Board on all interim operational results.

Supervising the operations of subsidiaries in the Krka Group The Supervisory Board was informed of the business model and operations of all large subsidiaries in 2012. The members were also informed about the number of employees in the subsidiaries and the book value of Krka's investments in them, the composition of the management of the companies and, in terms of operating data, especially the value of inventories, assets, equity, operating revenues and operating charges as well as the subsidiaries' operating profit/loss and net operating results.

Long- and short-term operating plan of the Krka Group Every year the Management Board draws up an operating plan of the Krka Company and Group and updates the Krka Group's development strategy every two years. The Management Board informs the Supervisory Board about the operating plan and the updated development strategy each time and the Supervisory Board comments and gives recommendations which the Management Board considers to the greatest extent possible. In 2013 the Supervisory Board discussed the Krka Group's development strategy 2014–2018, which includes strategic goals and the strategies to achieve them for all business functions and an operating plan of the Krka Company and Group for 2014.

Convening and holding the Annual General Meeting Together with the Management Board, the Supervisory Board drafted the agenda and contents for the AGM, and prepared a proposal for the distribution of accumulated profit. The Board proposed that the AGM discharge the Management and Supervisory Board from liability for 2012, and that Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana be appointed the auditors for 2013.

Investments The Supervisory Board was regularly informed about all the Group's major investments from the first-quarter, half-year, nine-months and annual operating reports and additional areas, especially the major investments of the Krka Group, which are Notol 2, Krka-Rus 2, Sinteza 1 in Krško, the European project Farma GRS, and partially about smaller investments. The Management Board reported to the Supervisory Board on the progress of investment projects, their value and any challenges that were promptly dealt with.

Risks The Board was informed of the state of claims lodged against Krka and its subsidiaries by other pharmaceutical companies for individual products and countries, and also of other similar procedures.

Business trends in the pharmaceutical industry The Supervisory Board was informed of the findings of 12 business analyses of Krka performed by leading investment banks which, in addition to costs and benefits the analysts identified with respect to Krka's operations, provided independent assessments of the fair value of Krka shares and Krka operations. The Board was also informed of current, relevant information from the pharmaceutical industry.

Benchmarking Krka's performance with comparable companies Twice in 2013 the Supervisory Board compared the Krka Group's performance results with six or seven select international pharmaceutical companies with a particular focus on comparing the sales data, sales structure by regions and product groups, profitability information, 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 operation when reviewing interim reports and the annual report. A few times a year the Board additionally examines a selected area. In 2013 the Board closely examined detailed, up-to-date information regarding human resources, investments and products, along with information on realisation of the strategy and the Works Council report on worker participation in management.

The work and remuneration of the Management Board The Supervisory Board regularly monitored the work of the Management Board, and particularly closely twice a year when setting the variable amount of the members' salaries pursuant to the Rules. At the meeting in November 2013 the Supervisory Board also checked the adequacy of reference values for setting the variable amount of the Management Board members' salaries. 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), increases in cash flows from operations, operating profit and return on equity in 2014 in comparison with the competition. 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 was also informed about the calendar of closed trading windows when persons with access to insider information are not allowed to trade in Krka's shares.

Strengthening the good practice of Supervisory Board operations In 2013 the Supervisory Board performed a periodic self-assessment according to the methodology of the Slovenian Directors' Association for the third consecutive time. The Board adopted an action plan until the next self-assessment in 2014 and carried out the activities from the previous action plan. In December 2013 the Supervisory Board members attended training on current corporate governance legislation organised by the Slovenian Directors' Association. The Management Board prepared some additional information which the members evaluated as important in the self-evaluation report. Consistent with good practice, the members filled out a questionnaire on conflicts of interest as stipulated in 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 In addition to the Annual General Meeting and the ceremony for the traditional annual Krka Prizes awarded for the best undergraduate and postgraduate research works, the members attended business and social events organised by Krka.

The work of Supervisory Board committees

The Supervisory Board appointed the Audit Committee and the Human Resources Committee, which deal in detail with accounting, auditing, finance and human resource issues. The committees report to and advise the Supervisory Board, while the decision-making remains under the authority of the Supervisory Board.

Audit Committee

The Audit Committee is presided over by Mojca Osolnik Videmšek. In 2013 the Committee met five times and discussed 25 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 the Internal Audit to all its meetings. The Secretary to the Supervisory Board attended all of the meetings while two meetings were also attended by representatives of the audit firm Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana.

The areas most discussed by the Audit Committee in 2013 were:

The Annual Report The Committee considered the Annual Report of the Krka Company and the Krka Group for 2012, the auditor's report and the Supervisory Board report for 2012 and proposed that the Supervisory Board adopt them.

Interim Results At all discussions of the interim reports, the Audit Committee primarily discussed them with regard to accounting and finance and reported about them to the Supervisory Board. In 2013 there were no accounting or financial special characteristics or changes to past practice.

Accounting policies and co-operation with the external auditor The Audit Committee closely considers the co-operation with the certified auditor. Consistent with good practice, the President and a member of the Committee met with auditors from Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana and proposed the areas of business which needed to be carefully examined in the regular operations audit for 2013. They were also informed about the course of the annual audit, particularly the composition of the team of auditors and their planned activities and schedule. The Committee regularly monitored how the external auditing was being conducted. In November 2013 the certified auditor reported to the Committee about the pre-audit for 2013.

Internal auditing The Audit Committee also closely co-operates with the external auditor and with Krka's Internal Audit. In 2013 it considered and approved the reports on the work of Internal Audit in 2012, the work of Internal Audit for January–June 2013, the plan of Internal Audit for 2014, and the medium-term plan of Internal Audit for the period 2014–2018. The Committee also reviewed the self-evaluation report by Internal Audit for 2012.

Current issues Similarly to the Supervisory Board, the Audit Committee also reviews statutory reports and other reports useful to the Committee’s work. In 2013 the Management Board presented the controlling process in the Krka Group to the Audit Committee in great detail.

Annual General Meeting The Audit Committee discussed the appointment of the auditor for the 2013 financial year and suggested that at the General Meeting the Supervisory Board propose the audit firm Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana as the auditor.

Human Resource Committee

Presided over by Mateja Vrečer PhD, the Human Resource Committee met three times in 2013 and discussed 10 agenda items. The President of the Management Board, the President of the Supervisory Board, the Management Board member in charge of accounting and controlling and the Secretary to the Supervisory Board were invited to all meetings.

In 2013 the Committee especially examined the **Management Board’s remuneration**. The Committee considered legislative changes to management board remuneration and performance bonuses and reported to the Supervisory Board. The Committee also proposed to the Supervisory Board the amount of the performance bonus for the President of the Management Board and its members for 2012 and the first half of 2013.

Evaluation of the work of the Management and Supervisory Boards

In line with current legislation and good practice, in particular the Corporate Governance Code, the guidelines of the Slovenian Directors' Association and the Code of Best Practice for Warsaw Stock Exchange Listed Companies, the Supervisory Board comprehensively monitored Krka's management and operations throughout 2013.

The Management Board attended all meetings of the Supervisory Board. The President reported on each agenda item in great detail and answered any questions posed by the Supervisory Board members, while other members of the Management Board provided further information regarding their professional area of interest. Communication between the President of the Management Board and the President of the Supervisory Board extended beyond meetings.

The Supervisory Board members were presented with all the necessary data, reports and information, and the Management Board prepared extended or additional reports at their request. They received the materials approximately one week before a meeting. Krka's professional services organised meetings, made prompt technical improvements and provided administrative and other due support.

The Supervisory Board regularly monitored the Management Board's work in 2013 and evaluated it upon each discussion of interim results, compared Krka's operations with competitors and considered external analysts' opinions about Krka, and as a separate agenda item for setting the performance bonus based on eight performance measures. The Management Board was fully committed to the best possible performance and results of the Company and Group and co-operated with the Supervisory Board in an exemplary manner.

In addition to evaluating the Management Board's work, the Supervisory Board also paid considerable attention to the continuous improvement of its work. In July 2013 it engaged in a self-assessment for the third consecutive time according to the methodology of the Slovenian Directors' Association and, as with the previous self-assessments, carried out improvements suggested by the members. The self-assessment of 2013 revealed that the Supervisory Board's operations are of the highest standards in nearly all areas. The average mark rose by 2% compared to the previous self-assessment. The Supervisory Board also monitors the area of conflicting interests. In line with the Corporate Governance Code, the members completed statements on independence which Krka published and which reveal that, with 8 out of 9, most members of the Board are independent. Should a conflict of interest occur, the Rules of Procedure of the Supervisory Board stipulate that the Supervisory Board may resolve the matter by preventing a particular member from voting on an agenda item. There was one instance of a conflict of interest in 2013 when a board member abstained from voting on the matter of taking out liability insurance because the company in which this member was the President of the Management Board was one of the bidders.

EUR 233,670 was allocated for the work of the Supervisory Board and its committees, whereas EUR 236,753 was spent. Of this amount, EUR 7,000 was spent on membership in the Slovenian Directors' Association. No other costs, for example for external advisors, were incurred.

Approval of the Annual Report and proposal for the allocation of the 2013 accumulated profit

The Draft Annual Report of the Krka Company and the Krka Group for 2013 was considered by the Supervisory Board and the Audit Committee at their meetings of 26 February 2014.

The members of the Supervisory Board and the Audit Committee received the proposed clean copy of the Annual Report on 19 March 2014 and reviewed it at the meeting of 26 March 2014. The representatives of the certified auditor reported to the Committee and the Supervisory Board.

Based on the proposed copy of the Annual Report, the auditor's report and the Audit Committee review, the Supervisory Board found that the Management Board's Annual Report truly reflects the events and gives a comprehensive view of the operations of the Krka Company and the Krka Group in 2013, and provides extended information that was otherwise sent to the Board throughout the financial year. Since the Supervisory Board had no comments or reservations, the Annual Report was unanimously approved at the meeting of 26 March 2014. The Annual Report was thereby formally adopted in line with Article 282 of the Companies Act and Krka's Articles of Association.

Simultaneously with approving the Annual Report, the Supervisory Board also approved the proposal for the allocation of accumulated profit. In 2013 the Krka Company achieved a net profit of EUR 164,672,755.67, of which EUR 13,715,825.53 was appropriated to reserves for treasury shares, and EUR 34,000,000.00 to other revenue reserves. The remaining net profit of EUR 116,956,930.14 and the retained net profit of EUR 62,395,491.25 comprise the accumulated profit, which on 31 December 2013 stood at EUR 179,352,421.39.

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

- EUR 68,908,392.00 for dividends or EUR 2.10 gross per share;
- EUR 55,222,014.70 for other revenue reserves; and
- EUR 55,222,014.69 for retained earnings.

The proposal was drawn up by considering the number of treasury shares on 26 March 2014 when the Krka Supervisory Board confirmed the 2013 Annual Report and together with the Management Board prepared a proposal for the allocation of accumulated profit. As the number of treasury shares is subject to change, the number of ex-dividend shares will be disclosed on the day of the Annual General Meeting. The total amount to be allocated to dividends, other revenue reserves and retained earnings will be altered accordingly.

Conclusion

Among many good companies in the pharmaceutical industry, Krka stands out with its sound business operations, very low debt, a vertically integrated business model, a cutting-edge range of products sold in over 70 markets, and good corporate governance. The Supervisory Board members assess Krka's operations in 2013 as 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, 8501 Novo mesto, Slovenia
Telephone	++386 7 331 21 11
Fax	++386 7 332 15 37
E-mail	info@krka.biz
Website	www.krka.si
Core business	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

The Krka Group consists of the controlling company, Krka, d. d., Novo mesto, two subsidiaries in Slovenia, i.e. Terme Krka, d. o. o., Novo mesto and Farma GRS, d. o. o., and 26 subsidiaries outside Slovenia. Farma GRS is the sole owner of two other micro companies. The Group is engaged in the development, production, marketing and sales 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 of these subsidiaries, apart from Krka-Rus in the Russian Federation, pursue marketing and sales. Other subsidiaries outside Slovenia deal with the marketing and/or sales of Krka products and do not have production capacities.

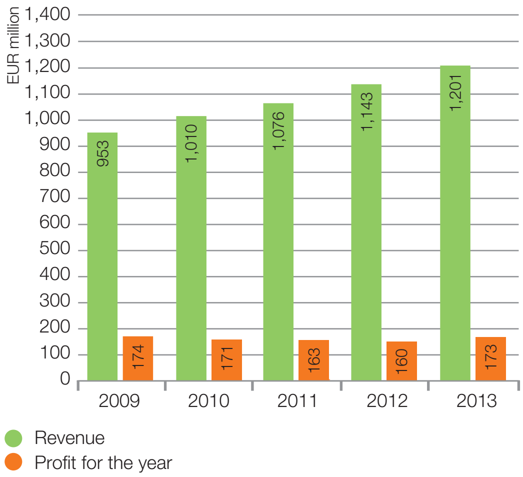
Terme Krka, d. o. o., Novo mesto deals with health resort and tourist services. It operates through the following branches: Terme Dolenjske Toplice, Terme Šmarješke Toplice, Hoteli Otočec, Hotel Krka in Novo mesto, and Talaso Strunjan. Terme Krka is also the majority owner of Golf Grad Otočec, d. o.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

In October 2013, Krka established a subsidiary in Bulgaria. Krka is its controlling company and sole owner.

Krka Group business model

Krka is one of the world's leading generic pharmaceutical companies. It is domiciled in Slovenia and has a 60-year tradition.

Revenue and profit for the past five years, in EUR million



Krka is the market leader in its domestic market. Its presence is also significant in the generic pharmaceutical markets of:

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

Over the past few years, we have strengthened our presence in Western European markets, in particular in Germany, France, Great Britain, Scandinavia, Benelux, Italy, Portugal and Spain.

Our production and distribution facilities are in Slovenia, the Russian Federation, Poland, Croatia and Germany.

Economically and with our own financial means

In 2013 we earmarked EUR

157

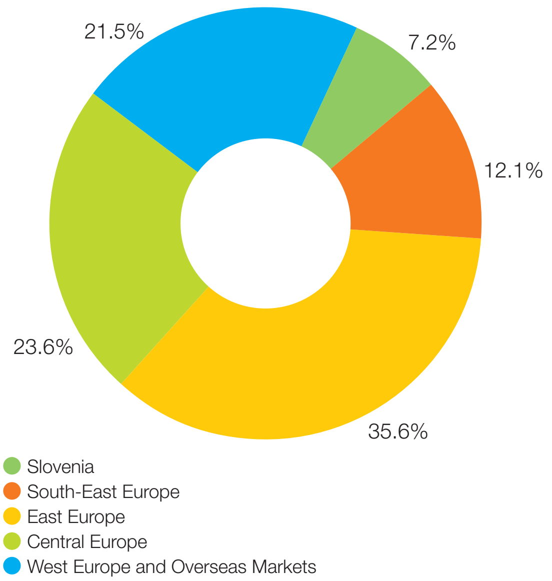
million for investments.

We financed investments with **our own assets** without incurring debt. The largest investment was Notol 2 in Novo mesto, which will contribute 4.5 billion products to the total annual production. Notol 2 is worth EUR 200 million, Krka-Rus 2 in the Russian Federation EUR 135 million, while the API production plant in Krško is worth EUR 85 million.

Sales growth exceeded the growth in operating expenses.

Our cost-effective range of modern products and encouragement of all employees to use assets rationally contributed to more economical business operations.
The operating expenses of the Krka Group rose by just 2%, while sales of products and services **were up 5%.**

Sales by Regions in 2013



BUSINESS ORIENTATION

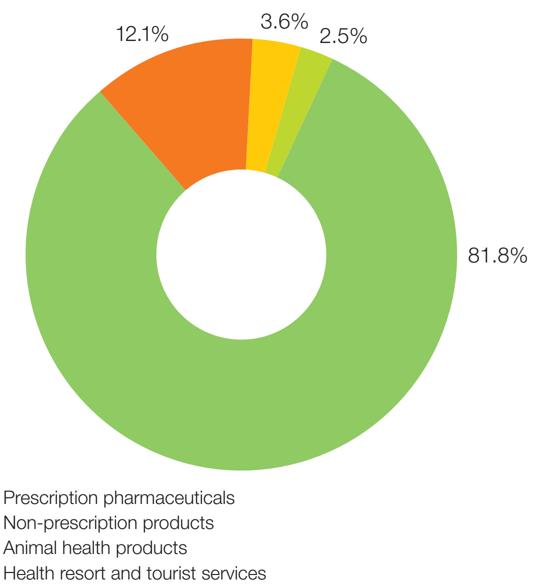
Our modern pharmaceutical production and vertically integrated business model permits us to provide patients in more than 70 countries with a wide range of safe, high quality and effective prescription pharmaceuticals, non-prescription products and animal health products. Most Krka products are in solid dosage pharmaceutical forms. The Company's range is supplemented by the health-resort and tourist services of Terme Krka.

We focus on generic prescription pharmaceuticals marketed under Krka's own brands. Our main therapeutic groups include pharmaceuticals for cardiovascular diseases, pharmaceuticals for alimentary and metabolic diseases, and pharmaceuticals for diseases of the central nervous system, and we have also entered certain new therapeutic areas.

In the future, we will continue to concentrate on marketing and developing our own marketing-and-sales network by founding our own companies or through mergers in target markets. Our objective is to strengthen the Krka Group's market position in Europe and in the markets of Central Asia, as well as to enter new high-potential markets. Our new sales region, Overseas Markets, will aim to exploit the sales potential of the Middle East, Far East, Africa and the Americas.

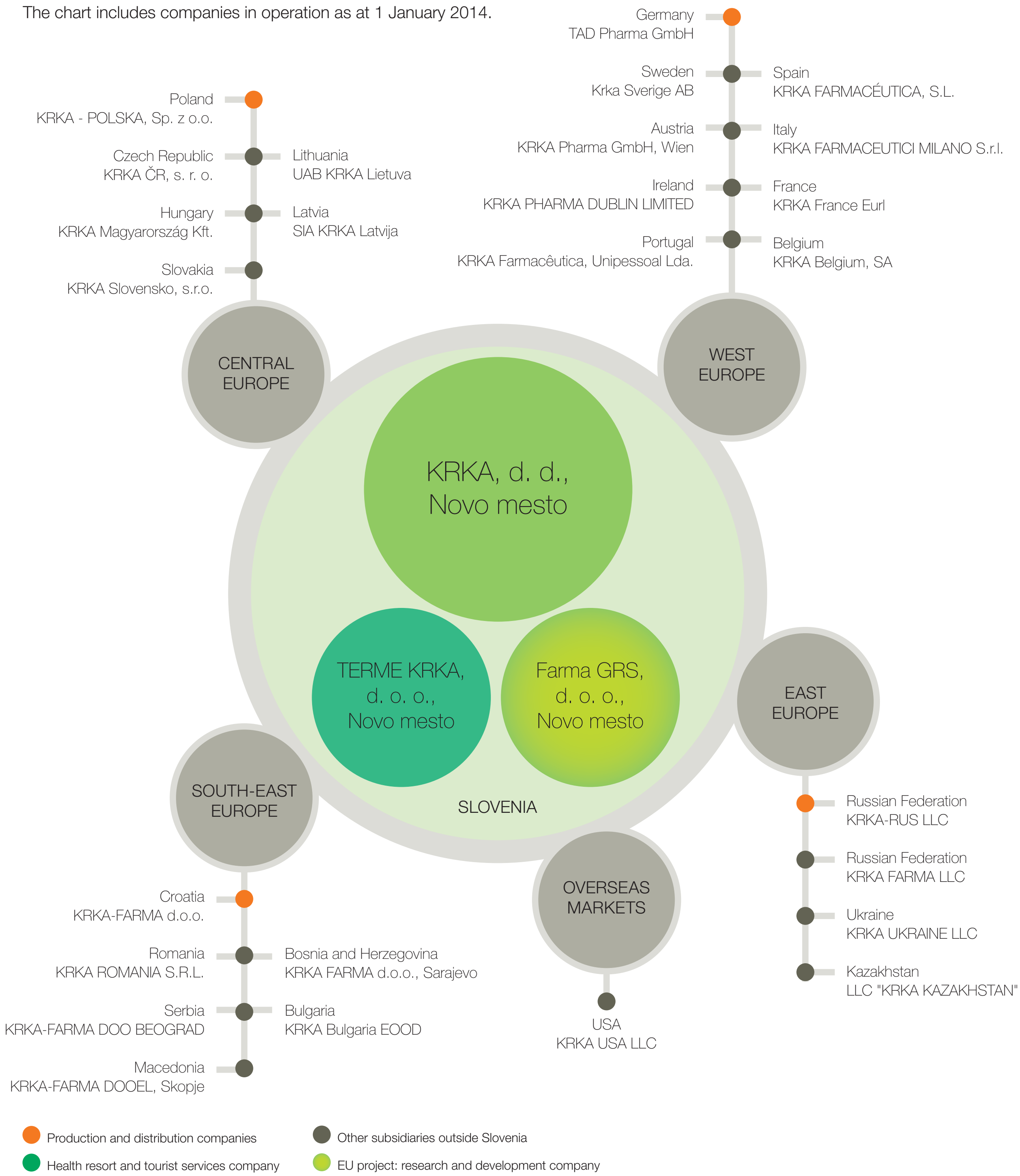
In order to increase the competitive advantage of our product portfolio and maintain a large share of vertically integrated products, Krka has been allocating 8 to 10% of its revenues to research and development. Krka has more than 170 new products in the pipeline. A large share of revenue is generated by sales of new products, i.e. products launched on different markets in the past five years.

Sales by groups of products and services in 2013



Krka Group organisation chart

The chart includes companies in operation as at 1 January 2014.



Overview of significant events

Events

For the second time in a row, we organised the socially responsible campaign Krka's Week of Charity and Volunteering. In the past two years, the campaign's various charity actions have brought more than 1,300 employees together under the slogan Charity Is Also a Part of Us.

During Krka's Week of Charity and Volunteering, we released 14 automatic external defibrillators (AEDs) for use. These electronic devices may stop life-threatening arrhythmia during a cardiac arrest.

At the 18th Annual General Meeting of the Company, the participants approved the proposed dividend per share in a gross total of EUR 1.61.

In the Russian Federation, the new distribution centre Krka-Rus 2 started providing its services.

As part of the 43rd Krka Prizes, we awarded the best secondary school research projects and the best undergraduate and postgraduate research projects.

Krka successfully passed the 18th audit of its integrated management system conducted by the Slovenian Institute of Quality and Metrology (SIQ). The auditors inspected five management systems adapted to the requirements of various standards (ISO 9001, ISO 14001, HACCP, BS OHSAS 18001 and ISO/IEC 27001).

In 2013, we again organised a meeting with the locals of Novo mesto. We presented our activities, results and plans, especially those with a close relationship to environmental protection.

For the seventh successive time we arranged the traditional gathering of local sponsored parties. We briefed their representatives on our business performance and other activities of the Company. Good practices were exchanged, which further strengthened our co-operation.

At the traditional Krka Awards Day, we awarded plaques to our long-standing employees, best employees, best managers, and the proposers of the best innovations and proposals to thank them for their services.

We organised a gathering of the proposers of the best innovations and proposals. Inventive work has formed part of Krka's culture since it was established. In the last decade, we have had a special system in place for the even more intensive encouragement of inventive work.

We presented awards to Krka's best male and female volunteers of 2013 for the second consecutive time. In line with the already established tradition, we also thanked all Krka's long-standing blood donors on the occasion.

Krka is the only company in Slovenia that examines and approves the skills required to acquire the national vocational qualification (NVQ) certificates for the pharmaceutical industry. At the end of 2013, we awarded certificates to 139 employees who had successfully completed their training in three NVQ programmes: production process worker in the pharmaceutical industry, process worker in the production of pharmaceutical ingredients, pharmaceutical logistics process worker.

and awards in 2013

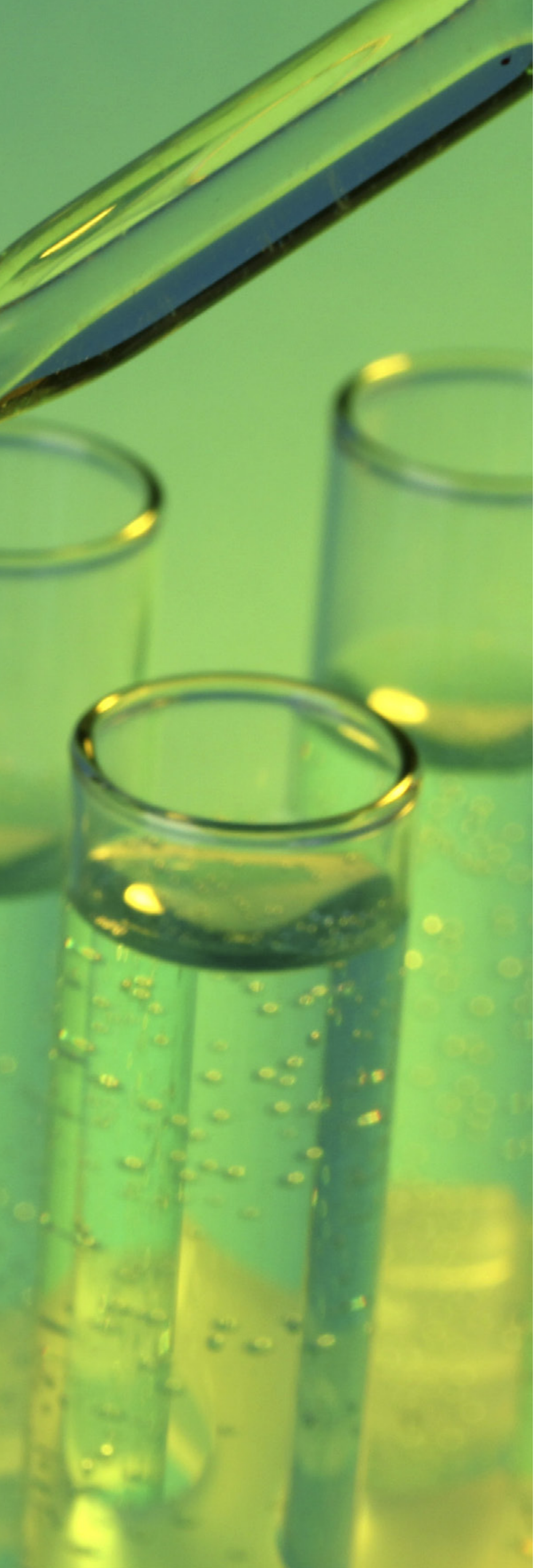
Prizes and awards

- The Slovenian media company Dnevnik conducted a research project Zlata nit 2012 (Golden Thread) and awarded Krka as the best employer in the category of large companies.
- The Slovenian Chamber of Commerce and Industry awarded Krka at the 11th Innovation Day with the Golden Award for the bilayer tablets with a combination of two active substances for the treatment of hypertension.
- The Chamber of Commerce and Industry of Dolenjska and Bela krajina awarded Krka two Golden Awards and one Silver Award for the best innovations in 2012. The golden awards were given for the innovations: "Bilayer tablets with a combination of two active substances for treatment of hypertension" and "Stable aqueous formulation containing a low soluble active substance". The Silver Award was granted for the development of new separation processes based on two-phase media for application in the pharmaceutical industry.
- According to research conducted by the Kline & Partner marketing agency, Krka was once again ranked at the top of the most renowned Slovenian companies.
- We received a Bronze Effie Award in the Russian Federation for marketing and communications strategies for Nalgesin. The award proved that our marketing solutions are successful and creative.
- Planet GV and SOFOS, Inštitut za izobraževalni management (the Institute for Educational Management) together organised the annual meeting of teaching professionals where Krka was presented a Top-10 Award for systematic investments in employee training.
- The Slovenian business daily Finance organised the 14th consecutive competition for the best annual report. Krka won top prize for the best 2012 annual report in the category of large companies, and the commission also awarded Krka's annual report as the best annual report of all companies in the area of communications.
- At the 28th Selection of Best Managers and Companies in Southeast Europe in Sarajevo, the President of the Management Board and Chief Executive, Jože Colarič, was awarded Best Manager of the Decade Award.
- The Chamber of Commerce of Dolenjska and Bela krajina presented the Director of Human Resources, Boris Dular, an award for human resource management.
- Univerzitetno središče Novo mesto (the University and Research Centre Novo mesto) presented the Nahtigal Award to Dr Franc Vrečer, Assistant Director for Research and Development, and Dr Aleš Gasparič, Head of Biochemistry, for their long-standing mentorship of young people in the production of doctoral dissertations, master's theses, specialist and degree-awarding works.

Events after the accounting period

- The uncertainty of business operations in the Ukrainian market has increased.
- In February 2014, Krka's subsidiary in Sweden, Krka Sverige AB, received the decision of the Appeal Court from Oslo on the dispute between AstraZeneca AB and Krka Sverige AB over the alleged infringement of patent right NO 307 378 protecting the special purity level of medicine containing the active substance esomeprazole. The Appeal Court from Oslo ruled that the subsidiary Krka Sverige had infringed the patent right. Krka Sverige was selling the product Esomeprazol Krka in Norway from October to December 2010, so it was ordered to compensate the company Astra Zeneca for lost profit and legal expenses in a total of approximately EUR 2 million. Krka has filed an appeal with the Supreme Court of Norway. The claimed liability is included in the consolidated accounting statements of the Krka Group for 2013.
- On 1 January 2014, Krka's five sales regions were complemented with another one. Our sixth sales region, Overseas Markets, aims to exploit the sales potential of the Middle East, Far East, Africa, and the Americas.
- In the period from 2 January 2014 to 31 January 2014 (followed by the Close Period), we acquired 51,595 treasury shares in a total value of EUR 3,180,371.97. The holding currently totals 2,612,600 treasury shares (7.375% of all shares).

Our advantage
is our vertically
integrated
business model.



An important contributor to our process efficiency and competitiveness is the vertically integrated business model. We use it to plan and control the entire process:

- customer demands;
- development and research;
- production of raw materials;
- supplies (purchases);
- production;
- warehousing;
- quality control;
- quality assurance;
- distribution;
- marketing and sales; and
- customer satisfaction monitoring.

We develop medicinal products from active ingredients through to finished products and obtain marketing authorisations in several markets.

In 2013 we acquired marketing authorisations for

17

new products in 35 pharmaceutical forms.

In all markets we obtained

515

new marketing authorisations.

Krka's strategic objective by 2018 is to retain the largest share possible of vertically integrated products.

Corporate Governance Statement

Krka's corporate governance principles are based on a two-tier system in which the Management Board manages the Company and is controlled by the Supervisory Board. The 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;
- Supervisory Board; and
- Management Board.

Annual General Meeting

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

The Management Board calls the Annual General Meeting once a year, issuing the notice at least 30 days before the due date. Access to the complete 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 as of the date of record, which is 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 contents of the agenda, taking all legal or other restrictions on the disclosure of information into account.

The 18th AGM of the Company was held on 4 July 2013. The shareholders:

- received information about the 2012 Annual Report, the remuneration of Management and Supervisory Board members, the auditor's report, and the report of the Supervisory Board on its verification and approval of the 2012 Annual Report;
- adopted the resolution on the appropriation of accumulated profit for 2012;
- discharged the Management and Supervisory Boards from liability in 2012;
- appointed the auditor for 2013; and
- discussed the proposals motioned by two shareholders in their request to extend the AGM agenda, i.e. to withdraw treasury shares, to revoke the resolution adopted at the 16th AGM concerning the authorisation for acquisition of treasury shares, to replace the said motion with a new one, and to amend the Articles of Association – the AGM did not pass those motions. They also discussed the counter-proposal regarding the appropriation of accumulated profit, but did not pass it.

The resolutions adopted by the 18th AGM were published in the Delo newspaper, on the SEOnet and ESPI, in the Polish information dissemination system, and on the Krka website (http://www.krka.biz/en/for-investors/documents/general-meetings/18th-annual-general-meeting-notice/5721/).

According to the financial calendar for 2014, this year's Annual General Meeting is due on 3 July. The call for the AGM and the proposed resolutions, the place of the meeting and eligibility conditions will be published in the Ljubljana Stock Exchange's SEOnet system, the Warsaw Stock Exchange ESPI system, the Delo newspaper, and on the Krka website.

Supervisory Board

The Supervisory Board supervises the Company's operations and business management, 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 Board members appointed by the AGM. Supervisory Board members are appointed for a five-year term and may be reappointed. Since the term of office of the previous Board came to a close, the 15th Annual General Meeting elected the current Supervisory Board for a term of office of five years, starting on 21 June 2010.

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

THE CURRENT SUPERVISORY BOARD WAS APPOINTED 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 practice, Supervisory Board members not only receive meeting attendance fees, but also earn fixed payments for their function.

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

The amounts are specified in the resolutions of the 16th AGM.

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

Members of the Supervisory Board pursue the Company'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 cases 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 2013 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. He holds a master's degree in international economics. He graduated in geography, and is a professor of geology. He started his professional career in the private company Oikos, d. o. o., before assuming the position of 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 also worked as a consultant to the Management Board of SKB banka. He acted as President of the Management Board of Kapitalska družba for several years. From December 2003 to June 2005 he was President of the Management Board of Zavarovalnica Triglav, and was then employed as a consultant to the Management Board of Triglav Reinsurance. He continued his career in insurance at Aksum where he led and collaborated on consultancy projects. Since January 2011 he has been President of the Management Board of Abanka Vipa d. d.

In 2003 he was certified by the Slovenian Directors' Association (A and B licences).

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

Born in 1964, Matjaž Rakovec is from Stanežiče pri Ljubljani. A graduate economist, he initially worked for a year as a sole trader before being employed as an independent salesman, first by Intertrade d. d. and then by Anga, d. o. o., both in Ljubljana. In 1994 he was employed by the Ljubljana regional unit of the insurance company Zavarovalnica Triglav, d. d., as Assistant Director and Head of Marketing Insurance to Businesses. He was also in charge of IT. He also worked for Studio Moderna, d. o. o., and acted as a consultant to the Management Board of Mercator, d. d. In 2006 he became Director of the Ljubljana regional unit of Zavarovalnica Triglav, and from 2009 to the end of May 2013 he functioned as President of the Management Board of Zavarovalnica Triglav.

In 2012 he was certified by the Slovenian Directors' Association. He is also a member of several 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 the head of marketing in the metal manufacturing section of the company DEKOP in Novo mesto. In 1993 she was employed by the Government of the Republic of Slovenia where she headed the Prime Minister's Office for five years. She then served briefly as Secretary General of the Ministry of Foreign Affairs. For a year and a half, she also worked as the director of the Prime Minister's Office.

In February 2003, she started work for Nova Ljubljanska banka (NLB) in various positions. Among others, she worked for five years as Secretary General of NLB and for four years directed the bank's sector for capital investments management and control. In this period, she also served as chairperson or member of supervisory bodies and audit committees in several companies of the NLB Group. At the beginning of 2014, she assumed the posts of director of the Directorate and advisor to the Management Board President at Gorenjska banka, d. d., Kranj.

She is certified by the Slovenian Directors' Association. Since 2008 she has acted as deputy president of the Management Committee of the Slovenian Directors' Association. For one term of office, she was a member of the supervisory board of Kapitalska družba, d. d., Ljubljana, and is a supervisory board member of Krka, d. d., Novo mesto.

Assoc. Prof. Sergeja Slapničar PhD

Born in 1971, Associate Professor Sergeja Slapničar PhD is from Lesce. She holds a doctorate in management and organisation. She started her career as an intern at Deloitte & Touche Ljubljana in 1994. In 1995 she was employed as an assistant for accountancy and auditing by the Faculty of Economics at the University of Ljubljana, where she still works as an associate professor and a lecturer for several subjects. She is the author of a number of scientific and professional works, and a member of the European Accounting Association and the American Accounting Association (EAA and AAA).

Since June 2013, she has been a member of the Supervisory Board of NLB and for the second term in office the President of the Settlement Committee under Article 609 of the Companies Act of Slovenia (ZGD-1) for examining share exchange ratios applied in company ownership transformations. She is a lecturer at the Slovenian Directors' Association and gives lectures in director training courses. In the period from 2008 to 2012 she was 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. After completing secondary school, he enrolled at the Faculty of Natural Sciences and Engineering at the University of Ljubljana and graduated in chemical technology in 1967. He immediately took up a job at the INIS glass factory, and moved to the IMV car factory in Novo mesto when INIS went bankrupt. In 1970 he was employed by Krka, where he worked in various fields, including five years in production, seven years in the area of investments, nineteen years in the area of finance, and from 2001 until his retirement in March 2010 as Deputy Chief Executive of Krka.

In 2008 he completed the training for supervisory and management board members at the Slovenian Directors' Association.

He has been a supervisory board member of two Krka, d. d., Novo mesto subsidiaries: Krka Farma, Zagreb (Croatia) and Krka Zdravilišča, Novo mesto. Beyond Krka, he has been a supervisory board member of commercial banks, an insurance company, a health institution and public companies in Slovenia and Croatia. He is currently a supervisory board member of TPV d. d., Novo mesto.

Prof. Julijana Kristl PhD

Professor Julijana Kristl PhD, born in 1953, is from Ljubljana. She holds a PhD in pharmaceutical science. In 1977 she was employed by the Faculty of Pharmacy at the University of Ljubljana. She continued her studies in the pharmaceutical industry at the University of Geneva and elsewhere. She has been successfully carrying out various scientific, teaching and managerial jobs. Her research work focuses on modern active substance delivery systems, nanotechnology and biomaterials. She is the author of several scientific and expert works, and has been effectively passing on the achievements of her scientific research work to her students in various study courses. She has held a range of functions. She has served as a Vice-Dean, the Head of the Chair of Pharmaceutical Technology, for two terms as the Dean of the Faculty of Pharmacy, and for two terms as the Vice-Rector at the University of Ljubljana in charge of education, enrolment and quality.

She is currently involved in research projects, gives lectures and holds various functions in Slovenia and in important international institutions such as the US-based American Chemical Society and Controlled Release Society and Association de pharmacie galenique industrielle (International Society of Drug Delivery Sciences and Technology) from France. She is a member of editorial boards of the Journal of Drug Delivery Science and Technology, Ars Pharmaceutica and Journal of Biomedical Nanotechnology. She is a peer reviewer for more than 30 international scientific journals with an impact factor ranking. 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

Born in 1967, Franc Šašek is a graduate of organisational science. He came to Krka in 1984. Prior to 2000 he worked as a technologist, the Head of the Technical and Technological Preparations Department, and Head of Section. Since 2001 he has served as a senior specialist in Engineering and Technical Services in the area of maintenance and project management. In 2004, he was actively engaged in implementing the business process management system (SAP) as the project group leader for maintenance and was later appointed process owner for maintenance in Krka responsible for the system's implementation, development and optimisation. His function remained the same when the system was being installed in Krka's subsidiaries. Since 1999 he has also worked in the area of quality assurance, as a certified quality officer, quality trainer and registered internal quality auditor. He is jointly responsible for the development and maintenance of the integrated quality system.

In 2009, he underwent training for supervisory and management board members at the Slovenian Directors' Association.

He was elected president of the Krka Works Council for the 2009 to 2013 term and again for the 2014 to 2018 term and assumed the position of a Supervisory Board member 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. She started as a pharmaceutical engineering graduate. She passed the certification examination in pharmaceutical engineering, obtained her master's degree, and gained her doctorate in pharmaceutical science. She first worked in Research and Development, where she prepared technical documentation for proposed new products. After their approval, she conducted projects in Slovenia from their marketing authorisation to their launch. Since 1997, she has been engaged in quality management, and was appointed Deputy Director of Quality Management. Since March 2007, she has also served as the Head of International Quality Assurance. In September 2011 she was appointed Director of Quality Management.

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

Tomaž Sever MSc

Tomaž Sever was born in 1967. After graduating as a mechanical engineer, he acquired 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 collaborating in the creation of sales networks abroad. Before coming to Krka, he worked for IBM Slovenia from 1992 to 1995 where he was initially 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 and on 21 June 2009 was re-elected for another 5-year term of office.

Management Board

The Management Board **tasks** are to:

- manage the Company and make business decisions directly and independently;
- adopt the Company's development strategy;
- ensure appropriate risk management; and
- act with the reasonable care and diligence of a good and honest manager and protect the business secrets of the Company.

The Management Board **is composed of** five members:

- President of the Management Board;
- three members; and
- a Worker Director who represents the employees' interests regarding human resource and social issues, but is not authorised to represent the Company.

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

The **Management Board's operational functions and assignment of duties** are defined by the Management Board Rules of Procedure. The body's operating approach is to co-ordinate 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 Management Board member is responsible for a certain number of organisational units, which permits direct co-operation between the Management Board and the executive directors, and at the same time a Management Board member directly manages certain organisational units.

The following company bodies support the Management Board's work:

- Board of Directors;
- Sales Committee;
- Development Committee;

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

- Quality Committee;
- Investment Committee;
- Human Resource Committee;
- Information Technology Committee;
- Economics and Finance Committee; and
- Corporate Identity Committee.

The committees bring experts together from individual sectors of the Krka organisation. They prepare business policies and strategies for individual areas and also have some decision-making responsibilities relating to the implementation of annual plans.

Emoluments, reimbursements and other benefits for Management Board members are defined in work contracts drawn up between the Supervisory Board and individual Management Board members. The Supervisory Board adopts Rules Defining the Bonus Element of Management Board Remuneration, and also determines the remuneration for Management Board members. In line with the Corporate Management Code, the Supervisory Board adopted a **Management Board Remuneration Policy** in 2010. The Supervisory Board amends or updates both documents in the light of business circumstances. The latest amendment was made in February 2014.

Payments to the Management Board members are made **in cash** and are presented in financial statements under the Note Transactions with Related Persons, which also discloses the **ownership of Krka shares** by Management Board members.

Members of the Management Board and persons related to them report to the Company and competent institutions about any acquisition or disposal of shares of the Company or associated companies they may make. Krka makes this information public.

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

MEMBERS OF THE MANAGEMENT BOARD

Jože Colarič

President of the Management Board and Chief Executive

Jože Colarič was born 1955 in Brežice. After completing secondary school in Novo mesto, he studied at the Faculty of Economics in Ljubljana, and graduated in 1979. He has worked for Krka since 1982, starting in the Finance Sector, where he was first Head of Foreign Currency Payments, and then Assistant Director. In 1989 he took charge of exports within the Import-Export Sector, and two years later became Deputy Director of Import-Export. In early 1993 he was appointed Deputy Chief Executive for Marketing and Finance, and in September of the same year also became Director of Marketing and Sales. In 1997 he was appointed to the Management Board. In the following year the Supervisory Board appointed him Deputy President of the Management Board, and in 2002 acknowledged him as a future president of the Management Board, putting him in charge of proposing candidates for the new Management Board team. At its meeting of 12 July 2004, the Supervisory Board appointed him President of the Management Board and Chief Executive, with a 5-year term of office beginning on 1 January 2005. At its meeting on 21 January 2009, the Supervisory Board appointed him for a further 6-year term of office, starting on 1 January 2010.

Aleš Rotar PhD

Member of the Management Board and Director of Research and Development

Aleš Rotar was born in 1960 in Zadar, Croatia. He graduated in pharmacy from the Ljubljana Faculty of Natural Sciences and Engineering in 1984, and earned a master's degree seven years later. In 1993 he gained an international MBA from IEDC, Brdo. He acquired a doctorate from the Faculty of Pharmacy in 2000. He started work for Krka in the Stability Department in 1984. In 1991 he became Head of Pharmaceutical Technology in 1991, and two years later became Head of Pharmaceutical Development within Research and Development. In 1998 he was appointed Deputy Director of Research and Development and in 1999 became the 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 on 29 July 2009, the Supervisory Board re-appointed him to the Management Board for a further 6-year term of 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, and graduated in 1977. She started working for Krka in 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 and commenced work with the Economic Planning Service. Since 1999 she has been Director of Accounting and Controlling. She first became a member of the Management Board on 1 April 2005. At its meeting of 29 July 2009, the Supervisory Board re-appointed her to the Management Board for a further 6-year term of office, starting on 1 January 2010.

Vinko Zupančič PhD

Member of the Management Board and Director of Product Supply

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

Danica Novak Malnar

Member of the Management Board – Worker Director and Head of Pharmaceutical Production

Danica Malnar Novak was born in 1957 in Kremen, near Krško. In 1982 she graduated in pharmacy from the Faculty of Natural Sciences and Engineering in Ljubljana. She started working for Krka in 1982 as an intern in pharmaceutical production, and after that worked as a technologist. In 1986 she was appointed Head of Pharmaceutics in Ljutomer, and two years later on her return to Novo mesto Head of the Division for Operative Production Planning. In 1994 she was placed in charge of the Production Planning Division. She has been Head of Pharmaceutical Production since 1999. She was appointed to the Management Board in 1998 as a workers' director, and was first reappointed in 2003. She was elected as a workers' director for the third term in 2007 due to her positive personal traits, work results and the great trust and respect she has earned from her colleagues. She was again appointed the workers' director in 2012. Her latest term in office began in early 2013 and expires at the end of 2015.

Governance of the Krka Group

The Krka Group comprises the controlling company Krka and subsidiaries in Slovenia and beyond. Krka is generally the sole owner of the subsidiaries, which are organised as limited liability companies.

Uniform rules on governance, organisation and operation are applied to all companies in the Krka Group, unless required otherwise by local legislation. The controlling company defines the strategies and operational objectives of all individual companies in the Krka Group and monitors the implementation of plans. To ensure cohesive management and supervision across the Group, the Management Board of the controlling company also acts as the annual general meeting of all subsidiaries. Individual Management Board members are also members of the supervisory boards or boards of directors of the subsidiaries, but are not additionally paid for their function.

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

Internal auditing

Internal auditors act according to medium-term and annual work plans and the International Standards for the Professional Practice of Internal Auditing (the Standards) to conduct their mission in the Krka Group. This has been certified by an independent external audit.

In compliance with the 2013 annual plan, 14 regular internal audits were carried out in line with the **COSO ERM** (Committee of Sponsoring Organisations – Enterprise Risk Management) methods. The work plans and reports on internal auditing are adopted and approved by the Management Board and the Supervisory Board's Audit Committee.

The mentioned methods are globally recognised and serve as the basis for comprehensive risk management. The internal auditors apply the methods to assess the fulfilment of auditing objectives in several categories: operations, reporting and compliance with the regulations for each audit field.

Internal audits were carried out in compliance with the said methods in the fields of pharmaceutical development, marketing, sales, quality management, transport, and information technology. Regular internal audits were also conducted in three subsidiaries and three representative offices abroad. In addition, consultancy work was carried out in line with the Standards.

WE CONTRIBUTE TO COMPREHENSIVE RISK MANAGEMENT.

Internal auditors were able to give an assurance that the audited fields had a functioning and effective internal control system in place to achieve the objectives in those fields. There was, however, room for improvements, so they made a series of recommendations which were categorised by individual risk levels, and they regularly verified their implementation.

The internal auditors also work with external auditors, certified information system auditors (CISA) and the Supervisory Board's Audit Committee, to which they report directly.

Internal controls and risk management relating to financial reporting

The Krka Group has established internal controls, i.e. guidelines and procedures that are implemented at every level of operation, to manage risks related to financial reporting. The internal controls' purpose is to ensure the reliability of financial reporting, and compliance with the applicable legislation and other internal and external regulations. Implementation of standard information systems in subsidiaries and the development of business information systems increase the efficiency of accounting data exchange between the subsidiaries and the controlling company, and hence also control over information.

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

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

External auditing

The certified auditing company Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana, audits the financial statements of the controlling company and the consolidated financial statements of the Krka Group. In relation to the performed audit, the external auditor reports its findings to the Management Board, Supervisory Board and the Auditing Committee of the Supervisory Board.

Transactions between the Krka Company and the auditing company Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana, and transactions between companies within the Group and individual auditing companies are disclosed in the notes to the financial statements Transactions with Auditing Companies.

Corporate Governance Code compliance statement

The Management Board and Supervisory Board of Krka, tovarna zdravil, d. d., Novo mesto hereby declare that in 2013 individual members of the Management and Supervisory Boards, and the Management and Supervisory Boards as bodies of a listed company, acted in compliance with the principles of governance for listed companies and worked to ensure their implementation within the Company.

Krka complied with all provisions of the Corporate Governance Code in force since 8 December 2009 which were drawn up and adopted unanimously by the Ljubljana Stock Exchange, the Slovenian Directors' Association, the Managers' Association of Slovenia and are published on the website of the Ljubljana Stock Exchange.

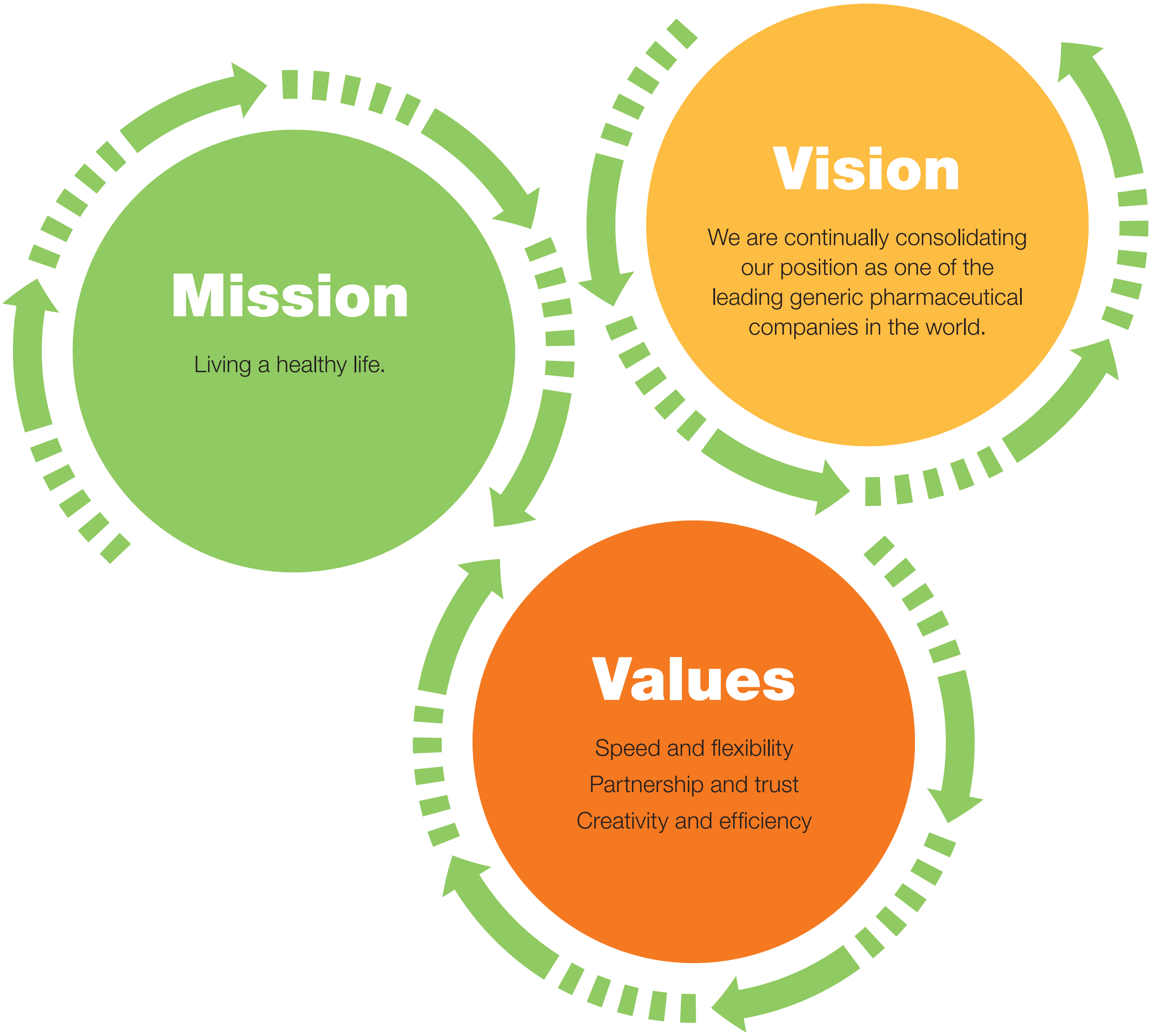
Krka also complied with most provisions of the code relating to companies listed on the Warsaw Stock Exchange, i.e. the Code of Best Practice for Warsaw Stock Exchange Listed Companies. The discrepancies are explained in a separate document, which is published in the dissemination system of the Warsaw Stock Exchange.

Novo mesto, 3 April 2014

Jože Colarič
President of the Management Board and Chief Executive

Jože Lenič MSc
President of the Supervisory Board

Krka Group development strategy



In November 2013, the Krka Management Board of the Company adopted the Krka Group's development strategy for the period from 2014 to 2018, and presented it to the Supervisory Board. The success of implementing the strategic objectives is measured at three levels: Group, each product group, and business function.

The Group's performance criteria are monitored by the Management Board, while criteria at the level of product and service groups and business functions are monitored by the relevant committees. The guiding principle in managing the system of criteria is to increase the competitiveness of the Group as a whole and also of the individual companies within the Group.

Key strategic objectives until 2018
To attain on average at least 5% annual organic growth in sales
To ensure growth (in addition to organic growth) by establishing long-term business arrangements, including joint ventures, and by merging with companies of interest to us in business terms or available to us
To ensure that new products represent at least one-third of total sales
To launch the selected product portfolio as the first generic pharmaceutical company in our target markets
To strengthen the competitive advantages of the product portfolio
To maintain the largest possible share of vertically integrated products
To improve cost effective use of assets
To increase product cost efficiency
To improve all business function innovations
To remain independent

Key strategies until 2018
To focus primarily on European and central Asian markets
To establish a new sales region, Overseas Markets, with sales offices for the Middle East, Far East, Africa and the Americas to enhance how the sales potential of these areas is exploited
To streamline the orientation to key markets (Slovenia, Croatia, Romania, Ukraine, Russian Federation, Poland, Hungary, Czech Republic, Western Europe), key customers and key products
To establish our presence in Western European markets by doing business through our own marketing-and-sales companies and by marketing products under our own brands
To intensify pharmaceutical and chemical activities and increase the range of prescription products in three key therapeutic fields (medicines for the treatment of cardiovascular diseases, the alimentary tract and metabolism, and the central nervous system) while entering new therapeutic fields and expanding the range of non-prescription products in selected therapeutic fields
To enhance the vertical integration from development through to product manufacture
To ensure the permanent supply of incoming materials and optimise the supply by aiming for the constant reduction of purchasing prices
To develop generic medicines and prepare market authorisation documentation before the expiry of the patent for the original medicine
To strengthen all kinds of connections with external institutions and companies in the field of development
To increase investments in production, development and infrastructural capacities
To acquire local pharmaceutical companies, plan take-overs and mergers and various kinds of long-term business arrangements (joint ventures) in selected markets in order to comply with the primary objective of attaining market shares and entering new therapeutic fields
To reduce the impact of financial and economic risks on the Krka Group's operations
To pursue a dividend-increase policy whereby up to 50% of the consolidated profit of major shareholders generated in the year before is allocated to dividends by considering the Group's financial requirements for investments and mergers in each year
To strengthen the professional and cost synergy of the Krka Group, and maximise the utilisation of competitive advantages in the business environments in which Krka companies operate abroad
To enhance the internationalisation of all business functions by asserting English and Russian as the key foreign languages of communication throughout the Group
To maintain our economic, social and environmental responsibilities to the surroundings in which we operate
To operate according to principles of business excellence and to strengthen the recognition of Krka and its positive public image

Krka Group business objectives for 2014
Sales of products and services are estimated at EUR 1,245 million
East Europe is expected to be the largest sales region, and the Russian Federation to remain the most important individual market
The proportion of sales in markets outside Slovenia is estimated to exceed 93%
Prescription pharmaceuticals will remain the most important product group, and are expected to represent more than 80% of overall sales
Profit is planned at the level attained in 2013
The number of employees is projected to grow in Slovenia as well as abroad, in total by more than 4%
Investments of more than EUR 164 million are planned, dedicated especially to extending and modernising the production and development-and-research facilities and infrastructure

Macroeconomic forecast for 2014

The conditions in most international markets are expected to remain challenging and unstable. Krka is present in more than 70 markets and applies the vertically integrated business model. In this regard, the Company expects that the imminent macroeconomic conditions will provide a sufficiently favourable baseline for Krka's sales to increase also in 2014.

Macroeconomic forecasts for 2014 in figures

Country	Growth in pharmaceutical market (%)	Value of pharmaceutical market in EUR million at wholesale prices	FX rate (currency/EUR)
Slovenia	-4	495	eurozone
Croatia	-3	820	7.5
Romania	2	2,800	4.5
Russian Federation	1–3	16,000	47–49.5
Ukraine	-2	3,000	13.5
Poland	-3	5,100	4.0
Hungary	2	2,000	300
Czech Republic	-9	1,740	27
West Europe	2	175,000–180,000	eurozone

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

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

SLOVENIA

In 2013, Slovenia recorded a further drop in economic activities, but the trends are expected to reverse in the second half of 2014. Low consumption, few investments and the current conditions in Slovenian export markets bring the risk that economic growth might fall short of the projections, while bank rehabilitation, the resulting company deleveraging, and potential reforms aiming to stimulate the national economy represent the baseline for future improvement.

In 2014, we expect the domestic pharmaceutical market to decrease by 4%. Its value is estimated at approximately EUR 495 million.

CROATIA

2013 was positively marked by Croatia's accession to the European Union, but even so the prevailing economic conditions remained challenging. Unemployment is still rising, and disposable household income is low. Both factors in combination with the deleveraging of the banking and private sectors and economic uncertainty negatively impact consumption and investments which are both crucial for economic growth. Public debt currently represents approximately 60% of GDP, among the lowest levels in the European Union, but is expected to increase due to the economic stagnation. No major changes are expected in the kuna exchange rate.

The value of the Croatian pharmaceutical market in 2014 is estimated at approximately EUR 820 million, which is 3% less than the year before.

ROMANIA

The double-digit rise in exports recorded in 2013 was primarily due to Romanian car manufacturing and counterbalanced the low domestic demand and fall in investments. Despite the poor conditions, the 7% unemployment rate among young people remained stable, and is also expected to remain unchanged in 2014. Public debt was below 40% of GDP in 2013, and is forecast to remain at the same level in 2014, so in terms of public finances Romania is expected to retain its position among the stable countries. Its economic growth is expected to reach approximately 2%, which is comparable to the 2013 figure. In 2014 Romania will be one of the few European countries to record economic growth.

The value of the Romanian pharmaceutical market is expected to grow in 2014 by approximately 2% and reach nearly EUR 2.8 billion.

THE RUSSIAN FEDERATION

In 2013, economic growth was almost half the level seen in the previous three years due to the moderate yet comprehensive slowdown of the basic economic growth factors, i.e. domestic consumption, investments, net exports and public consumption. In 2014, the unemployment rate is projected to be less than 6%, which is slightly worse than the year before. Public debt represents less than 5% of gross GDP, so the potential for further progress is substantially supported by the prices of fuel and energy, global economic trends and national economic policy adapted to the prevailing circumstances.

In 2013, a 5% growth was recorded, which was lower than expected. In 2014, the Russian pharmaceutical market is forecast to expand by 1 to 3% and reach the value of approximately EUR 16 billion.

UKRAINE

Analysts emphasise the need for structural reforms in Ukraine. The country will have to make a decision about its strategic orientation and opt either for its traditional markets or the European markets. The conditions remain uncertain and the already weak demand for steel products, which are basic Ukrainian export goods, has further slumped.

The exchange rate of the hryvna is expected to remain uncertain. The demand of the local population and economy for foreign currencies is substantial, and the government needs them to repay international loans, so a substantial depreciation of the domestic currency may be pending.

We have considered the economic circumstances in Ukraine and the forecasts by independent analysts. Based on these, we forecast a negative growth of -2% in the Ukrainian pharmaceutical market and its annual value to be just under EUR 3 billion.

POLAND

In 2013, Poland saw surprisingly low, yet still positive, economic growth which is expected to improve slightly in 2014 especially due to the favourable foreign currency trends already seen in 2013. The unemployment rate is projected at a relatively high 10%. The balance of public finances is expected to decrease despite the fact that pension funds were transferred from the second pension pillar to the budget. No major changes are projected for the złoty exchange rate.

Given the expected 3% fall, the value of the Polish pharmaceutical market will reach around EUR 5.1 billion.

HUNGARY

Hungary recorded low, but still positive economic growth in 2013. In 2014, moderately favourable business conditions are expected as well as further slight economic growth, especially due to the regulated prices of fuels and energy and positive export trends. The employment rate is estimated at more than 10%, employment in the private sector is expected to stagnate and public debt is anticipated to reach approximately 80% of GDP, so the circumstances will remain uncertain. The exchange rate is forecast to retain its value of approximately 300 forint per euro.

According to our estimates for 2014, the Hungarian pharmaceutical market will grow by 2% and its value will amount to EUR 2 billion.

THE CZECH REPUBLIC

In 2013, the 1% increase in VAT and rises in other taxes and levies, as well as the growing prices of fuels and energy further aggravated the already unfavourable economic trends. The strengthening of financial brokerage positively contributed to economic growth, but the manufacturing sector stagnated. Employment was increasing slightly in particular due to the more flexible forms of employment. We expect the Czech krona's exchange rate to remain relatively stable.

The Czech pharmaceutical market is expected to contract by 9% and its value will reach approximately EUR 1.74 billion.

WESTERN EUROPE

Several European Union countries have adopted sets of measures with unfavourable short-term effects that represent inevitable structural measures in the long term. In addition to these, consolidation trends in the public finances of individual countries as well as at the European Union level have been observed. As a result, the basis for economic growth in the future has been set up. The recovery will take some time and additional reforms will have to be implemented to enhance the modernisation and advance the innovation of European Union economies. This is the only way to ease the persistent growth of the unemployment rate that has already reached more than 10% on average and is unevenly distributed, so it represents a much greater problem in certain regions than might be inferred from the average figure.

We estimate that the value of the Western European pharmaceutical market will range between EUR 175 and 180 billion and achieve 2% growth.

Risk management

The business environment is not only brimming with opportunities, but it poses risks as well. Effective risk management represents an ever more important competitive advantage. Companies that manage risks well generally achieve good results in the market and are regarded as safe investments.

The Krka Group manages risks by applying the principle of functional leadership, meaning that a business function in the controlling company manages and supervises the same business function in all subsidiaries and thus ensures uniform risk management. Specific types of risk are managed on the Krka Group level by the organisational units of the controlling company whose work is related to that particular risk, which are familiar with that particular risk type and employ suitably qualified professionals.

In order to enhance strategic application, all risks and preventive measures on the Krka Group level are entered in the Risk Register, which is updated biannually and submitted to the Supervisory Board Audit Committee for consideration. Where the risks eventuate despite the preventive measures, Krka applies the business continuity management system that includes scenarios of unexpected circumstances and potential incidents along with solutions for ensuring our key processes remain operational and uninterrupted.

The risk management system presented above was also applied in 2013 and we managed risks well, with the outcome that no important risks eventuated.

BUSINESS 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 in production and other capacities, and risks related to procedures for implementing investments	Permanent control over 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, the remuneration system, employee development, permanent education and training, measuring the organisational culture and climate	Moderate
Legal matters	Risks related to providing all operating processes with adequate legal support	Engagement of Legal Affairs in all legal issues of the Company, co-operation with external legal experts	Moderate
Environmental protection	Risks of emitting hazardous substances	Permanent control of emissions and separation of non-compliant water and solvents	Moderate

OPERATIONAL RISKS AND 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 finished products (employees, buildings and equipment, materials, media supply, information)	Business continuity management system, business impact analysis, requirement for the availability of critical resources and services, risk analysis for each area; measures to reduce consequences and improve process resilience against disturbance	Moderate
Product supply	Risks related to the timely supply of finished products and effective utilisation of production capacities	Diligent supply chain planning, and provision of adequate production capacities	Moderate
Quality assurance	Risk of losing the pharmaceutical manufacturing licence	Diligent compliance with regulatory demands, and implementation of all GMP measures in the Company's critical processes	Moderate
Technical services	Risks related to the adequate supply of production media to processes, and adequacy of technical maintenance	Back-up power supply plans, robust demand planning for media supply, redundant capacities, and planned maintenance processes	Moderate
Information technology	Risk of business process disruption due to a 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 an unplanned increase in 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 RISKS			
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 for receivables with 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 due to damage to property	Insurance of labour costs, amortisation and depreciation, other business costs and operating profit, and technical and organisational measures to reduce the impact of business interruption	Low

Business risks

RESEARCH AND DEVELOPMENT RISK

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

We reduce these risks in the early stages of development by process updates, the introduction of modern technologies and adjustments to regulatory demands. The vertically integrated model of development and production allows us to control the whole development and production processes from raw materials through to the finished products.

Regulatory risk management, which is related to changes in the legislation and their 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 the planned content of marketing authorisation documentation together with regulatory bodies by using official consulting mechanisms. This reduces the risk of encountering potential problems or even failure during marketing authorisation acquisition and extension procedures. We are also engaged in working groups of various industry associations to participate actively in drafting legislative amendments in this field.

SALES AND MARKETING RISK

Krka sells its products in more than 70 countries around the world, and conducts business in a variety of geopolitical and macro-economic conditions, legal and competitive environments. It is therefore exposed to different sales and marketing risks of varying intensities.

In individual markets, our key advantages over the competition are a quick response to changed business conditions and a prompt adjustment of sales and marketing activities. With our in-house services and by using independent data sources, we continually monitor market conditions (especially the competing generic producers and local pharmaceutical industry), the legal frameworks for marketing pharmaceuticals, systemic pricing arrangements, and government reimbursements for pharmaceuticals (in some countries partly based on statutory co-funding by medicine suppliers; the so-called claw-back requirement).

We pay special attention to risks related to individual market environments and economies (where the greatest risk is posed by changes in currencies), and risks associated with each customer, in particular the risk of their insolvency or bankruptcy, risks related to payment terms, and other risks related to compliance with contractual provisions. We continually monitor market conditions, analyse them, and adjust payment terms if necessary, and in critical cases also arrange hedging against default on payments. We systematically monitor the satisfaction level of direct and indirect customers. We monitor sales at the primary level (sales to direct consumers, primarily wholesalers) and at the secondary level (wholesalers' sales to final consumers, mainly pharmacies), and optimise inventories throughout the distribution chain.

We regularly evaluate the market potential of individual therapeutic groups and the products within them. We use a range of external data sources to monitor global and regional trends, and conduct our own market research and analyses. We constantly monitor the efficiency of our marketing strategies and tactics with performance indicators, and exert systematic control over marketing activities, which we plan and analyse cyclically. We give special attention to organising and supervising the work of employees in the marketing network. Our employees regularly undergo training courses and we frequently examine their qualifications, skills and how well they are acquainted with working instructions. When marketing our products, we consistently comply with the legislation and ethical norms related to advertising pharmaceuticals and in this relation also provide comprehensive training to all of our employees.

INTELLECTUAL PROPERTY RISK

Respect for the intellectual property rights of third parties, especially patent-related rights, is a basic principle of Krka Group operations. We therefore start the development of a new product by analysing the scope of property rights related to the new product, and determine which solutions are protected. We define and direct our development work on the basis of these findings, and assess whether the solutions produced by our own development infringe the applicable rights of third parties. The current situation and any potential changes in the patent protection field are monitored throughout a product's development right up to its launch.

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

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

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

QUALITY ASSURANCE RISK

The Krka Group monitors quality assurance risks in all its production companies from three aspects: product quality risk, product safety risk, and risk to Group operations. We apply well-known methods to evaluate risks, and implement them in line with good manufacturing practice requirements (ICH Q9 Quality Risk Management).

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

Finished product quality assurance is a primary activity that involves various elements.

- We focus on the suitable quality of incoming materials and perform risk analyses to classify material- and supplier-related risks. Based on this, we design plans and requirements for supplier and contractor approval.
- We ensure the compliance of our production and control equipment and production rooms by qualification and validation procedures of equipment, production rooms, production environment, processes, cleaning, the calibration of instruments as well as maintenance procedures in order to prevent undesirable impacts on the production process and product quality.
- The monitoring and documenting of all processes and procedures along with the implementation of controls are crucial in product quality assurance. We therefore regularly examine, overhaul and upgrade them, and ensure that any necessary process changes are made correctly.
- We ensure compliance with standard procedures applied to the production and control of pharmaceuticals through the regular training of our employees for proper quality and work procedures.
- We ensure product compliance and conformity with requirements by controlling production processes, intermediate products, bulk products, finished products and the production environment.
- We prevent future non-compliance in the event of non-compliant products (deviations, complaints) by applying control mechanisms, tests and investigations of the causes, as well as by taking preventive and corrective measures.

In connection with quality assurance, we assess the risks related to retaining production licences and GMP certificates, and other management systems applied in Krka production units for every quality assurance element separately.

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

INVESTMENT PROJECT RISK

Investment project risks primarily include risks related to planning investments and their value, the purchase of equipment, execution of works, schedules and changes to the original plan. We reduce these risks by implementing a system for selecting contractors and for regularly reviewing them. We supervise all execution phases by ourselves. We review the compliance of contractual documentation from legal and accounting viewpoints. We examine whether potential changes are justified and what impact they would have on costs and schedules. We constantly monitor costs, i.e. regular costs and those incurred by later changes to a project.

HUMAN RESOURCE RISK

We pay special attention to the key personnel crucial for attaining the set objectives of the Krka Group who are also much solicited by our competitors.

We regularly plan and monitor the training and development of our employees and at the same time assign new responsibilities to them in their work, encourage them to take on new duties and delegate them to new job positions. We offer them a range of other incentives to foster their loyalty to the Group and reduce the possibility of them leaving.

Another way to manage the risk related to the lack of professionals in the market is by offering scholarships and grants to students. This approach allows us to attract potential employees who will assist us in the future to meet the set strategic objectives. Due to the lack of suitably qualified workers in the labour market, we systematically educate and train our employees to acquire national vocational qualification certificates.

LEGAL RISK

Legal Affairs is the department of the Krka Group in charge of the legal protection and legality of operations. It is involved in every matter that requires such involvement, constantly follows new developments in the field of legislation, prepares and reviews contracts, produces internal acts, engages in solving disputes and participates in resolving particular issues arising from Group operations.

ENVIRONMENTAL PROTECTION RISK

Certain extraordinary events, including hazardous material spills, fire, prolonged blackouts, certain machinery and appliance breakdowns etc., might have a negative impact on the environment. It is important to reduce the risk of their occurrence as much as possible. However, if they occur appropriate measures must be taken. Krka applies a procedure for recognising extraordinary events. It recognises and evaluates any potential extraordinary event and provides the related set of measures and actions in the case of an emergency. In this way, we reduce the possibility of any such event and ensure the implementation of effective measures by introducing new technologies, technical measures, preventive examination and maintenance of equipment, training and exercising of the employees for the case of an emergency.

In 2013, we recorded no extraordinary events with a negative impact on the environment.

Operational risks and 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 analyse their impact on operations to estimate the criticality of processes and risks to operations.

We apply effective measures for the protection of employees, property and other key resources, and for the prevention of emergencies and disasters. We have designed action plans and disaster relief measures in case of emergency as well as measures to reduce direct damage and operations in extraordinary circumstances until normal operations are restored.

PRODUCT SUPPLY RISK

We constantly monitor the supply market, suppliers and prices of raw materials. We plan our inventories and keep contingency stocks in order to ensure uninterrupted access to the materials required to manufacture finished products. We apply the adopted criteria to assess and select our suppliers and regularly audit them. In addition to the guaranteed quality, we primarily focus on the competitiveness and reliability of supplies when selecting our contractual partners, whose supplies we audit and control regularly. We contract at least two suppliers for 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.

In the warehousing of incoming materials, bulk products and finished products we follow good warehousing and manufacturing practices. To account for major disaster scenarios, our raw material and finished product warehousing systems allow us to keep goods in several dislocated warehouses.

We follow good manufacturing practices in production processes and make sure that the production environment is suitable. We ensure the reliability and high quality operation of production equipment through regular and preventive maintenance. We plan the optimum utilisation of production capacities and measure production efficiency. As part of this, we implement measures for continuous process improvement. We meet the sales demand by purchasing new equipment and making new investments; we increase production capacities and ensure that key products are made at several plants in order to avoid potential 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 risks include risks related to the media supply, reliability and availability of technical systems and metrology.

In order to provide the uninterrupted supply of electric power, we have put in place a back-up electric power system as well as a diesel-powered generator for critical processes. We constantly follow events in the power supply market and make partial purchases. We use natural gas to provide heat energy. Our back-up fuel is fuel oil and we keep surplus stocks of it.

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

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

We regularly carry out preventive and planned maintenance of air-conditioning systems. Our maintenance team is well organised and trained for immediate intervention in the event of failure. The team uses a central control system to rapidly issue alerts and detect failures. It also keeps adequate inventories of spare parts. Non-critical equipment is dispersed to ensure that a single breakdown does not have a key impact on production capacities. Critical equipment is duplicated. All air-conditioning systems and energy utilities are duplicated for systemic information technology premises with technical protection, have security systems in place, and are regularly tested for any potential failures.

We reduce risks related to the reliability and availability of technical systems by continually monitoring operations, providing preventive checks, servicing, improvements to equipment and introducing new maintenance approaches. Failures and breakdowns are rectified according to planned procedures and instructions. In order to remedy breakdowns promptly and effectively, we have trained our own maintenance employees and created an inventory of spare parts, which is regularly checked and replenished. The employees who monitor and maintain technical systems undergo regular training. Their qualifications and skills are regularly tested.

We ensure the reliability and availability of technical systems with our own facilities and employees as well as contracted external partners.

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

INFORMATION TECHNOLOGY RISK

We manage information security risks by applying the system for information management and security certified according to the ISO 27001 standard. Krka applies established methods to define the criticality of information resources. The methods depend on criticality assessments of the processes and information resources. Principal information resources include individual information services and applications. Their criticality level is summarised from all infrastructural elements on which the information service or application depends. Another method for threat detection involves independent security inspections of our information infrastructure.

We have identified threats and risks to all critical information resources. The Management Board has approved all acceptable risks and measures for the elimination of unacceptable risks. To account for major disasters, we have implemented duplicated computer capacities in back-up system rooms (i.e. the Disaster Recovery Centre), and the daily storage of data back-up copies at an appropriately distant location.

In order to further reduce risks related to information security, over the past two years we have introduced advanced tools such as intrusion detection and intrusion prevention systems

(IDS/IPS), a security information and event management (SIEM) system, vulnerability management, etc.

We pay special attention to personal data protection. As an international group, we are bound to manage personal data in conformity with the national legislation of all countries where our subsidiaries and representative offices are located.

EMPLOYEE RISK

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

We identify key and prospective employees in all processes. This allows us to provide for their interchangeability in key positions. The method of training and recruitment in Product Supply and Sales facilitates the fast exchange of employees in similar positions in cases where 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 includes technical security measures and actions to be taken in order to prevent incidents and act correctly if they occur.

Financial risks

FOREIGN EXCHANGE RISK

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

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

THE YEAR-END NEGATIVE FOREIGN EXCHANGE DIFFERENCES ALMOST ENTIRELY RESULTED FROM THE 11% DROP IN THE VALUE OF THE ROUBLE.

In the first quarter, the Krka Group recorded favourable movements in foreign exchange so the Group generated common positive foreign currency gains. In the second quarter of the year, however, the foreign currencies of the developing markets recorded pronounced negative movements due to the insecurity caused by the easing of the Federal Reserve System's expansive monetary policy. In the second quarter of 2013, the Polish złoty saw a 3.6% drop against the euro, while the value of the Russian rouble fell by a significant 7.2%. The drop in these currencies caused substantial net foreign exchange losses of the Krka Group, which was evident in the interim results.

The Polish złoty again gained strength against the euro in the second half of 2013. This neutralised a large portion of the FX differences from the first half of the year, but the Russian rouble continued its downward trend in the second half of the year as well. The pressure of global factors on the value of the rouble decreased. The value of the rouble was nevertheless negatively affected by internal macroeconomic indicators, especially including the gradual slowdown in economic growth and slow fall in inflation. From the beginning to the end of 2013, the Russian rouble lost 11% of its value against the euro.

Other foreign currencies contributed relatively little to the foreign exchange differences of the Krka Group.

We provided no hedging for foreign currency positions in 2013.

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

Value and volatility and key exchange rates

	31. 12. 2012	31. 12. 2013	Lowest value	Highest value	Average value	Standard deviation	Coefficient of variation (%)
RUB	40.33	45.32	39.57	45.32	42.33	1.77	4.2
HRK	7.56	7.63	7.44	7.65	7.58	0.05	0.6
RON	4.44	4.47	4.30	4.55	4.42	0.05	1.1
PLN	4.07	4.15	4.07	4.35	4.20	0.05	1.3
CZK	25.15	27.43	25.22	27.73	25.98	0.60	2.3
HUF	292.30	297.04	285.85	307.25	296.89	3.87	1.3
UAH	10.64	11.20	10.38	11.47	10.83	0.25	2.3
RSD	113.39	114.14	110.33	115.17	113.08	1.42	1.3
USD	1.32	1.38	1.28	1.38	1.33	0.03	2.0

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

INTEREST RATE RISK

In 2013, the Krka Group settled all of its non-current borrowings. Changes in reference interest rates therefore no longer have an impact on the Group's overall financial expense.

Value and volatility of the 6-month EURIBOR

	31. 12. 2012	31. 12. 2013	Lowest value	Highest value	Average value	Standard deviation	Coefficient of variation (%)
6-month EURIBOR	0.32%	0.39%	0.29%	0.39%	0.34%	0.0002	6.1

CREDIT RISK

Credit control involves the credit-rating assessment of customers to whom the controlling company and subsidiaries sell products totalling or exceeding EUR 100,000, and the regular dynamic monitoring of customer payment discipline. More than 400 of the Group's customers are included in the credit control system.

In 2013, in line with the expansion of the sales network new customers of the subsidiaries from Italy, Spain and France were included in the credit control system.

In comparison to its beginning, by the end of 2013 the level of trade receivables had risen primarily due to two factors: the increase in sales and uneven distribution of sales over the year. In the last quarter of 2013, the Krka Group recorded a substantial increase in sales. At the end of 2013, the amount of receivables due remained within the normal scope acceptable for Krka.

At the end of the year, insurance was arranged with a credit insurance company for 50% of the Group's trade receivables. Bank guarantees and letters of credit were issued for a proportion of our receivables.

CREDIT INSURANCE COVERAGE WAS ARRANGED FOR HALF OF OUR RECEIVABLES.

According to our estimates, on average trade receivables in terms of the maturity structure and assessed customer risk remained unchanged. This was confirmed by the results of regular credit-rating assessments of our customers and the unchanged proportion of receivables hedged by first-class instruments.

Write-offs of trade receivables did not have a relevant impact on the Group's result in 2013.

Please find more information about Krka's exposure to credit risk in the Notes to the Financial Statements under Financial Instruments.

LIQUIDITY RISK

Thanks to stable operations without any major deviations or fluctuations, financing investments with our own funds, organic growth and substantial cash flows from regular operations, the liquidity risk of the Krka Group was low in 2013. At the end of the year, the Group recorded no borrowings.

THE KRKA GROUP'S LIQUIDITY RISK WAS LOW IN 2013.

In 2012, we responded to the globally increasing electronic payment transaction risk by implementing a series of security measures in the controlling company. In 2013, we also introduced similar mechanisms in the subsidiaries and representative offices abroad.

We pondered over the risks related to business banks and their active and passive interest rates, and reorganised our co-operation with selected banks in 2013 accordingly. Due to the growing competitiveness among banking service providers, we also managed to cut substantially the costs related to payment transactions and documentary operations with banks.

The controlling company centrally manages the Krka Group's liquidity risk as well, as it does for the majority of business functions. It also provides for the effective management of the cash funds of subsidiaries and representative offices and, together with them, plans cash requirements and provides them with funds.

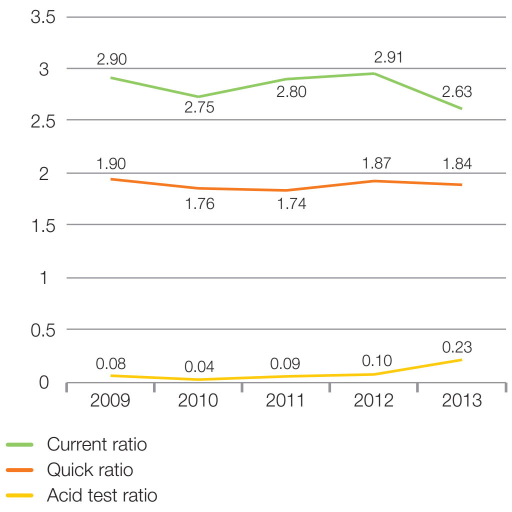
For several years, Krka has recorded stable and good liquidity ratios. Its suppliers regard Krka as a partner which ensures strict payment discipline.

Liquidity ratios of the Krka Group

Liquidity ratios	2013	2012	2011	2010	2009	5-year average
Current ratio	2.63	2.91	2.8	2.75	2.9	2.80
Quick ratio	1.84	1.87	1.74	1.76	1.9	1.82
Acid test ratio	0.23	0.1	0.09	0.04	0.08	0.11
Receivables turnover ratio	2.74	2.83	2.71	2.77	3.35	2.88

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

Movement of liquidity ratios of the Krka Group



PROPERTY, LIABILITY AND BUSINESS INTERRUPTION INSURANCE

Krka has designed a corporate insurance programme that ensures the optimum financial and legal protection for property, business interruption and liability. When insuring its property, Krka considers the harmful events in the past and adjusts the extent and scope of insurance covers to sales growth trends and to its tangible assets. The increase in the Group's financial power reduces the need for certain insurance covers, while the advances in the Group's assets and sales and the expansion of sales in new markets call for additional insurance requirements. Any change in insurance coverage and insurance cancellation or an increase in own participation in damages require a comprehensive assessment of the effects on processes and costs so employees from various areas of work and services are engaged in the process.

Each location or fire complex where the Group's assets are located is individually assessed, both with respect to its exposure to individual risks and the possibility of reducing those risks with fire prevention measures, as well as with regard to the probable maximum loss and business interruption. On the grounds of the exposure assessment, international reinsurance companies have established that we have carried out insurance programmes successfully, observed the recommendations, and maintained high standards in terms of prevention, which all guarantee long-term, stable product supply and optimal financial protection.

Krka analysed the Group's car insurance arrangements for 2013. According to statistical trends in movements of insurance premiums and damages in the past few years, Krka adopted measures for further rationalisation, an increase in cost-effectiveness and the availability of cars. It is especially important that older cars are exempt from Casco/hull insurance and that discounts are utilised based on economies of scale. The measures applied contributed substantially to the reduction of insurance premiums.

The insurance programme is important for managing risks and liabilities in the preparation of plans and implementation of new investments and projects in Slovenia and beyond. Through insurance in this period, we ensured the management of risks and liabilities related to investment projects Krka-Rus 2 and Sinteza 1 (Krško). We also launched activities to insure the installation of equipment in the new Notol 2 plant.

We also arranged insurance for our employees. Within the scope of the personal accident insurance arranged for the employees in Krka and Farma GRS, we also agreed on increasing and standardising the insurance premiums and extending the range of insurances. Even though the insurance sums increased, the insurance premiums went down, or were reduced less than the insurance sums went up.

Investor information

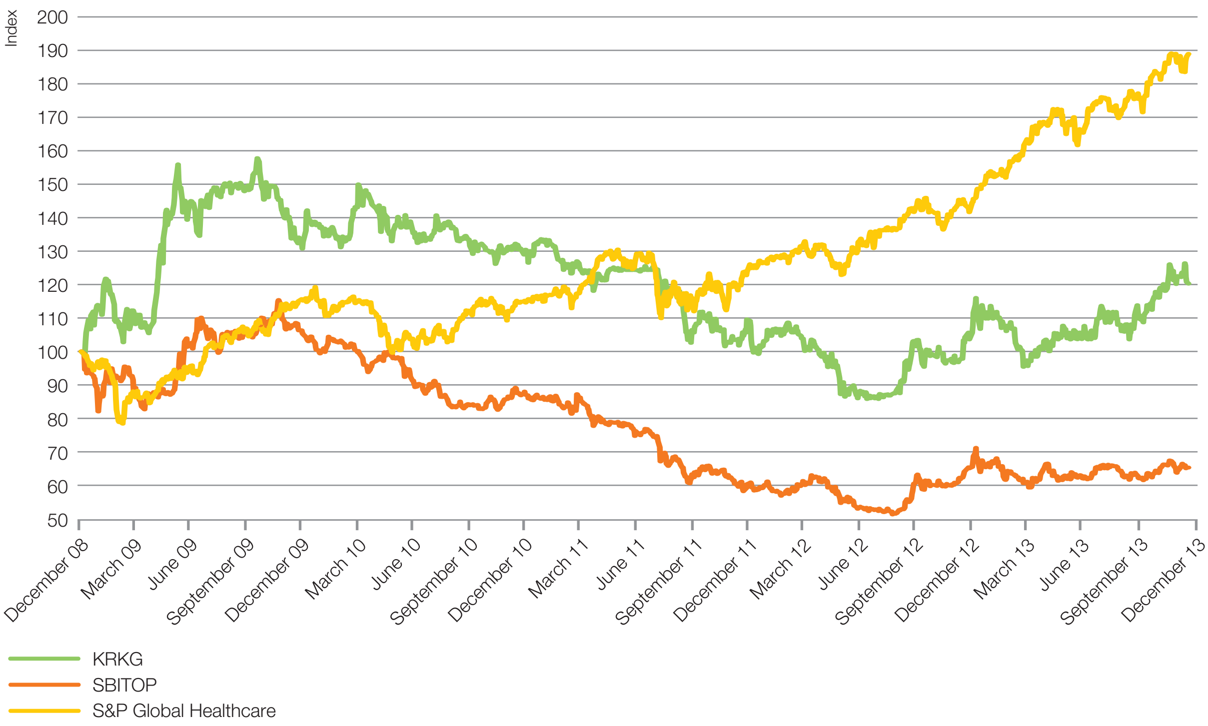
Shareholder return

KRKA SHARE PRICE

EUR	2013	2012	2011	2010	2009
Year high	61.00	52.70	64.48	72.69	76.17
Year low	46.05	41.40	49.00	60.94	47.78
31 December	60.00	50.00	52.90	62.95	64.04
Annual increase (%)	20	-5	-16	-2	33

In 2013, the Krka share price went up by 20%. In the same period the value of the blue-chip index of the Ljubljana Stock Exchange (SBITOP) increased by 3%.

Krka share price in comparison with selected share indices (beginning of 2009 = 100)



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

DIVIDEND POLICY

The Annual General Meeting of shareholders decides on the proposed dividend amount. The pay-out commences 60 days after the Annual General Meeting. In 2013, we allocated 33% of the profit generated in 2012 for dividends, and the gross dividend per share went up by more than 7%.

At the end of 2013, we adopted the Krka Group Development Strategy for the Period 2014 to 2018 which includes the amended dividend policy. In the aforesaid period, we will allocate up to 50% of the consolidated profit of major shareholders generated in the year before. When determining the dividend pay-out in a particular year, Krka's financial requirements for investments and takeovers in that year will also be taken into consideration.

	2013	2012	2011	2010	2009
Earnings per share[1] in EUR	5.24	4.80	4.85	5.06	5.14
Gross dividend per share[2] in EUR	1.61	1.50	1.40	1.10	1.05
Dividend pay-out ratio[3] (%)	33.5	31	28	21	23
Dividend yield[4] (%)	2.7	3.0	2.6	1.7	1.6

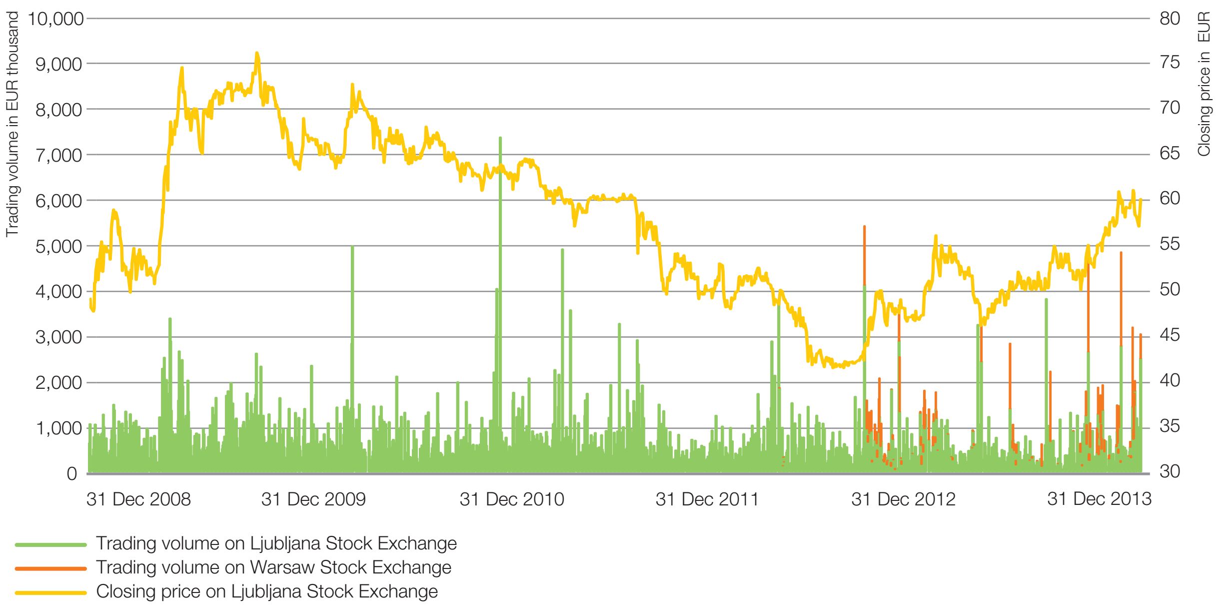
[1] *Profit of the year attributable to equity holders of the Krka Group/Average number of shares issued in the period, excluding treasury shares*
[2] *Dividends paid for the previous period/Average number of shares issued in the period*
[3] *Gross dividend per share/Earnings per share from the previous 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 also on the Warsaw Stock Exchange. All Krka shares traded on the Ljubljana and Warsaw Stock Exchanges are of the same class: ordinary and freely transferable.

Each share except treasury shares represents one vote at the AGM. Krka shares are freely traded through brokerage firms and banks that are members of the Ljubljana or Warsaw Stock Exchanges.

Trading in Krka shares in the period from 2008 to 2013



Source: Ljubljana and Warsaw Stock Exchanges

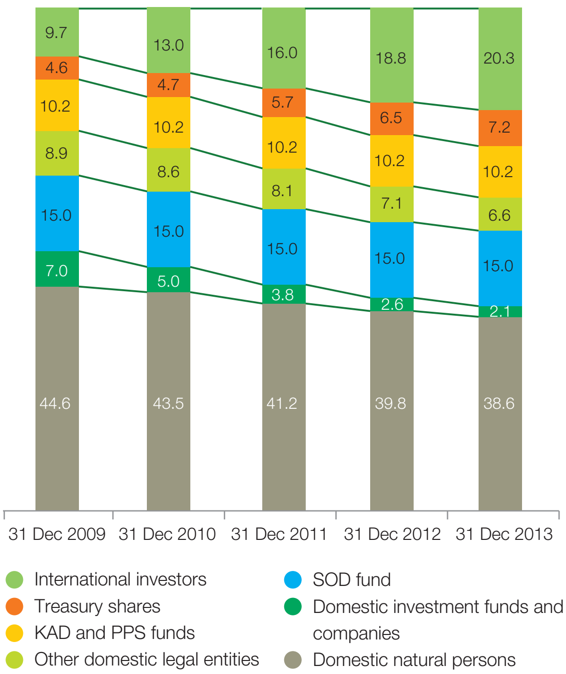
In 2013, the average daily trading volume of Krka shares on the Ljubljana Stock Exchange reached EUR 0.5 million. Krka share thus retained its position on the Ljubljana Stock Exchange as the most actively traded security. Since April 2012, Krka shares have been listed on the Warsaw Stock Exchange as well. The trading volume on the Warsaw Stock Exchange increased in the second half of the year, but on average did not reach the trading volume seen on the Ljubljana Stock Exchange.

Ten largest shareholders as at 31 December 2013

	Shareholder	No. 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.	1,244,746	3.51
4	HYPO ALPE-ADRIA-BANK D. D.	1,031,686	2.91
5	NEW WORLD FUND INC.	755,000	2.13
6	KDPW	539,721	1.52
7	LUKA KOPER, D. D.	433,970	1.23
8	ZAVAROVALNICA TRIGLAV, D. D.	388,300	1.10
9	AMERICAN FUNDS INSURANCE SERIES – NEW WORLD	353,049	1.00
10	UNICREDIT BANK HUNGARY ZRT	318,203	0.90
		13,869,775	**39.15**

Krka had 64,136 shareholders at the end of 2013, which was 6% less than at the end of 2012. The international investors increased their shareholdings the most, to more than 20% of all issued shares. The shareholdings of Slovenian state-owned funds, i.e. the Slovenska odškodninska družba (SOD) restitution fund and the Kapitalska družba pension fund manager with its PPS fund, remained unchanged. In 2013, other groups of Slovenian shareholders, i.e. investment funds and companies, and other companies and individuals, reduced their shareholdings.

Shareholder structure (%)

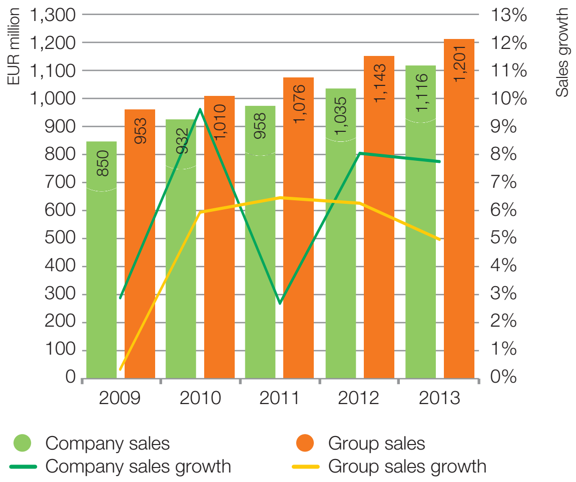


Business operations analysis

The business operations analysis includes data for the Krka Group and 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 2013 Krka again recorded sales growth. The Krka Group sold EUR 1,200.8 million worth of products and services, which is EUR 57.5 million or 5% more than in 2012.

The average annual sales growth over the past five years has been 4.8%.

A detailed analysis of sales results by individual markets and product groups is given in the chapter Marketing and sales.

Operating expenses

The Krka Group incurred EUR 979.1 million in operating expenses, up EUR 19.6 million or 2% compared to 2012.

The Krka Group's operating expenses include the cost of sales at EUR 489.3 million, distribution expenses at EUR 323.4 million, R&D costs at EUR 97.2 million, and administrative expenses at EUR 69.2 million. In the last five years, the operating expenses to sales ratio changed from 81% in 2010 to 86% in 2009, a figure caused in part by newly formed provisions. In 2013 the operating expenses to sales ratio was 82%.

Structure of the Group's operating expenses by function

The largest operating expense item is the cost of sales, which rose by 5% compared to 2012. Its ratio to sales is 41%. The cost of sales is influenced by changes in the inventories of finished products and work in progress. Distribution expenses amounted to 27% of sales in 2013, up 2% over the previous year. The increase was recorded due to the expansion of our marketing and sales network. R&D costs amounted to 8%, down 4% compared to 2012. Administrative expenses amounted to 6% of total sales and were 5% lower than in 2012.

Financial income and expenses

EUR thousand	Krka Group					Krka Company				
	2013	2012	2011	2010	2009	2013	2012	2011	2010	2009
Financial income	2,114	5,418	493	7,150	885	5,316	22,431	14,046	10,637	12,160
Financial expenses	-28,361	-7,227	-12,079	-3,912	-10,206	-28,967	-7,690	-11,822	-3,637	-9,241
Net financial result	**-26,247**	**-1,809**	**-11,586**	**3,238**	**-9,321**	**-23,651**	**14,741**	**2,224**	**7,000**	**2,919**

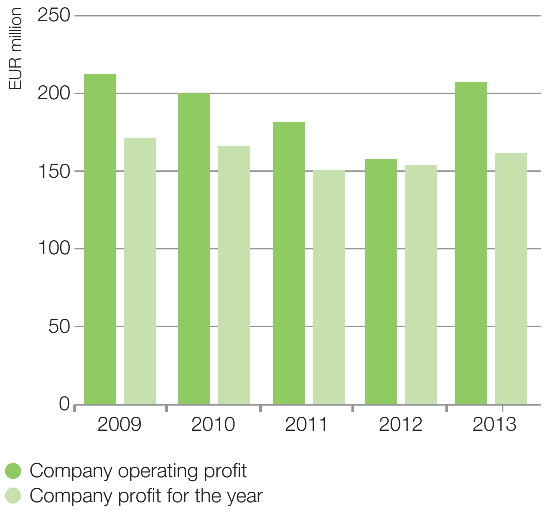
In 2013 the Group's net financial result was worse than in 2012. The reason was negative exchange rate differences which totalled EUR 27.6 million in 2013. In 2012 the Krka Group recorded EUR 4.1 million of positive exchange rate differences.

Financial income includes EUR 1.5 million in interest income, other financial income of EUR 0.5 million and the change in the fair value of investments through profit or loss that amounted to EUR 0.1 million.

Financial expenses include EUR 0.5 million in interest expenses for non-current and current borrowings, and EUR 0.2 million of other financial expenses.

Operating result

Operating profit and profit for the year



The Krka Group recorded EUR 227.6 million in operating profit, up by EUR 35.3 million or 18% compared to 2012, while EBITDA was EUR 321.7 million, up by EUR 39.5 million or 14%.

Profit before tax in 2013 increased by EUR 10.8 million or 6% and amounted to EUR 201.3 million. The Group's effective tax rate was 14.2%, down 1.9 of a percentage point.

The Krka Group reported profit of EUR 172.8 million for the year, up by EUR 12.9 million, or 8%.

Assets

EUR thousand	Krka Group 2013	Share (%)	2012	Share (%)	Index 2013/12	Krka Company 2013	Share (%)	2012	Share (%)	Index 2013/12
Non-current assets	**973,954**	**55.3**	**926,000**	**56.9**	**105**	**945,947**	**55.6**	**863,442**	**55.1**	**110**
Property, plant and equipment	823,704	46.8	772,291	47.5	107	563,978	33.2	519,219	33.1	109
Intangible assets	115,744	6.6	118,507	7.3	98	28,303	1.7	29,908	1.9	95
Investments and loans	11,076	0.6	10,487	0.6	106	338,372	19.9	297,183	19.0	114
Other	23,430	1.3	24,715	1.5	95	15,294	0.8	17,132	1.1	89
Current assets	**785,930**	**44.7**	**700,748**	**43.1**	**112**	**755,288**	**44.4**	**702,843**	**44.9**	**107**
Inventories	235,820	13.4	250,751	15.4	94	190,968	11.2	190,555	12.2	100
Receivables	461,828	26.2	415,233	25.6	111	441,619	26.0	432,935	27.6	102
Other	88,282	5.1	34,764	2.1	254	122,701	7.2	79,353	5.1	155
Total assets	**1,759,884**	**100.0**	**1,626,748**	**100.0**	**108**	**1,701,235**	**100.0**	**1,566,285**	**100.0**	**109**

At the end of 2013, Krka Group assets were worth EUR 1,759.9 million, up by EUR 133.1 million or 8% compared to the end of 2012. Non-current assets grew primarily due to the increase in property, plant and equipment, which were up EUR 51.4 million, or 7%.

Non-current assets totalled EUR 974.0 million, up 5% over the previous year. The largest item under non-current assets is property, plant and equipment, which is worth EUR 823.7 million and represents 47% of the Group's total assets. Intangible assets represent 7% of total assets.

Current assets amounted to EUR 785.9 million, up 12%. The largest item under current assets is receivables, which amounted to EUR 461.8 million, up 11% over the previous year. Inventories totalled EUR 235.8 million, down 6%. Among other current assets, loans increased by EUR 9.1 million, and monetary assets by EUR 44.3 million. They are mainly represented by current deposits of the controlling company with a maturity exceeding 30 days, which amounted to EUR 19.0 million at the end of 2013 and are disclosed among current borrowings, and for deposits with a maturity of up to 30 days, which at the end of 2013 amounted to EUR 27.5 million and are disclosed among cash and cash equivalents.

Equity and liabilities

	Krka Group					Krka Company				
EUR thousand	2013	Share (%)	2012	Share (%)	Index 2013/12	2013	Share (%)	2012	Share (%)	Index 2013/12
Equity	1,332,611	75.7	1,240,521	76.3	107	1,332,246	78.3	1,232,215	78.7	108
Non-current liabilities	128,833	7.3	145,362	8.9	89	98,778	5.8	113,310	7.2	87
Current liabilities	298,440	17.0	240,865	14.8	124	270,211	15.9	220,760	14.1	122
Total equity and liabilities	**1,759,884**	**100.0**	**1,626,748**	**100.0**	**108**	**1,701,235**	**100.0**	**1,566,285**	**100.0**	**109**

The Group's equity increased by EUR 92.1 million compared to the end of 2012. The increase is attributable to Group profit for the year in the amount of EUR 172.8 million. Equity was reduced by dividend payments, totalling EUR 53.1 million, by the additional purchase of treasury shares in the amount of EUR 13.7 million, and other comprehensive income for the year after tax in total amount of EUR 13.8 million. The largest item within this amount is translation reserve, worth EUR 13.5 million.

The Krka Group had no borrowings at the end of 2013. Provisions in the amount of EUR 103.1 million decreased by 2% in comparison with the end of 2012, especially due to the utilisation and reversal of provisions for post-employment and other non-current employee benefits.

Among current liabilities, trade payables rose by 25.8 million, with deferred tax liabilities going up EUR 4.5 million. Other current liabilities rose by EUR 40.6 million, mainly on account of the increase in accrued contractual discounts on products sold to other customers. Liabilities also include EUR 2 million accrued in relation to the decision of the Appeal Court from Oslo, which has ruled that the subsidiary Krka Sverige should compensate the company Astra Zeneca for lost profit and legal expenses due to the alleged infringement of a patent right protecting medicine containing the active substance esomeprazole.

Statement of cash flows

	Krka Group		Krka Company	
EUR thousand	2013	2012	2013	2012
Net cash from operating activities	302,751	278,329	251,955	207,216
Net cash used in investing activities	-146,065	-166,910	-146,522	-129,913
Net cash used in financing activities	-93,683	-108,012	-68,822	-78,578
Net increase/decrease in cash and cash equivalents	**45,003**	**3,407**	**36,611**	**-1,275**

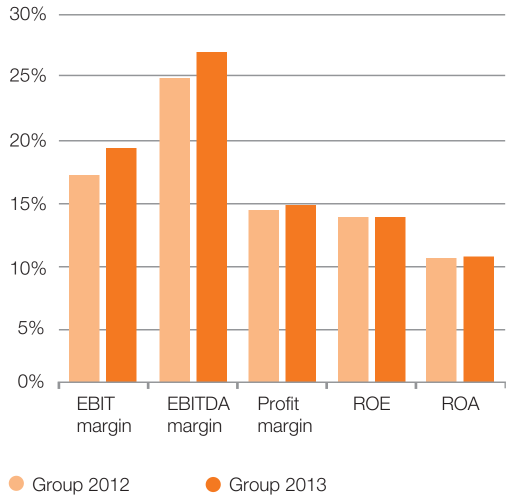
Cash and cash equivalents of the Krka Group increased by EUR 45.0 million in 2013 because the positive cash flows from operations exceeded the negative cash flows from investing and financing activities.

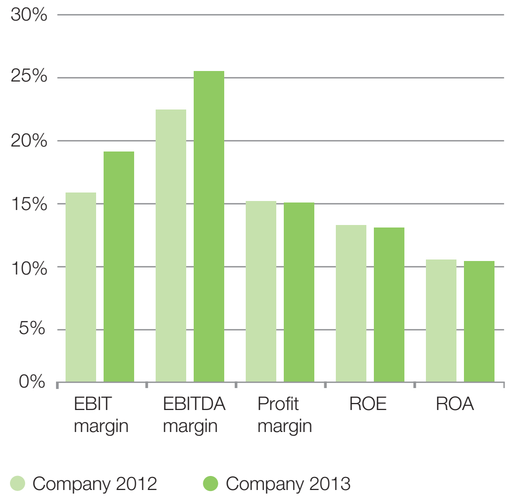
The Group reported EUR 294.7 million of operating profit before changes in net operating current assets. The changes in current assets that increased profit were changes in inventories, trade payables, provisions, deferred revenue and other current liabilities, while changes in trade receivables had a negative effect.

The negative cash flow from investing activities was mainly caused by the purchase of property, plant and equipment, which amounted to EUR 151.7 million, the purchase of intangible assets worth EUR 5.6 million and by payments in connection with current investments and loans totalling EUR 8.8 million. The negative cash flow from financing activities was primarily the result of the EUR 53.0 million of dividends paid, EUR 25.5 million of repayments of non-current borrowings, and EUR 13.7 million worth of repurchased treasury shares.

Performance ratios

Profitability ratios





The performance ratio values were all in line with the strategic guidelines.

Operating figures for the past five years

EUR thousand	Krka Group					Krka Company				
	2013	**2012**	**2011**	**2010**	**2009**	**2013**	**2012**	**2011**	**2010**	**2009**
Revenues	1,200,827	1,143,301	1,075,627	1,010,021	953,038	1,116,339	1,035,280	957,653	932,366	850,119
EBIT	227,588	192,308	211,561	208,134	233,643	211,527	161,382	178,150	196,397	210,737
– EBIT margin	19.0%	16.8%	19.7%	20.6%	24.5%	18.9%	15.6%	18.6%	21.1%	24.8%
EBITDA	321,732	282,276	298,747	289,855	310,318	282,993	230,994	244,564	257,132	269,532
– EBITDA margin	26.8%	24.7%	27.8%	28.7%	32.6%	25.4%	22.3%	25.5%	27.6%	31.7%
Profit for the year	172,766	159,839	162,735	170,918	173,685	164,673	154,615	150,392	165,920	170,812
– Profit margin	14.4%	14.0%	15.1%	16.9%	18.2%	14.8%	14.9%	15.7%	17.8%	20.1%
Assets	1,759,884	1,626,748	1,534,027	1,488,204	1,341,032	1,701,235	1,566,285	1,463,448	1,446,311	1,312,939
ROA	10.2%	10.1%	10.8%	12.1%	13.3%	10.1%	10.2%	10.3%	12.0%	13.5%
Equity	1,332,611	1,240,521	1,139,754	1,053,327	920,369	1,332,246	1,232,215	1,140,485	1,058,154	932,010
ROE	13.4%	13.4%	14.8%	17.3%	20.4%	12.8%	13.0%	13.7%	16.7%	19.8%

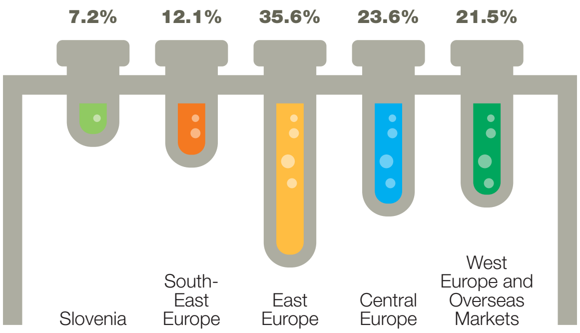
Marketing and sales

In 2013 sales of the Krka Group and Krka Company exceeded the sales recorded in 2012. The Krka Group sold EUR 1,200.8 million worth of products and services, while sales of the Krka Company amounted to EUR 1,116.3 million.

Sales by Region

Krka's sales were the highest in Region East Europe where they totalled EUR 427.8 million or 35.6% of total Krka Group sales. Region Central Europe recorded the second highest sales at EUR 282.9 million or 23.6% of total Krka Group sales. The third highest sales were recorded by Region West Europe and Overseas Markets with EUR 257.7 million. Sales in Region South-East Europe totalled EUR 145.8 million. Sales in Slovenia amounted to EUR 86.6 million, which is 7.2% of total Krka Group sales.

Group Sales by Region in 2013



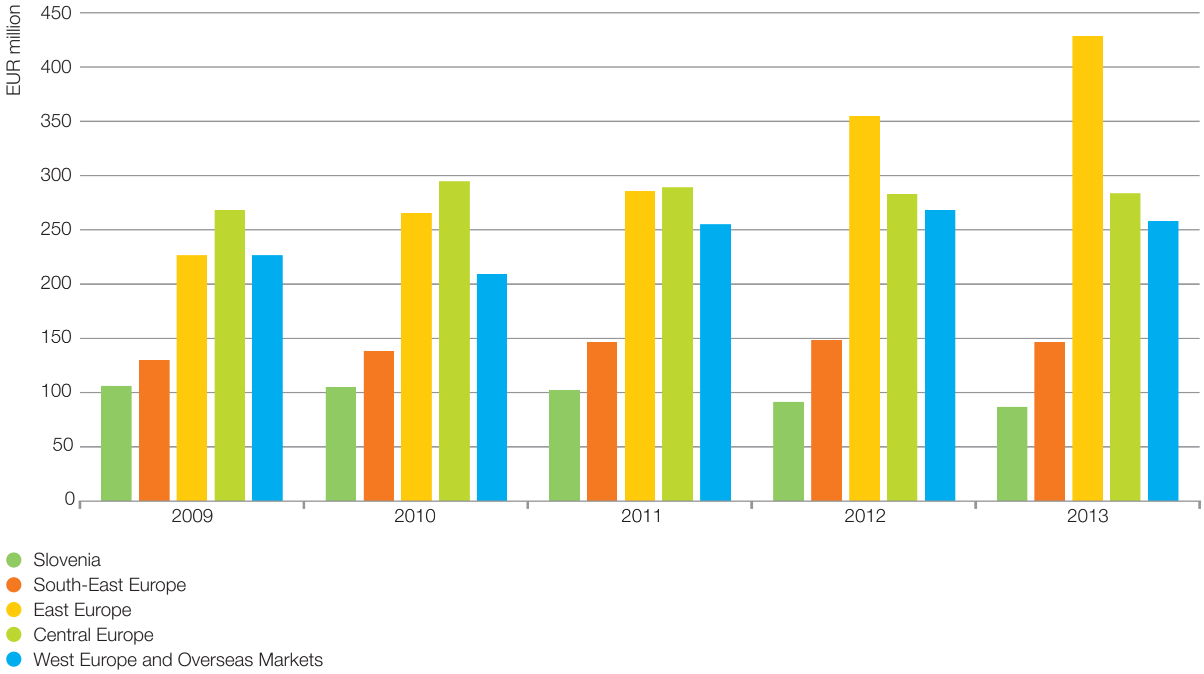
Krka Group and Krka Company sales by Region

EUR thousand	Krka Group 2013	Krka Group 2012	Krka Group Index 2013/12	Krka Company 2013	Krka Company 2012	Krka Company Index 2013/12
Slovenia	86,596	91,002	95	57,476	60,086	96
South-East Europe	145,808	148,140	98	164,139	152,568	108
East Europe	427,803	354,213	121	388,885	295,612	132
Central Europe	282,940	282,400	100	279,649	287,162	97
West Europe and Overseas Markets	257,680	267,546	96	226,190	239,852	94
Total	**1,200,827**	**1,143,301**	**105**	**1,116,339**	**1,035,280**	**108**

Krka Group quarterly sales by Region

EUR thousand	2013 1st quarter	2013 2nd quarter	2013 3rd quarter	2013 4th quarter	2012 1st quarter	2012 2nd quarter	2012 3rd quarter	2012 4th quarter
Slovenia	21,086	22,167	21,862	21,481	22,916	24,058	22,299	21,729
South-East Europe	34,240	33,786	30,597	47,185	35,343	38,503	29,009	45,285
East Europe	100,518	110,679	86,136	130,470	78,632	89,309	71,122	115,150
Central Europe	63,524	71,408	68,731	79,277	66,031	71,872	67,949	76,548
West Europe and Overseas Markets	75,059	64,604	53,408	64,609	70,624	68,004	58,263	70,655
Total	**294,427**	**302,644**	**260,734**	**343,022**	**273,546**	**291,746**	**248,642**	**329,367**

Krka Group sales by Region



Slovenia

Sales of products and services in Krka's domestic market in 2013 were worth EUR 86.6 million. Prescription pharmaceuticals contributed nearly 83% of product sales in Slovenia, non-prescription products a little less than 14% and animal health products nearly 4%. Sales of the health spa and tourist services of Terme Krka reached EUR 30.5 million.

Operations were strongly affected by the austerity measures and pressures to reduce the price of pharmaceuticals. As a result, the sales value did not reach that of last year, even though Krka maintained its 11.6% market share.

KRKA CONTINUES TO LEAD THE SLOVENIAN MARKET.

We retained our position as the market leader of medicines for treating hypertension, hyperlipidemia, medicines for reducing stomach acid and medicines for diseases of the central nervous system, especially dementia as we introduced memantine to the market under the market name Memaxa. New products include Tolura (telmisartan) and Meaxin (imatinib), with which we entered the therapeutical area of oncology.

Special attention was paid to improving the brand recognisability of Amlessa (perindopril and amlodipine) and Doreta (paracetamol and tramadol) and the sales of our best-selling products from the therapeutic areas with Krka's most represented products: Prenessa (perindopril) and Prenewel (perindopril and indapamide), Sorvasta (rosuvastatin), Atoris (atorvastatin) and Nolpaza (pantoprazole).

Krka Group market position in Slovenia
The leading pharmaceutical company with an 11.6% market share.
Our products are market leaders: • in the proton pump inhibitor group, with a market share of around 50%; • in the group of medicines acting on the renin-angiotensin system, with a market share of around 45%; • in the statin group, with a market share of over 40%; and • in the group of antipsychotics, anti-dementia medicines and antidepressants, with a market share of over 20%.
We are the leading supplier of medicines with atorvastatin, diclofenac, enalapril, carvedilol, losartan including the combination with hydrochlorothiazide, omeprazole, pantoprazole, perindopril including the combination with indapamide, ramipril, sertraline and simvastatin.
Prenessa (perindopril) and Prenewel (perindopril and indapamide), Sorvasta (rosuvastatin) and Atoris (atorvastatin) are among the best-selling pharmaceuticals.

South-East Europe

Sales in the markets of South-East Europe amounted to EUR 145.8 million worth of products, a slight fall from 2012. Sales growth was recorded in Romania, Macedonia and Kosovo. In other market regions, sales were lower than the year before.

In **Romania** sales were worth EUR 50.6 million. For this reason, Romania, the Region's leading market has become one of Krka's key markets. The majority of products sold were prescription pharmaceuticals. Successful launches of new brands and good sales of well-established brands like Atoris (atorvastatin), Roswera (rosuvastatin), Prenessa/Co-Prenessa (perindopril, also in combination with indapamide), Tolura (telmisartan), Karbis (candesartan), Enap (enalapril) and Tramadol (tramadol) contributed to growth.

Among non-prescription pharmaceuticals, Nalgesin (naproxen) was introduced to the Romanian market, while in relation to animal health products the focus of sales was on products for the treatment of companion animals.

Krka Group market position in Romania
The third-ranked generic pharmaceutical company with a 2.7% market share.
In 2013 Krka achieved market growth which exceeded the growth of the entire market.
Our products are market leaders: • in the antimicrobial group (fluoroquinolones), with a market share of around 25%; • in the group of angiotensin II receptor antagonists and their combinations with diuretics, with a market share of over 20%; • in the statin group with an over 20% market share; • in the group of ACE inhibitors and their combinations with diuretics, with a market share of around 15%; • in the cerebral and peripheral vasotherapeutic group with a market share of over 10%; • in the proton pump inhibitor group with more than a 10% market share; and • in the group of analgesics and antipyretics, with a market share of over 10%.
We are the leading supplier of medicines containing the following active substances: ciprofloxacin, enalapril, ginkgo biloba, carvedilol, lansoprazole, losartan, mirtazapine, norfloxacin, telmisartan and tramadol. We are among the leading suppliers of medicines containing the following active substances: amlodipine, atorvastatin, esomeprazole, candesartan, clarithromycin, pantoprazole, perindopril including the combination with indapamide, pramipexole, ropinirole and rosuvastatin.

In **Croatia**, one of Krka's key markets, sales amounted to EUR 32.5 million, ranking Krka fourth among all producers of generic pharmaceuticals and second among all producers of animal health products. Important market shares are held by the groups of ACE inhibitors, anxiolytics, sartans, statins and proton pump inhibitors.

Our best-selling products in 2013 were Atoris (atorvastatin), Helex (alprazolam), Nolpaza (pantoprazole), Emanera (esomeprazole), Co-Perineva (perindopril and indapamide), Ciprinol (ciprofloxacin), Roswera (rosuvastatin) and Valsacor (valsartan).

We extended our product range with Krka's first oncological product Neopax (imatinib), which has already become the best-selling generic imatinib. We also started marketing new strengths of Atoris (atorvastatin), Roswera (rosuvastatin), Lorista (losartan), Valsacor (valsartan) and Doreta (paracetamol and tramadol). Since September, Tolura (telmisartan) and Dasselta (desloratadine) have also been sold on the Croatian market.

In **Bosnia and Herzegovina** Krka sold EUR 17.9 million worth of products, which is a slight fall from 2012. This was mostly contributed by prescription pharmaceuticals: Enap (enalapril), Lorista (losartan), Naklofen (diclofenac), Lexaurin (bromazepam), Roswera (rosuvastatin), Atoris (atorvastatin), Zyllt (clopidogrel), Valsacor (valsartan) and Nolpaza (pantoprazole).

Krka Group market position in Croatia
The second-ranked foreign generic pharmaceutical company with a 4.7% market share.
Our products are market leaders: • in the antimicrobial group (fluoroquinolones), with a market share of over 30%; and • in the group of angiotensin II receptor antagonists and their combinations with diuretics, with a market share of around 25%. We are among market leaders: • in the anxiolytic group, with a market share of over 20%; • in the statin group, with a market share of over 15%; • in the proton pump inhibitor group, with an over 15% market share; and • in the group of ACE inhibitors and their combinations with diuretics, with a market share of around 15%.
We are the leading supplier of medicines containing the following active substances: alprazolam, dexametazone, perindopril in combination with indapamide, clarithromycin and lansoprazole. We are one of the leading suppliers of medicines containing the following active substances: atorvastatin, ciprofloxacin, escitalopram, esomeprazole, gliclazide, clopidogrel, mirtazapine, perindopril in combination with amlodipine, rosuvastatin, simvastatin and valsartan.

Sales of non-prescription products were higher than in 2012. The most important products were B-complex, Septolete, Bilobil (ginkgo biloba) and Nalgesin (naproxen).

At the end of 2013 Krka was the leading supplier of pharmaceutical products in Bosnia and Herzegovina. Consolidating our position as the leading supplier remains our future objective.

Also in **Macedonia** we remain the leading foreign generic medicine producer. Sales amounted to EUR 14.6 million, up 5% compared to 2012. Despite the lowering of reference prices, prescription pharmaceuticals contributed most to the increase in sales. In **Serbia**, Krka sold EUR 11.3 million worth of products from all three product groups. The drop in sales was influenced by the legislation on the procurement of medicinal products and elimination of certain Krka products from the reimbursement list. The Medicinal Products Act continues to give an advantage to local producers so by co-operating with local partners Krka products will continue to have the status of local products and therefore be given the possibility to be included on the reimbursement list. In **Bulgaria**, Krka sold EUR 10.8 million worth of pharmaceutical products, which is slightly less than in 2012. In **Kosovo**, where Krka remains one of the leading producers of pharmaceuticals, EUR 4.6 million worth of products were sold, representing an increase of over 1% compared to 2012. In **Albania**, EUR 2.5 million worth of products were sold. This decline in sales is the result of the trend of reducing the prices of medicinal products in this country. In **Montenegro**, sales nearly equalled those of 2012 and were the result of winning public procurement tenders for medicinal products.

East Europe

Region East Europe was the leading region in 2013 in terms of sales value and growth. In most markets of this Region, where the Russian Federation is the largest market, double-digit sales growth was achieved.

The Russian Federation is one of Krka's key markets and the largest individual market. Product sales there amounted to EUR 298 million, an increase of 22% over 2012. The largest contributors to sales were again medicines for human use, especially Lorista (losartan), Enap (enalapril) including their combinations with a diuretic, Atoris (atorvastatin), Zyllt (clopidogrel), Herbion, Orsoten (orlistat), Perineva (perindopril) including the combinations with a diuretic, Pikovit, Nolpaza (pantoprazole) and Nolicin (norfloxacin). The biggest sales growth was recorded by Lorista (losartan). The sales of Zyllt (clopidogrel) and Atoris (atorvastatin) were higher. In June, Krka launched its first oncological product Neopax (imatinib).

According to analysts, Krka's sales growth outperformed the average pharmaceutical market growth in the Russian Federation in 2013. To secure product sales in this market, it is vital that Krka is considered a local producer. Krka has maintained this status via the Krka-Rus production and distribution centre. The extension Krka-Rus 2 went according to plans.

ACCORDING TO ANALYSTS, KRKA'S SALES GROWTH IN 2013 EXCEEDED THE AVERAGE GROWTH OF THE PHARMACEUTICAL MARKET IN THE RUSSIAN FEDERATION.

In **Ukraine**, 2013 was a dynamic year in the pharmaceutical market as growth in the first four months was followed by stagnation and the economic situation then turned unfavourable. The 10% annual market growth was exceeded due to increased marketing and commercial activities, consolidating our position among the leading foreign suppliers of generic medicines. Total sales reached EUR 65.2 million, an almost 11% increase compared to 2012, making Ukraine one of Krka's key markets.

A great step forward in Region East Europe

Krka Group exports to Eastern European markets went up

21%

The biggest individual market in this region is the Russian Federation.

Krka-Rus 2, phase 1, was completed

In Russia, we hold the position of a local producer of pharmaceutical products. We will consolidate this position by building a new plant and extending the logistic centre. The first phase of Krka Rus 2 investment has been successfully completed. We started using the new logistic centre with a high-bay warehouse and began packing the first finished products in the production facility.

Sales revenues in the Russian Federation were

up 22%.

Krka Group market position in the Russian Federation
The fourth-ranked mainly foreign generic pharmaceutical company with a 1.7% market share.
In 2013 Krka's sales growth was above the average growth of the pharmaceutical market.
Our products are market leaders: • in the group of other non-mineral multivitamins, with a market share of around 40%. Our products are among the market leaders: • in the group of angiotensin II receptor antagonists and their combinations with diuretics, with a market share of around 30%; • in the platelet aggregation inhibitor group (ADP receptor antagonists), with a market share of over 20%; • in the statin group, with a market share of around 20%; • in the group of ACE inhibitors and their combinations with diuretics, with a market share of around 20%; • in the weight care product group with a market share of over 15%; 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 dexamethasone, enalapril including combinations with hydrochlorothiazide, naproxen, norfloxacin, pantoprazole, ramipril and simvastatin. We are one of the leading suppliers of medicines with the active substances atorvastatin, bisoprolol, ginkgo biloba, candesartan, clarithromycin, clopidogrel, losartan including the combination with hydrochlorothiazide, nifedipine, olanzapine, omeprazole, orlistat, pancreatin, perindopril including the combination with indapamide, risperidone, and valsartan.

Krka Group market position in Ukraine
The fourth-ranked foreign generic pharmaceutical company with a 2.0% market share.
In 2013 Krka's sales growth exceeded the average growth of the pharmaceutical market.
Our products are market leaders: • in the statin group with an over 35% market share; • in the group of anti-dementia medicines, with a market share of about 30%; and • in the ACE inhibitors group and their combinations with diuretics, with a market share of over 15%. Our products are among the market leaders: • in the group of injectable corticosteroids, with a market share of more than 30%; • in the group of angiotensin II receptor antagonists and their combinations with diuretics, with a market share of around 20%; and • in the macrolide and pyranoside antibiotic group, with a market share of over 10%.
We are the leading supplier of medicines with the active substances atorvastatin, ciprofloxacin, dexamethasone, enalapril in combination with hydrochlorothiazide, ginkgo biloba, carvedilol, clarithromycin and simvastatin. We are one of the leading suppliers of medicines with the active substances betamethasone, enalapril, losartan including the combination with hydrochlorothiazide, pantoprazole, ramipril and rosuvastatin.

Our best-selling products in 2013 were Enap (enalapril), Atoris (atorvastatin) and Coryol (carvedilol), while sales of Roxera (rosuvastatin) were the fastest-growing. Sales of non-prescription pharmaceuticals were up 32% with Herbion, Bilobil and Septolete being best-sellers.

In **Kazakhstan**, the sales growth trend continued, strengthening Krka's position in this largest market in Central Asia. Krka sold EUR 17.2 million worth of products, an increase of nearly 31% over 2012. Our most important products remain Enap (enalapril), Herbion, Duovit, Lorista (losartan) and Atoris (atorvastatin). We successfully launched Emanera (esomeprazole), Monkasta (montelukast), Nalgesin (naproxen), Amlessa (perindopril and amlodipine), Niperten (bisoprolol) and Naklofen (diclofenac).

Sales in **Uzbekistan** amounted to EUR 14 million, an increase of 21% over 2012. The largest contributions to overall sales came from Pikovit, Enap (enalapril), Septolete and Lorista (losartan). We launched the following products: Niperten (bisoprolol), which is produced in Krka-Rus, and Vizarsin (sildenafil), Meglimid (glimepiride), Herbion ivy syrup, Duovit for men and Duovit for women. Securing high market growth and on-time payments remains a challenge.

In **Belarus**, total sales amounted to EUR 8.1 million, representing a 31% increase over 2012, which means that the total market growth was outperformed. Krka's most important products on the Belarus market were Lorista (losartan), Septolete and Enap (enalapril). A special characteristic of this market remains the diversification of the distribution of medicinal products and the high protection of local producers. Despite increased pressure to reduce prices at the beginning of the year and a devaluation of the local currency, Krka exceeded 8% sales growth at the end of the year in **Moldova** and, with EUR 5.3 million and a nearly 5% market share, it remained the third-ranked producer. Despite considerably worse economic conditions in **Mongolia** in the second half of the year, the annual sales plan was exceeded. Sales amounted to EUR 5.1 million, reaching 30% sales growth. In this market, where Krka is the leading foreign pharmaceutical producer, our employee network was extended from the capital city to other cities. In **Kyrgyzstan**, sales were up 61% with EUR 3.2 million of products sold. In **Azerbaijan**, sales rose 15% due to increased marketing activities, reaching EUR 2.97 million. In the 48% sales growth in **Turkmenistan** the greatest contribution was made by non-prescription pharmaceuticals enjoying 84% sales growth. With 28% sales growth, our market share in **Georgia** rose to 2.8%. Sales growth in **Armenia** reached 5%. In the stagnating **Tajikistan** market, Krka sales were up 26% compared to 2012.

Central Europe

In Region Central Europe, which includes three of our key markets – Poland, the Czech Republic and Hungary – Krka sold EUR 282.9 million worth of products, which is comparable to 2012. Similarly to previous years, the dominant share of sales came from prescription pharmaceuticals, followed by non-prescription products and animal health products.

In **Poland**, which contributed 43% to the overall sales of the Region, sales in 2013 reached EUR 121.5 million, an increase of 9% compared to 2012. Prescription pharmaceuticals included on the reimbursement list represent the majority of our products offered in Poland, followed by non-prescription products at around 5% and animal health products at about 2%. Newly introduced pharmaceuticals made an important contribution to the overall sales growth.

The main contributors to sales were prescription pharmaceuticals, especially Atoris (atorvastatin), Roswera (rosuvastatin), Valsacor (valsartan), Lorista (losartan), Nolpaza (pantoprazole), Prenessa (perindopril), Sulfasalazin and Zalasta (olanzapine). Sales growth was recorded by Karbis (candesartan), Doreta (paracetamol and tramadol), Tolura (telmisartan), Emanera (esomeprazole), Rolpryna (ropinirol) and Amlessa (perindopril and amlodipine), thus making an important contribution to the overall sales. The sales value of non-prescription products was up 33% compared to 2012 with Septolete and Bilobil remaining the leading market brands.

Krka Group market position in Poland
The fifth-ranked generic pharmaceutical company with a 2.5% market share.
Krka outperformed the entire market with respect to sales growth in 2013.
Our products are market leaders: • in the group of angiotensin II receptor antagonists and combinations with diuretics with a market share of around 30%; • in the statin group with a market share of over 20%; and • in the SSRI antidepressant group with a market share of around 10%. Our products are among the market leaders: • in the group of intestinal anti-inflammatory products, with a market share of over 20%; • in the oral fluoroquinolone antimicrobial group, with a market share of around 20%; • in the group of ACE inhibitors in their combination with diuretics, with a market share of over 15%; 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, esomeprazole, candesartan, lansoprazole, losartan and valsartan, including the combination with hydrochlorothiazide, paracetamol in combination with tramadol, rosuvastatin and sulfasalazine. We are one of the leading suppliers of medicines with the active substances alprazolam, cetylpyridinium, escitalopram, ginkgo biloba, gliclazide, clarithromycin, pantoprazole, perindopril, ropinirol, sertraline and telmisartan.

In the **Czech Republic**, the second largest market in the Region, changes in legislation negatively influenced the prices of medicinal products. At the end of the year, the Czech koruna was devaluated, putting even more pressure on the market. In 2013 Krka sold a total of EUR 63 million worth of products, a 6% decrease compared to 2012.

The biggest contributors to sales were the following prescription pharmaceuticals: Atoris (atorvastatin), Lorista (losartan), Prenessa (perindopril), Lexaurin (bromazepam), Nolpaza (pantoprazole), Lanzul (lansoprazole), Amprilan (ramipril), including combinations with a diuretic and Valsacor (valsartan). Non-prescription products achieved 39% growth, with Nalgesin S (naproxen) and Septolete remaining best-sellers.

Further changes in legislation may be expected, which will lead to tougher competition resulting in price reductions. However, increasing Krka's market share and maintaining its position as the third-ranked foreign generic pharmaceutical company in the Czech market remains our objective.

Krka Group market position in the Czech Republic
The third-ranked foreign generic pharmaceutical company with a 3.1% market share.
Our products are among the market leaders: • in the group of angiotensin II receptor antagonists and their combinations with diuretics, with a market share of over 30%. We are among the market leaders: • in the anxiolytic group, with a market share of over 40%; • in the proton pump inhibitor group, with a market share of over 20%; • in the macrolide and pyranoside antibiotic group, with more than a 15% market share; • in the group of ACE inhibitors and their combinations with diuretics with a market share of over 15%; and • in the statin group, with a market share of over 15%.
We are the leading supplier of medicines with the active substances esomeprazole, lansoprazole, pantoprazole and valsartan including the combination with hydrochlorothiazide. We are among the leading suppliers of medicines with atorvastatin, escitalopram, gliclazide, clarithromycin, quetiapine, levocetirizine, losartan including the combination with hydrochlorothiazide, perindopril including the combination with indapamide, ramipril, sertraline and tamsulosin.

In **Hungary**, the third largest market in the Region, price reductions continued in 2013. Total sales amounted to EUR 42.7 million, a 12% decrease over 2012.

The largest proportion of sales was contributed by prescription pharmaceuticals with Prenessa (perindopril), Atoris (atorvastatin), Roxera (rosuvastatin), Nolpaza (pantoprazole), Lavestra (losartan), Emozul (esomeprazole) and Tenox (amlodipine) as best-sellers. Roxera, which was launched two years ago, became the third best-selling product. The sales growth of non-prescription pharmaceuticals stood at 52% owing to the sales of Bilobil, while sales of animal health products were 14% lower than in 2012.

We expect the unstable economic situation to continue and the dropping prices to level out. Our core objectives remain increasing Krka's market share and keeping the position of the second-ranked foreign generic pharmaceutical company.

Krka Group market position in Hungary
The second-ranked mainly foreign generic pharmaceutical company with a 2.2% market share.
Our products are among market leaders: • in the proton inhibitor group, with around a 25% market share; • in the group of angiotensin II receptor antagonists and their combinations with diuretics, with a market share of over 20%; and • in the oral fluoroquinolone antimicrobial group, with a market share of over 15%. Our products are among the market leaders: • in the group of ACE inhibitors in their combination with diuretics, with a market share of over 20%; • in the statin group with an over 20% market share; • in the macrolide and pyranoside antibiotic group with a 20% market share; • in the platelet aggregation inhibitor group with around a 20% market share; and • in the calcium-channel blockers group with a market share of around 15%.
We are the leading supplier of medicines with the active substances atorvastatin, amlodipine, indapamide, clarithromycin, clopidogrel and losartan including the combination with hydrochlorothiazide. We are among the leading suppliers of medicines with the active substances esomeprazole, gliclazide, irbesartan in combination with hydrochlorothiazide, quetiapine, lansoprazole, pantoprazole, perindopril including the combinations with amlodipine and indapamide, rabeprazole, rosuvastatin and valsartan including the combination with hydrochlorothiazide.

In **Slovakia** sales in 2013 were up 3% compared to 2012. Among prescription pharmaceuticals the following products made the largest contributions to sales: Prenessa (perindopril) including combinations with a diuretic, Atoris (atorvastatin), Valsacor (valsartan) including combinations with a diuretic, and Nolpaza (pantoprazole). Amlessa (perindopril + amlodipine) was successfully launched and Doreta (paracetamol + tramadol) achieved high sales growth. Sales of non-prescription pharmaceuticals grew by 5% with Septolete and Nalgesin-S (naproxen) remaining the best-selling products.

In **Lithuania**, sales were down 6% compared to 2012, especially due to the poor development dynamics of the entire pharmaceutical market in this country and pressures to lower prices. The most important prescription products in terms of sales were: Valsacor (valsartan), Prenessa (perindopril) and Tolura (telmisartan), all products including combinations with a diuretic. Among non-prescription products whose overall sales increased by 13% are Daleron Cold 3 and Nalgesin-S (naproxen). Sales of animal health products grew by 9% with Enroxil (enrofloxacin) and Fypryst (fipronil) being the leaders in sales terms. Sales in **Latvia** exceeded the level of sales in 2012 by 12%. The following products were the key to achieving this result: Prenessa (perindopril) in combination with a diuretic, Atoris (atorvastatin) and Sorvasta (rosuvastatin).

SALES GROWTH IN REGION CENTRAL EUROPE WAS THE FASTEST IN LATVIA (BY 12%) AND IN POLAND, THE LARGEST MARKET IN THE REGION (BY 9%).

Non-prescription products recorded 22% growth with Daleron Cold 3 and Septolete contributing the biggest shares. In 2013 **Estonia** recorded 1% sales growth. The leading prescription pharmaceuticals in terms of sales were Enap (enalapril), Valsacor (valsartan) including combinations with a diuretic and Atoris (atorvastatin). Sales of non-prescription products with Septolete as the leading product in sales terms exceeded the 2012 sales level by 18%. 2013 was also marked by price pressures in Estonia.

West Europe and Overseas Markets

Product sales in Region West Europe and Overseas Markets amounted to EUR 257.7 million, a 4% decrease compared to 2012. This fall was the result of lower sales of prescription pharmaceuticals via third partners. On the other hand, the sales value through subsidiaries increased to 41%. A similar increase is also planned for the future as we would like the sales value through subsidiaries in 2014 to exceed the sales value of products under our partner brands.

KRKA IS THE LEADING PRODUCER OF THE GENERIC ESOMEPRAZOLE, CLOPIDOGREL, PERINDOPRIL, GALANTAMINE, GLICLAZIDE, ROPINIROL AND PRAMIPEXOLE IN WESTERN EUROPE.

Prescription pharmaceuticals remain market leaders with generic esomeprazole, clopidogrel and pantoprazole. Through associated companies in particular, Krka successfully launched several generic medicines after product patents had expired including memantine, sildenafil and telmisartan. Sales of animal health products increased by 8% with further growth expected in the future, especially on account of sales of products for food-producing and companion animals under Krka's own brand via subsidiaries in Germany, the Benelux countries and the UK. Total sales of non-prescription products rose by 20% compared to 2012.

Germany remains Krka's most important Western European market with EUR 53.2 million worth of products sold. Over three-quarters of total sales were contributed via the TAD Pharma subsidiary. Growth in this part was achieved especially by the successful sale of products launched in the last quarter. Krka's leading products in the German market were Candecor (candesartan), Candecor comb (candesartan with combinations), Oprymea SR (pramipexole in the form of prolonged release tablets), Pantoprazole TAD, Esomeprazole TAD and Galnora SR (galantamine in the form of prolonged release tablets).

ALL EIGHT SUBSIDIARIES OF REGION WEST EUROPE EXCEEDED THE SALES ACHIEVED IN 2012.

In **France**, the sales growth of products under our own brand name did not completely make up for the drop in sales via partner companies so the total sales value of EUR 34.8 million in 2013 was 9% lower. Our best-selling products were medicines with generic clopidogrel, esomeprazole, perindopril with combinations and gliclazide in the pharmaceutical form with prolonged release. In **Scandinavian countries**, at EUR 26.3 million sales decreased from 2012 as a result of a fall in sales via partner companies. The subsidiary Krka Sverige surpassed the 2012 sales figure. Krka was most successful in Sweden and Finland, especially due to the sale of generic medicines with venlafaxine and memantine. Despite a 17% drop in sales via partner companies in **Spain**, we nearly doubled our sales from 2012 due to the considerable rise in sales via the Krka Farmaceutica subsidiary. Due to a fall in the prices of generic medicines with lansoprazole and perindopril and its combinations, sales in the **UK** were considerably lower than in 2012. In **Ireland**, sales via the Krka Pharma Dublin subsidiary nearly tripled. In **Italy**, with 8% growth, which is the result of the successful operations of Krka Farmaceutici subsidiary, sales in 2013 exceeded EUR 18 million. In the **Benelux** countries, we sold a little less than EUR 17 million worth of products, followed by **Portugal** with EUR 16.5 million worth of sales and **other European countries**, including Greece, Switzerland and Cyprus that recorded sales of EUR 13.1 million.

Krka Group market position in Western Europe
In Western Europe, Krka remains the leading generic producer of esomeprazole, clopidogrel, perindopril, galantamine, gliclazide, ropinirol and pramipexole; the last four active substances are available in the form of tablets or capsules with prolonged release.
Krka is among the leading suppliers of generic medicines with the active substances pantoprazole, candesartan, perindopril, olanzapine, memantine, venlafaxine and donepezil.
Generic pharmaceuticals for human use are marketed under Krka's own brand in Scandinavia, Germany, Austria, Portugal, Ireland and Spain, Italy and France.

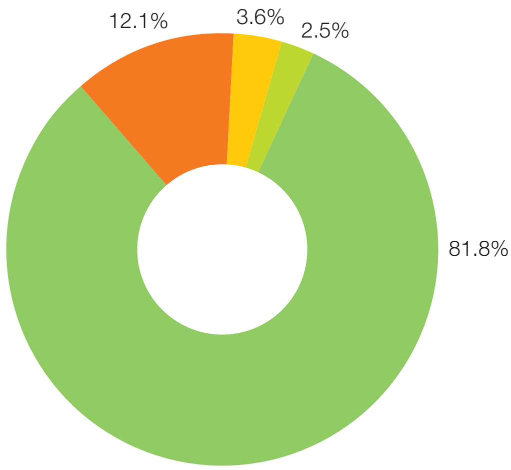
Sales in overseas markets were up 19% compared to 2012 and at nearly EUR 21 million were the highest in the Middle East. As we are planning to achieve sales growth in selected overseas markets, especially in Iran, South Africa, Iraq, Malaysia and Ghana, these markets are organised under a new sales region Overseas Markets. In this region, the majority of sales will be contributed by prescription pharmaceuticals like in 2013, especially those marketed under Krka's own brand and via the TAD Pharma subsidiary.

Product and service groups*

The development, production and sales of prescription pharmaceuticals lie at the core of Krka's operations. In 2013, sales of prescription pharmaceuticals accounted for 81.8% of the Krka Group's overall sales, followed by non-prescription products with 12.1%, animal health products with 3.6%, and health resort and tourist services with 2.5%. Krka Group sales increased in 2013 by 5% over 2012. The highest growth rate of 18% was achieved by non-prescription products, while prescription pharmaceuticals were the largest contributor to the Krka Group's overall absolute sales growth.

PRESCRIPTION PHARMACEUTICALS WERE THE LARGEST CONTRIBUTOR TO THE KRKA GROUP'S OVERALL SALES GROWTH.

Krka Group sales by product group in 2013



Krka Group and Krka Company sales by product and service group

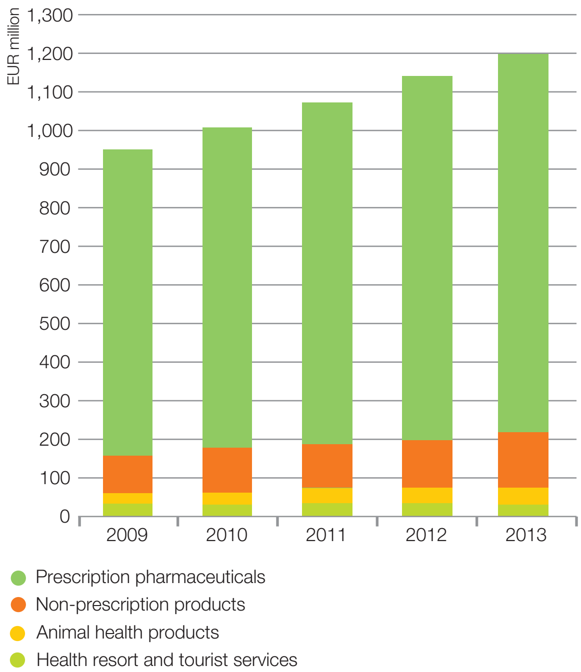
EUR thousand	Krka Group 2013	Krka Group 2012	Krka Group Index 2013/12	Krka Company 2013	Krka Company 2012	Krka Company Index 2013/12
Human health products	1,126,161	1,067,573	105	1,070,561	990,645	108
– Prescription pharmaceuticals	980,903	944,578	104	943,981	889,595	106
– Non-prescription products	145,258	122,995	118	126,580	101,050	125
Animal health products	42,592	42,752	100	42,824	42,574	101
Health resort and tourist services	30,466	31,864	96			
Other	1,608	1,112	145	2,954	2,061	143
Total	**1,200,827**	**1,143,301**	**105**	**1,116,339**	**1,035,280**	**108**

Krka Group quarterly sales by product and service group

EUR thousand	2013				2012			
	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
Human health products	276,760	283,614	241,262	324,525	254,618	271,472	230,108	311,375
– Prescription pharmaceuticals	242,811	252,883	216,014	269,195	230,616	243,065	203,422	267,475
– Non-prescription products	33,949	30,731	25,248	55,330	24,002	28,407	26,686	43,900
Animal health products	10,937	11,091	9,708	10,856	11,042	11,694	9,431	10,585
Health resort and tourist services	6,546	7,701	8,869	7,350	7,647	8,305	8,763	7,149
Other	184	238	895	291	239	275	340	258
Total	**294,427**	**302,644**	**260,734**	**343,022**	**273,546**	**291,746**	**248,642**	**329,367**

** Products mentioned in this chapter marked with * are marketed under different brand names in individual markets. They are listed at the end of the chapter.*

Krka Group sales by product and service group

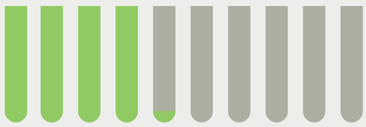


The leader in key therapeutic groups

In Slovenia, Central, Eastern and South-Eastern Europe, we are the leading supplier of prescription pharmaceuticals in important therapeutic groups such as statins, sartans and proton pump inhibitors. We are also the leading generic supplier of ACE inhibitors, antipsychotics and antidepressants, as well as pharmaceuticals for the treatment of Alzheimer's disease and Parkinson's disease.

Marketing and sales network strengthened and several products launched

Our products are marketed under our own trademarks. Our own sales and marketing network encompasses more than 30 markets. By strengthening this network and with several new cutting-edge products we increased sales in Western Europe considerably.



Sales in Western Europe via companies in the Krka Group were

up 41%.

We launched Krka's first polypill which combines two active ingredients for the treatment of hyperlipidaemia and high blood pressure.

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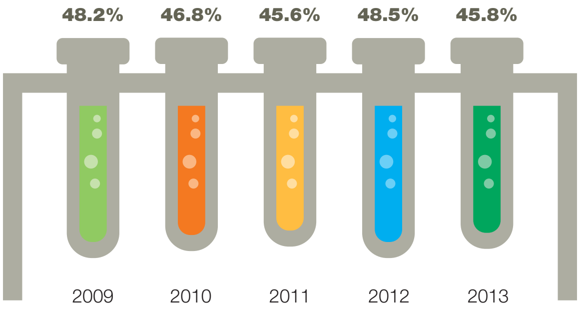
New products

For several years, sales of new products, which are products we have launched in the last five years, have represented over 45% of total sales. In 2013 this share was 45.8%. The most significant new products were Emanera* (esomeprazole), Roswera* (rosuvastatin) and Karbis* (candesartan). They were launched in 2010 and ranked among the 15 leading products in 2013.

Roswera* and Karbis* were in addition to Marixino* (memantine), which was launched in 2012, among the five leading products in terms of absolute sales growth in 2013.

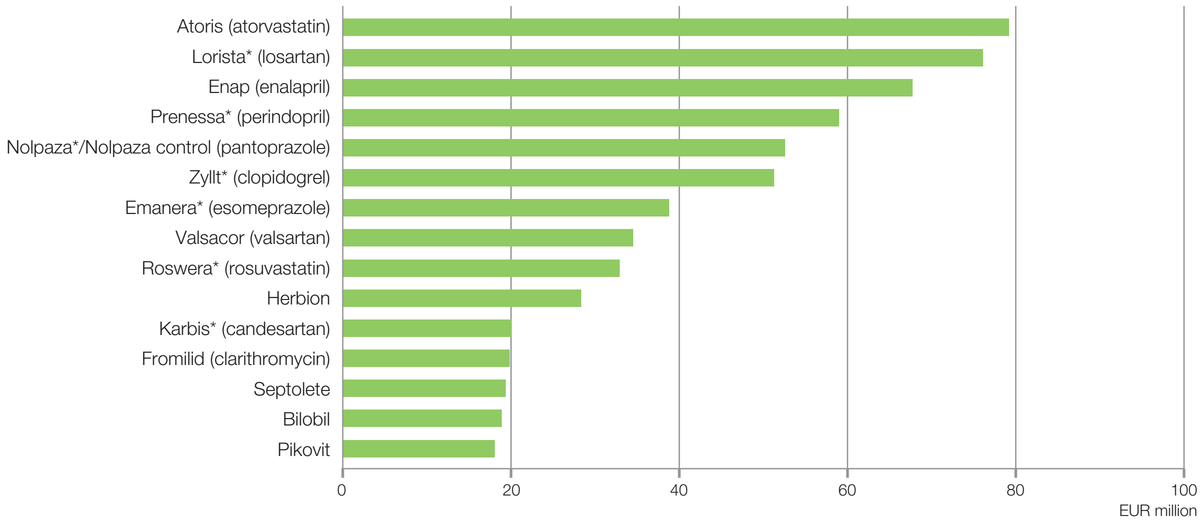
In 2013 we launched several new products containing new generic substances, added new pharmaceutical forms and combinations, dosage strengths and pack sizes, and extended our marketing activities to new markets.

Share of new products in Krka Group sales**



*** The share of new products includes products launched in individual markets in the past five years.*

Sales of leading products in 2013



New products in 2013

Prescription pharmaceuticals	
For the treatment of cardiovascular diseases	Atordapin/Atorcombo/Amaloris (atorvastatin and amlodipine) Elernap/Lenap/Elyrno/Enap L Combi (enalapril and lercanidipine) Tolucombi/Telmista H (telmisartan and hydrochlorothiazide)
For the treatment of diseases of the central nervous system	Elicea/Ecytara/Anxila (escitalopram) orodispersible tablets Oprymea (pramipexole) prolonged release tablets
Oncology medicines	Meaxin/Neopax/Meapax/Itivas (imatinib) Lortanda/Likarda (letrozole) Escepran/Etadron (exemestane) Tolnexa (docetaxel) Ecansya (capecitabine)
Non-prescription products	
For coughs and colds	Herbion Iceland moss/Herbisland/Herbimos, syrup
Products with an effect on nasal mucosa	Septoaqua
Animal health products	
Antimicrobial pharmaceuticals for food-producing animals	Flimabend/Flimabo (flubendazole)
Antimicrobial pharmaceuticals for companion animals	Fypryst (fipronil), cutaneous spray
Antimicrobial pharmaceuticals for companion animals	Marfloxin/Quiflox (marbofloxacin), flavoured tablets
Biocide	Ecocid Advanced (peroxyacetic acid), powder

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Prescription pharmaceuticals

In 2013 the Krka Group sold EUR 980.9 million worth of prescription pharmaceuticals, an increase of 4% compared to 2012.

In Slovenia and in Central, Eastern and South-Eastern Europe, Krka markets its prescription pharmaceuticals under its own brand names and has one of the strongest marketing and sales networks among pharmaceutical companies. With growing sales we also expanded and strengthened our network in 2013, especially in the Russian Federation and other Eastern European markets. We also market pharmaceuticals under our own brand names in most Western European markets. Our marketing and sales network in these markets was built during the last few years and in 2013 we strengthened it.

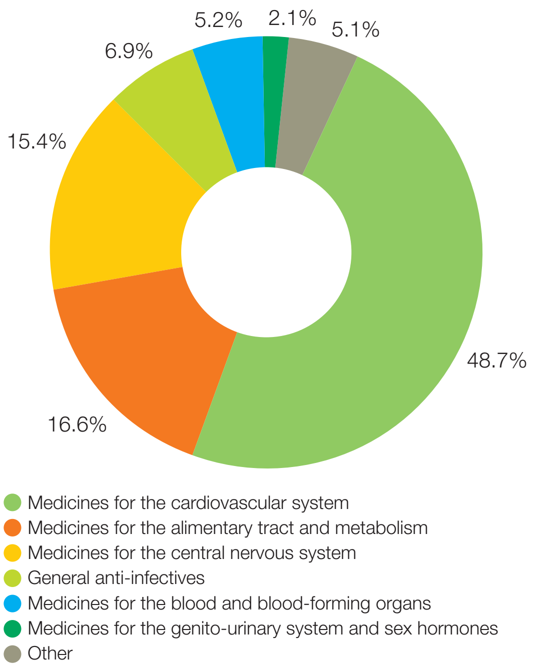
Among the ten largest individual markets, sales of prescription pharmaceuticals in absolute terms increased the most in the Russian Federation, Poland and Romania. Among other markets, sales rose the most in Spain, the Arabian Peninsula, Iran and Kazakhstan.

ATORIS, LORISTA* AND ENAP ARE KRKA'S BEST-SELLING PRESCRIPTION PHARMACEUTICALS.

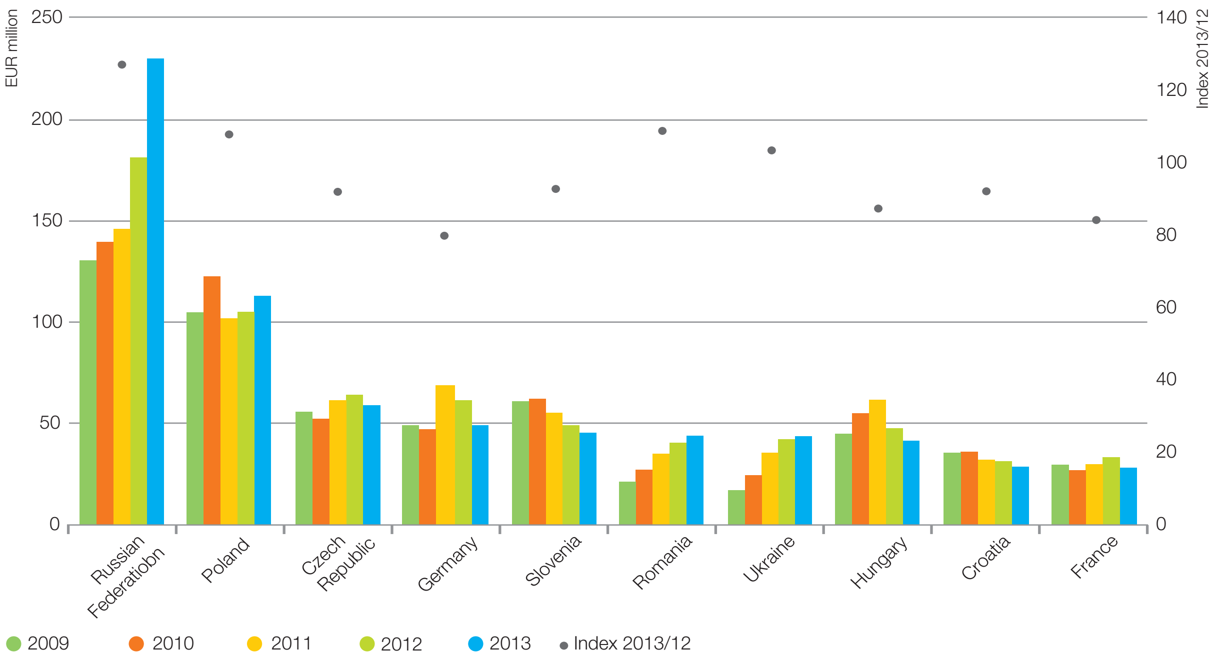
With respect to sales, medicines for the treatment of cardiovascular diseases remained the key therapeutic area of prescription pharmaceuticals in 2013, followed by medicines for the alimentary tract and metabolism, and medicines for diseases of the central nervous system.

Atoris (atorvastatin) remained the leading prescription pharmaceutical in 2013 in terms of sales, followed by Lorista* (losartan), Enap (enalapril) and Prenessa* (perindopril). Nolpaza* (pantoprazole), Zyllt* (clopidogrel), Emanera* (esomeprazole), Valsacor (valsartan), Roswera* (rosuvastatin) and Karbis* (candesartan) were also among the ten best-selling prescription pharmaceuticals.

Sales of prescription pharmaceuticals by therapeutic class



Sales of prescription products in the ten largest markets



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MEDICINES FOR THE TREATMENT OF CARDIOVASCULAR DISEASES

Statins

In the markets of Slovenia, Central, Eastern and South-Eastern Europe Krka has for several years been the leading producer of statins, the key medicines for the treatment of hyperlipidaemia. Despite the drop in market value, we increased our sales by nearly 10% and thereby also our market share.

WE CONSOLIDATED OUR LEADING POSITION AMONG PRODUCERS OF STATINS IN THE MARKETS OF SLOVENIA, CENTRAL, EASTERN AND SOUTH-EASTERN EUROPE.

Sales volume growth rose even further and over 2 million patients were being treated with Krka's statins every day in 2013. We are the leading producer of statins in eight markets including large markets like Poland and Ukraine. In the Russian Federation and Romania we are the leading generic producer. These markets recorded the highest increase in sales of Krka's statins. Sales also jumped in France, Italy and other Western European markets. In 2013 Spain was one of the leading markets in terms of the absolute sales growth of Krka's statins.

Atoris (atorvastatin) remains our best-selling statin, representing over 60% of total statin sales. In the markets of Slovenia, Central, Eastern and South-Eastern Europe, Atoris remains the leading statin in terms of sales volume and the leading atorvastatin in terms of sales value. In 2013 the market share of Atoris increased, exceeding 13% among all statins and 27% among atorvastatins. We continued to expand the number of markets for two additional dosage strengths of 30 mg and 60 mg of atorvastatin. We were the first to market these two strengths in Kazakhstan, Croatia and some other smaller markets.

Roswera* (rosuvastatin) is Krka's statin with the quickest sales growth rate. Its sales were up by more than 60% in 2013 and represent a quarter of all our statin sales. In 2013, Roswera* was the most prescribed statin in the markets of Slovenia, Central, Eastern and South-Eastern Europe and remained the leading generic rosuvastatin in terms of sales value. In this area, it was the fastest growing statin in terms of absolute sales growth. In 2013 it was launched in Kyrgyzstan and Montenegro. In Ukraine, Croatia and some other smaller markets Krka was the first producer to launch the new dosage strengths of 15 mg and 30 mg.

KRKA LAUNCHED ATORDAPIN*, THE FIRST KRKA POLYPILL WHICH COMBINES MEDICINE FOR TREATING HYPERLIPIDAEMIA AND MEDICINE USED TO TREAT HIGH BLOOD PRESSURE.

Vasilip (simvastatin) retained its leading position among generic simvastatins in the markets of Slovenia, Central, Eastern and South-Eastern Europe. Our simvastatin was launched in Italy and Ireland.

In 2013 Krka launched **Atordapin*** (atorvastatin and amlodipine), which is Krka's first polypill. It combines two active ingredients for the treatment of two diseases: atorvastatin for treating hyperlipidaemia and amlodipine for treating high blood pressure. Atordapin* is already marketed in the Czech Republic, Hungary, Slovakia and Romania.

Krka's statins and their fixed-dose combinations
rosuvastatin (Roswera/Roxera/Sorvasta)
atorvastatin (Atoris) atorvastatin and amlodipine (Atordapin/Atorcombo)
simvastatin (Vasilip)
lovastatin (Holetar)

ACE inhibitors

Angiotensin-converting enzyme inhibitors (ACE inhibitors), which are the key group of medicines for the treatment of high blood pressure in addition to sartans, are the largest group of Krka's prescription pharmaceuticals in terms of sales. Two of the ACE inhibitors rank among the five leading Krka pharmaceuticals in sales terms. In the markets of Slovenia, Central, Eastern and South-Eastern Europe, Krka remains the leading generic producer of ACE inhibitors and in terms of sales volume we remain the first among all producers.

KRKA IS THE LEADING GENERIC PRODUCER OF PERINDOPRIL AND ITS FIXED-DOSE COMBINATIONS WITH INDAPAMIDE IN EUROPE.

2013 marked 25 years since we first launched Krka's first ACE inhibitor **Enap** (enalapril). Together with its fixed-dose combinations with hydrochlorothiazide, Enap accounts for the biggest share of sales of Krka's products from this group despite the increased use of our newer ACE inhibitors. In the markets of Slovenia, Central, Eastern and South-Eastern Europe, enalapril has been the leader for several years and in terms of sales volume the most frequently prescribed ACE inhibitor. In 2013 a new fixed-dose combination with a calcium channel blocker **Elernap*** (enalapril and lercanidipine) was added to the enalapril range. We launched it in Portugal as the first generic producer to do so.

Krka's portfolio of perindopril and its fixed-dose combinations is the most important in the ACE inhibitors group. These are: **Prenessa*** (perindopril), **Co-Prenessa*** (perindopril and indapamide) and **Amlessa*** (perindopril and amlodipine). Krka is the leading generic producer of perindopril and its fixed-dose combinations with indapamide in Europe. Our market share expanded in 2013. In Slovenia and in Croatia, Prenessa* holds more than a 50% market share and is the leader among perindoprils. We also increased the number of markets where we market products containing perindopril. Prenessa* was launched in Azerbaijan and Albania. In Slovenia and the Czech Republic, Prenessa orodispersible tablets were launched, while we launched Amlessa* as the first generic producer to do so in eight new markets including the Russian Federation, Ukraine and Italy.

Ampril* (ramipril) with its fixed-dose combinations with hydrochlorothiazide is the leading generic ramipril in the markets of Slovenia, Central, Eastern and South-Eastern Europe. It was also launched in France and Bulgaria.

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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) enalapril and lercanidipine (Elernap/Lenap/Elyrno/Enap L Combi)
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)
Krka's portfolio includes six sartans and their fixed-dose combinations with hydrochlorothiazide. In 2013 a new fixed-dose combination Tolucombi* (telmisartan and hydrochlorothiazide) was added. In the same year, Krka remained the leading producer of sartans in the markets of Slovenia, Central, Eastern and South-Eastern Europe, increasing our market share to almost 25%. In this area, over 2.5 million patients are treated with Krka's sartans every day.

WE LAUNCHED TOLUCOMBI*, THEREBY EXTENDING KRKA'S PRODUCT PORTFOLIO OF 6 SARTANS AND THEIR FIXED-DOSE COMBINATIONS WITH HYDROCHLOROTHIAZIDE.

Lorista* (losartan) represents more than one-half of our sartan sales and is Krka's second best-selling product and the first in terms of absolute sales growth. In the markets of Slovenia, Central, Eastern and South-Eastern Europe, it has an over 35% market share together with its fixed-dose combinations and is the leading losartan in terms of sales volume. In 2013 it was launched in Italy and Azerbaijan. In several other markets we launched new dosage strengths.

Valsacor (valsartan) is along with its fixed-dose combinations with hydrochlorothiazide Krka's second best-selling sartan. In the markets of Slovenia, Central, Eastern and South-Eastern Europe it is the leading valsartan with a nearly 30% market share. In Slovenia and Lithuania, the Czech Republic, Slovakia and some other markets, the share of Valsacor among valsartans already exceeds 50%. Our valsartan is successfully sold in Western European markets and was launched in Spain in 2013.

Karbis* (candesartan) was, with its fixed-dose combinations with hydrochlorothiazide, Krka's sartan with the biggest sales growth in 2013 and with respect to this ratio also one of the five most successful products. The greatest amounts of candesartan are sold in Western Europe with Germany and Spain contributing most to sales growth. In the markets of Slovenia, Central, Eastern and South-Eastern Europe, it is the top generic candesartan and leads among all candesartan products in Poland, the Czech Republic and Hungary. In 2013 we launched it as the first generic producer in Italy and Hungary.

Tolura* (telmisartan) with its fixed-dose combinations with hydrochlorothiazide also reached a high, namely over 60% sales growth compared to 2012. Krka launched Tolura as the first generic producer in several new markets, especially Western Europe – Germany, France, Spain, Italy and also Slovenia and Croatia. We launched Tolucombi*, which is the new combination of telmisartan and hydrochlorothiazide, in several markets of Central and South-Eastern Europe. In the markets of Slovenia, Central, Eastern and South-Eastern Europe, Tolura* is the leading generic telmisartan.

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/Telmista) telmisartan and hydrochlorothiazide (Tolucombi/Telmista H)
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
Krka's portfolio of pharmaceuticals for the treatment of high blood pressure, in addition to ACE inhibitors and sartans, includes products from other groups including calcium channel blocker groups **Tenox*** (amlodipine), diuretic **Rawel SR** (indapamide) and adrenergic receptor blockers **Coryol** (carvedilol) and **Niperten*** (bisoprolol). Marketing activities of products which have been available in several markets for many years were extended to new markets in 2013. In Ireland, we launched indapamide, amlodipine and carvedilol, in Italy also amlodipine, and Niperten in Uzbekistan, Kazakhstan and Kyrgyzstan.

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

Proton pump inhibitors
Our portfolio contains five proton pump inhibitors. We were the leading producer of these medicines for the fifth consecutive year in the markets of Slovenia, Central, Eastern and South-Eastern Europe. Krka has the highest absolute sales growth in these areas. In Slovenia, Lithuania and Hungary we are the leading producer of proton pump inhibitors with market shares of above 20% and almost 50% in Slovenia. The greatest number of medicines from this group is sold in Germany, the Russian Federation and Poland.

KRKA IS THE LEADING GENERIC PRODUCER OF ESOMEPRAZOLE IN EUROPE.

Nolpaza* (pantoprazole) is Krka's most important proton pump inhibitor, representing nearly 45% of product sales from this group. The prescription product is supplemented in several

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markets by a product containing pantoprazole, which is available without prescription. We are one of the leading generic producers of pantoprazole in Europe. In the Russian Federation, Slovenia, Lithuania, Slovakia and some other markets, Nolpaza is the leading pantoprazole, while in Slovenia, Hungary and Slovakia doctors prescribe it more frequently than any other proton pump inhibitor. In 2013 Nolpaza was launched in Azerbaijan. In Ukraine, Kazakhstan and Turkmenistan it was launched in the form of a solution for injection.

Emanera* (esomeprazole) represents over 30% of sales of Krka's proton pump inhibitors. We are the leading generic producer of esomeprazole in Europe and in 2013 we further expanded our market share. In Poland, the Czech Republic and Slovakia, Emanera* is the market leader with an over 50% market share. Krka was also successful in Western Europe as our esomeprazole is the first among esomeprazoles in terms of sales volume in Germany. In 2013, Emanera* was launched in Spain, Kazakhstan, Ukraine and Albania and as the first generic esomeprazole in the Russian Federation.

Krka's portfolio is supplemented by **Lanzul*** (lansoprazole) and **Gelbra*** (rabeprazole), and slightly less than 10% of our proton pump inhibitors' sales still come from **Ultop** (omeprazole), our first product in this group. Krka is among the leading generic producers of lansoprazole and rabeprazole in Europe. In 2013 the marketing activities for lansoprazole were extended to France and rabeprazole was launched in Spain, Austria, Lithuania and the Czech Republic.

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

Oral antidiabetics

Krka's most important product in this therapeutic area is Gliclada* (gliclazide), an oral antidiabetic in prolonged release tablet form. In 2013 we remained the leading generic producer of gliclazide prolonged release tablets in Western Europe. **Gliclada*** is the leading generic gliclazide in several markets of Central Europe. In 2013 we were the first generic producer to launch it in Slovenia and France and in several other markets the portfolio was complemented by the dosage strength of 60 mg as the first and only generic producer to offer it. We launched this dosage form in Romania, Lithuania, Portugal and other markets. Our portfolio of oral antidiabetics includes **Enyglid*** (repaglinide) and **Meglimid** (glimepiride).

Medicines for the treatment of obesity

Our product for the treatment of obesity is **Orsoten** (orlistat), which contains 120 mg of orlistat and is a prescription pharmaceutical. It is complimented by a non-prescription product Orsoten Slim containing 60 mg orlistat. Orsoten is marketed in the Russian Federation and Kazakhstan and since 2013 also in Turkmenistan. Its sales compared to 2012 increased by 25%, the most in the Russian Federation. In this market Orsoten is the leading generic orlistat, while our products containing orlistat hold an almost 45% share.

MEDICINES FOR THE TREATMENT OF THE CENTRAL NERVOUS SYSTEM

Antipsychotics

For several years, in the markets of Slovenia, Central, Eastern and South-Eastern Europe we have been the leading producer among generic producers of antipsychotics. In this therapeutic area, we remain the only producer offering five active substances which are the leading in the world in sales terms. Krka sells the most antipsychotics in the Russian Federation and Germany. The Russian Federation also recorded the strongest sales growth in 2013.

KRKA IS THE LEADING GENERIC PRODUCER OF OLANZAPINE IN WESTERN EUROPE.

More than one-half of sales of our antipsychotics are accounted for by **Zalasta*** (olanzapine) and **Kventiax*** (quetiapine), while **Zypsilan*** (ziprasidone) experienced the highest absolute sales growth. In 2013 ziprasidone was launched in Germany, Spain, Austria, the Czech Republic and Estonia. We are one of the leading generic producers of olanzapine and ziprasidone in Europe, while in Western Europe we are the leading generic producer of olanzapine.

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

Antidepressants

Krka remained the leading generic producer of antidepressants in the markets of Slovenia, Central, Eastern and South-Eastern Europe in 2013.

Elicea* (escitalopram) remained the leading generic escitalopram in the markets of Slovenia, Central, Eastern and South-Eastern Europe. In 2013 our escitalopram was launched in Portugal and Kosovo. We were the first generic producer to offer Elicea* orodispersible tablets in Poland, the Czech Republic and Slovakia.

Alventa* (venlafaxine) represents more than 30% of the sales of Krka's antidepressants. In several markets it holds considerable market shares, and in Slovakia, the Czech Republic, Slovenia and Lithuania it represents over one-quarter of the venlafaxine market. Krka's venlafaxine is among the leading generic venlafaxines in the European Union. With respect to Western European markets, it was also launched in Spain, France and Ireland in 2013.

Our portfolio of antidepressants also contains **Asentra** (sertraline) and **Mirzaten** (mirtazapine). Asentra is the leading generic sertraline, while Mirzaten is the leading mirtazapine in the markets of Slovenia, Central, Eastern and South-Eastern Europe.

** Products mentioned in this chapter marked with * are marketed under different brand names in individual markets. They are listed at the end of the chapter.*

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

MEDICINES FOR THE TREATMENT OF ALZHEIMER'S DISEASE

In 2013 we remained the leading generic producer of pharmaceuticals for the treatment of Alzheimer's disease in the markets of Slovenia, Central, Eastern and South-Eastern Europe. The majority of these medicines are sold in Western Europe: Germany, Scandinavia, the UK and Portugal.

KRKA LAUNCHED MEMANTINE IN OVER 10 NEW MARKETS.

Marixino* (memantine) represents about 40% of the sales of Krka's pharmaceuticals used for the treatment of Alzheimer's disease and ranks among the three leading Krka products in terms of absolute sales growth. It was launched in 2012, and in 2013 marketing activities were extended to more than ten new markets including Slovenia, France, Spain, Romania and Poland. In the markets of Slovenia, Central, Eastern and South-Eastern Europe, Krka's memantine is one of the leading generic memantines. In Slovenia, Romania and Lithuania it is the leading generic memantine.

Approximately 35% of Krka's product sales for the treatment of Alzheimer's disease is represented by **Galsya SR*** (galantamine). Krka's galantamine remained the leading generic galantamine in the European Union in 2013. Galsya SR* is the leading galantamine in Slovakia and, with a nearly 50% market share, Krka's galantamine is also the leader in Germany.

Our product portfolio for the treatment of Alzheimer's disease is complemented by **Yasnal*** (donepezil) and **Nimvastid** (rivastigmine). Also in 2013 Yasnal* was the leading donepezil in the markets of Slovenia, Central, Eastern and South-Eastern Europe. Nimvastid is the leading generic rivastigmine in these areas. Krka is also among the leading generic producers of donepezil and rivastigmine in Germany and in the UK. Nimvastid was launched in Spain in 2013 and remains the only rivastigmine in the form of orodispersible tablets available in our markets.

Krka's medicines for the treatment of Alzheimer's disease
memantine (Memaxa/Maruxa/Marixino/Mentixa/Maryzola)
galantamine (Galsya SR/Galnora)
donepezil (Yasnal/Yasnoro)
rivastigmine (Nimvastid)

MEDICINES FOR THE TREATMENT OF PARKINSON'S DISEASE

In 2013 Krka remained one of the leading generic producers of medicines for the treatment of Parkinson's disease in the markets of Slovenia, Central, Eastern and South-Eastern Europe. Most of these medicines were sold in Germany and other Western European countries.

Rolpryna SR* (ropinirole) represents over two-thirds of sales of our products from this therapeutic area. Krka's ropinirole with prolonged release remained the leading generic ropinirole in Europe. We also launched it in Croatia.

Oprymea (pramipexole) continued to be the leader among generic producers in the markets of Slovenia, Central, Eastern and South-Eastern Europe. Our pramipexole is one of the leading pramipexoles in the UK and we also launched it in Austria. At the end of 2013 Krka launched pramipexole with prolonged release in Germany, which will further strengthen our position among suppliers of medicinal products for the treatment of Parkinson's disease.

ANALGESICS

Doreta (tramadol and paracetamol) and **Naklofen duo** (diclofenac) are our most important prescription analgesics. In the markets of Slovenia, Central and South-Eastern Europe, Doreta is the leading generic fixed-dose combination of tramadol and paracetamol, while in Poland, Slovakia and in Romania it ranks first among all competitors. We launched this fixed-dose combination in France and Spain in 2013, while our unique double dosage strength (75 mg tramadol and 650 mg paracetamol) was launched in Croatia. We are the only generic producer in our markets to offer the higher, double-dosage strength of this fixed-dose combination.

In 2013 we launched a prescription pharmaceutical **Nalgesin*** (naproxen), complemented by a non-prescription product with the same active substance. The launch in Poland, Hungary and Slovakia along with intense marketing activities in existing markets resulted in a threefold increase in sales of this medicine compared to 2012.

MEDICINES FOR THE TREATMENT OF INFECTIONS

Krka's most important medicines for the treatment of infections are **Fromilid** (clarithromycin), **Azibiot** (azithromycin), **Nolicin** (norfloxacin) and **Ciprinol** (ciprofloxacin).

Belonging to the group of macrolides, Fromilid is the leading generic macrolide in the markets of Slovenia, Central, Eastern and South-Eastern Europe and the fourth best-selling brand among producers of macrolides. In these markets Krka is the third-ranked producer of macrolides. In Slovenia, Ukraine, Hungary and some smaller markets, Fromilid is the leading clarithromycin. The prolonged release dosage form **Fromilid uno** was launched in Azerbaijan in 2013, while Azibiot was launched in Serbia and Romania.

Nolicin and Ciprinol belong to the group of fluoroquinolones. Krka is the leading generic producer of medicines from this group in the markets of Slovenia, Central, Eastern and South-Eastern Europe. Ciprinol is the leading ciprofloxacin in several markets, including Romania, Ukraine and Croatia.

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

In 2013 **Zyllt*** (clopidogrel) continued to be one of Krka's best-selling medicines, keeping its position as the leading generic producer of clopidogrel in Europe. In terms of sales volume, it remained the leading clopidogrel in the Russian Federation. It is also ranked first in Hungary and some smaller markets. We sell the most clopidogrel in Western Europe and the Russian Federation, where Zyllt* achieved the highest sales growth. In 2013 clopidogrel was launched in Italy.

KRKA REMAINS THE LEADING GENERIC PRODUCER OF CLOPIDOGREL IN EUROPE.

MEDICINES FOR THE TREATMENT OF DISEASES OF THE URINARY TRACT

Vizarsin (sildenafil) is Krka's most important medicine in this therapeutic area. We are the only producer of sildenafil orodispersible tablets which can be taken without water. In 2013 sildenafil was launched in those Western European countries where it had not been marketed before. We were among the first generic producers to launch it in the form of tablets and orodispersible tablets in Germany, France, Italy, Spain, Austria and Ireland. Vizarsin was also launched in Uzbekistan and Latvia, while in the Czech Republic orodispersible tablets were added to the portfolio. In Western Europe, Krka is one of the five leading generic producers of sildenafil and in Slovenia, Romania and Lithuania we are the leading generic producer.

Tanyz/Tanyz ERAS (tamsulozin) is used for the treatment of benign prostatic hyperplasia. Under the name Tanyz ERAS, it is available in a prolonged release pharmaceutical form. In the Czech Republic, Slovenia and Latvia Tanyz/Tanyz ERAS is the leading generic tamsulosin and ranks third in Central, Eastern and South-Eastern Europe. The product portfolio for the treatment of the urinary tract is complemented by **Finpros** (finasteride) for the treatment of benign prostatic hyperplasia and **Asolfena** (solifenacin) for the treatment of urinary incontinence.

MEDICINES FOR THE TREATMENT OF DISEASES OF THE RESPIRATORY SYSTEM

Our portfolio of new products for the treatment of the respiratory system consists of **Cezera*** (levocetirizine) and **Dasselta*** (desloratidine), which are used to alleviate the symptoms of allergies, and **Monkasta*** (montelukast) which in addition to relieving allergy symptoms also treats chronic bronchial asthma. In the markets of Slovenia, Central, Eastern and South-Eastern Europe all three products are among the leading generic medicines. In Lithuania and Estonia, Monkasta* is the first among competitors. Dasselta* was launched in Poland and Croatia. In 2013 Krka strengthened its position in Western Europe. In Spain we launched levocetirizine, montelukast and desloratidine, and in Italy montelukast and desloratidine. We also launched montelukast in France and in Germany and Austria as the first generic producer. In Germany levocetirizine was launched in 2012 and became the leading generic producer of levocetirizine in 2013.

ONCOLOGY MEDICINES

In 2013 we introduced a new therapeutic class of medicinal products, oncology medicines, which is one of the largest and fastest growing therapeutic classes in the world.

Meaxin* (imatinib) is a protein kinase inhibitor used for the treatment of chronic myeloid leukaemia, gastrointestinal stromal tumours and some other less frequent diseases. We launched it in Slovenia, the Russian Federation and Romania. As one of the first generic producers, we also launched it in Lithuania, Estonia and Croatia, and as the first generic producer in Slovakia and Latvia.

WITH ONCOLOGY MEDICINES, KRKA ENTERED A NEW THERAPEUTIC AREA IN 2013.

Lortanda* (letrozole) and **Escepran*** (exemestane) are aromatase inhibitors and are used to treat breast cancer. We launched them in Poland, the Czech Republic, Slovakia, Romania, Lithuania and Latvia. **Tolnexa** (docetaxel) is a medicine from the group of taxanes, which is key in the chemotherapy of several common cancers like lung cancer, breast cancer and prostate cancer. It was launched in the Czech Republic, Slovakia, Romania and Lithuania. **Ecansya** (capecitabine) belongs to the group of pyrimidine analogues and is used independently or in combination with other medicines used to treat colorectal cancer, stomach cancer and breast cancer. As one of the first generic producers, we launched it in Germany, Romania, the Czech Republic and Slovakia.

Non-prescription products

In 2013 the Krka Group sold EUR 145.3 million worth of non-prescription products, which is an increase of 18% compared to 2012.

Among the ten largest markets, absolute sales growth was the highest in the Russian Federation, Ukraine, Poland and, among other markets, in Belarus, Kyrgyzstan and Turkmenistan.

SALES OF NON-PRESCRIPTION PRODUCTS INCREASED BY 18% IN 2013.

Krka's most important non-prescription brands are Herbion, Septolete, Bilobil and Pikovit, which are ranked among 15 of Krka's leading products. They are followed by Nalgesin S*, Panzynorm and Duovit. All of these brands are also the leading brands in terms of absolute sales growth. The biggest share of non-prescription product sales was contributed by vitamin and mineral products. It was these products and products improving cerebral and peripheral circulation that experienced the highest sales growth of nearly 30%.

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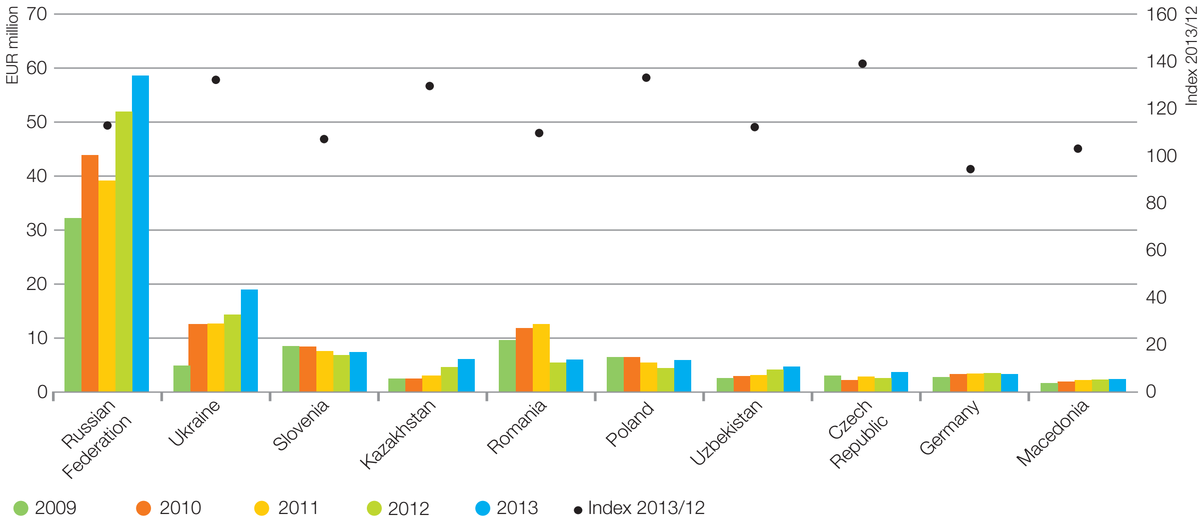
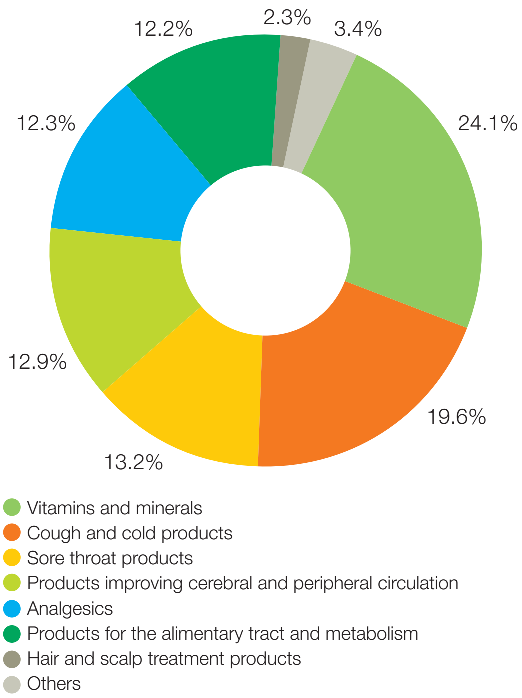
Sales of non-prescription products in the 10 largest markets



Sales of non-prescription products by therapeutic class in 2013



Herbion is the leading brand of non-prescription products, which includes herbal cough syrups for various kinds of coughs. **Herbion cowslip syrup** and **Herbion ivy syrup** facilitate expectoration, while **Herbion plantain syrup** and the new **Herbion Iceland moss syrup*** relieve dry cough. Herbion Iceland moss syrup* also relieves sore throat and hoarseness. Herbion Iceland moss syrup* was in 2013 launched in Croatia, Kosovo, Latvia and Macedonia. New products under this brand were launched in Austria, Lithuania and Belarus. Product sales under this brand name increased by nearly 30% in 2013.

SALES OF HERBION, THE LEADING BRAND AMONG KRKA'S NON-PRESCRIPTION PRODUCTS INCREASED IN 2013 BY NEARLY 30%.

Septolete is the second most important non-prescription brand in terms of sales. The brand contains lozenges and spray for relief from sore throat. In 2013 we entered the junior segment. In Poland we launched **Septolete junior** intended for children aged four and over. We increased the number of markets in which we market our well-established brands. We launched **Septolete plus honey and lime** in Ukraine, Moldova and Mongolia. **Septolete plus spray** was launched in Uzbekistan, Georgia and Moldavia. Product sales of the Septolete brand rose by nearly 20% in 2013.

Krka's third most important non-prescription product brand is **Bilobil** under which we market products containing ginkgo extract. Their sales were up by more than 30% in 2013. In the markets of Slovenia, Central, Eastern and South-Eastern Europe, Bilobil ranks as the leading ginkgo product in sales volume terms. In many markets the brand has been achieving large market shares, exceeding 35% in Slovenia, Ukraine and Romania. Most Bilobil is sold in Romania and the Russian Federation where sales in 2013 increased the most. The product containing the most ginkgo, **Bilobil intense** (120 mg), was launched in Kazakhstan, Mongolia and Armenia, and **Bilobil forte** (80 mg) in Kyrgyzstan.

Pikovit and **Duovit** are Krka's most important brands of vitamins and minerals, whose sales increased by over a third in 2013. The Pikovit brand comprises eight products for children, while Duovit brand products are intended for adults and are adjusted to the specific needs of the male and female body. The largest market for these two brands in terms of sales is the Russian Federation where sales rose the most. They are also successful in terms of sales in other Eastern European countries and, in many of them, Pikovit ranks first among vitamin and mineral products for children in sales volume terms.

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Pikovit and Duovit were winners in their categories in a competition in Kyrgyzstan where experts and customers assessed the quality and popularity of products.

SALES OF PIKOVIT, THE LEADING PRODUCT BRAND AMONG KRKA'S VITAMIN AND MINERAL PRODUCTS, INCREASED BY 40% IN 2013.

Nalgesin* **S** (naproxen) is our leading non-prescription analgesic which is complemented by prescription products containing naproxen. Also in 2013 marketing activities for this brand were expanded to new markets or the portfolio was expanded in existing markets. In this way, Nalgesin* was launched in Romania, Kazakhstan, Azerbaijan, Turkmenistan, Kyrgyzstan, Latvia and Portugal. The greatest quantity is sold in the Russian Federation where pharmacists recommended it for pain relief most often. The success and creativity of our marketing solutions were proven by the Bronze Effie Award Krka received in the Russian Federation for the successful marketing and communication strategy for Nalgesin.

At the end of 2013, Septoaqua for adults and **Septoaqua** for children were launched under the brand Septoaqua. Both products contain an isotonic sterile solution of mineral salts and are intended for moistening and cleaning the nasal mucosa. Their advantage lies in the special puff volume adjusted for adults and children. They were launched in the Czech Republic, Slovakia and Kazakhstan.

Animal health products

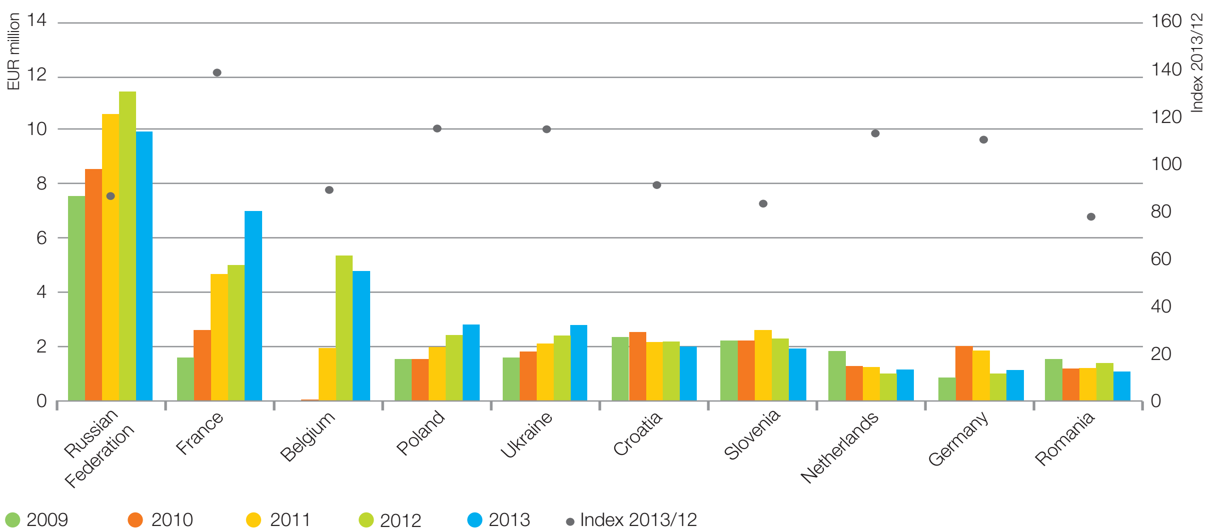
In 2013 the Krka Group sold EUR 42.6 million worth of animal health products, which is about the same as in 2012. Among the ten leading markets, absolute sales growth was the highest in France, Ukraine and in Poland where in particular sales of companion animal products grew. Largely as a result of less intense animal farming, sales decreased in the Russian Federation.

In Slovenia, Central, Eastern and South-Eastern Europe, animal health products are marketed via our own marketing and sales network which we also began to build in Germany and the Benelux countries. In other Western European and Overseas markets, animal health products are sold via our partner companies.

ENROXIL*, FLORON AND FYPRYST ARE KRKA'S CORE ANIMAL HEALTH PRODUCTS.

Enroxil* (enrofloxacin) remains our leading animal health product. The Enroxil brand contains several dosage forms, including the **Enroxil* Max** single-dose solution for injection and the **Enroxil Flavour** flavoured tablets used in the treatment of companion animals. The most products containing enrofloxacin were sold in the Russian Federation and nearly 40% in France, Germany and other countries of Western Europe. In 2013 flavoured Enroxil* tablets were also launched in Ireland.

Sales of animal health products in the 10 largest markets



Fypryst (fipronil) is Krka's most important veterinary product for companion animals and one of our leading animal health products. Under this brand, in 2013 the launch was made of **Fypryst cutaneous spray**, which is particularly suitable when animals have been severely infested by external parasites. We launched it on several markets, including Slovenia, the Russian Federation, Benelux and Poland. In 2013, veterinarians chose Fypryst pipettes as the best pipette among competitive 'spot-on' products.

Floron (florfenicol), **Kokcisan** (salinomycin) and **Toltarox*** (toltrazuril) are among five leading Krka animal health products. In 2013 we increased the number of markets and added a new product Floron oral powder. Toltarox* was launched in Ireland.

Marfloxin* (marbofloxacin) is third-generation fluoroquinolone, which is used for treating bacterial infections in cattle and pigs. Most marbofloxacin is sold in France, Belgium, Germany and other markets of Western Europe. In 2013 we launched it on sev-

** Products mentioned in this chapter marked with * are marketed under different brand names in individual markets. They are listed at the end of the chapter.*

eral new markets, namely Marfloxin* tablets on seven new markets including Slovenia, Romania, Poland, the Czech Republic, and solution for injections in Croatia, Ukraine and Serbia.

Another of Krka's ten leading animal health products is **Ecocid/Oxicid S** disinfectant. In 2013 we launched the new **Ecocid Advanced** disinfectant containing peroxyacetic acid.

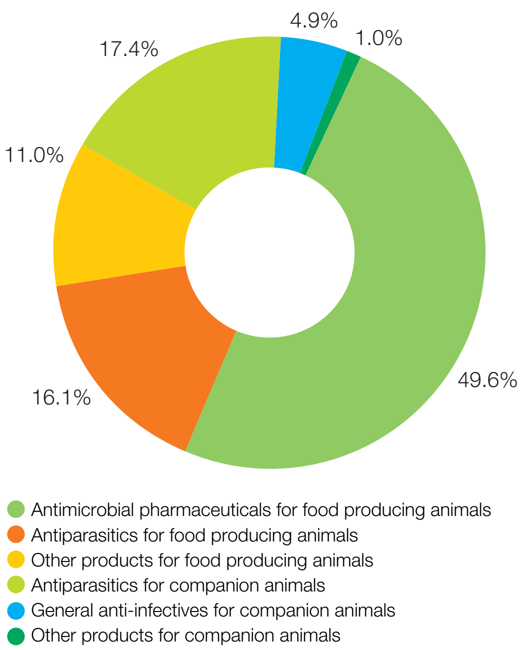
Antiparasitics, which belong to our portfolio of companion animal health products, are sold under the brand **Dehinel Plus** (febantel, praziquantel, pyrantel embonate). These include tablets for large dogs **Dehinel Plus XL** and flavoured tablets **Dehinel Plus Flavour**. The range is complemented by **Rycarfa** (carprofen), non-steroidal anti-inflammatory medicine against inflammation and for pain relief. Carprofen was launched in Ireland in 2013.

Flimabend* (flubendazole) is Krka's new antiparasitic for food-producing animals with which Krka has been strengthening its position in this area. Flimabend's efficacy has been proven by our own research. It is available in an innovative pharmaceutical form characterised by excellent solubility, and homogeneity and stability in mixing with water. Krka entered the market as the first generic, we launched it on nine markets, including Slovenia, France, Romania, Poland and Hungary. Flimabend* is Krka's animal health product with the highest absolute sales growth in 2013.

IN 2013 WE LAUNCHED FLIMABEND* (FLUBENDAZOLE), A NEW ANTIPARASITIC FOR FOOD-PRODUCING ANIMALS IN AN INNOVATIVE PHARMACEUTICAL FORM.

Entemulin* (tiamulin), a new animal health product in the form of water-soluble granules, also achieved high sales growth. In 2013 it was launched in the Russian Federation, Belarus and Macedonia.

Sales of animal health products by therapeutic class in 2013



Health resort and tourist services

In their business units in Šmarješke and Dolenjske Toplice, Strunjan, Novo Mesto and Otočec, the spa resort group Terme Krka recorded 335,243 overnight stays, up 1% compared to 2012. Despite the higher number of overnight stays, the revenue decreased by 4%, amounting to EUR 30.5 million. Due to measures taken by the Health Insurance Institute of Slovenia, Terme Krka, the leading provider of medical rehabilitation among Slovenian health and spa resorts, was forced to considerably lower its prices for health spa services and accommodation. We recorded fewer overnight stays by and services for local guests, while the number of overnight stays by foreign guests rose by 7%, which is why their share increased by 2 percentage points, to 33%.

The majority of foreign guests is Italian, who contributed 8% to all overnight stays, i.e. 5% growth. They are followed by Russian, Israeli, Austrian and Dutch guests. We see the highest market potential for Krka health resort and tourist services in the Russian Federation so in 2013 we continued to establish and strengthen contacts with Russian hospitals, health insurance companies and other companies that send guests to rehabilitation and preventive health programmes. Terme Šmarješke Toplice was 66% full, Terme Dolenjske Toplice 64% and Talaso Strunjan 80%.

In 2013 Terme Krka received the "Sejalec" Award for the most innovative tourist product VitaGen in Šmarješke Toplice, which advises guests how to eat and live healthily based on their genetic code.

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Products marketed under different brand names in individual markets

Active ingredient	Brand names
Prescription pharmaceutical	
amlodipine	Tenox, Hipres, Amlonor
atorvastatin and amlodipine	Atordapin, Atorcombo, Amaloris
bisoprolol	Niperten, Sobycor, Sobyc
desloratadine	Dasselta, Esradin
donepezil	Yasnal, Yasnoro
exemestane	Escepran, Etadron
enalapril and lercanidipine	Elernap, Lenap, Elyrno, Enap L Combi
escitalopram	Elicea, Ecytara, Anxila
esomeprazole	Emanera, Emozul, Escadra
galantamine	Galsya SR, Galnora
gliclazide	Gliclada, Glyclada
imatinib	Meaxin, Neopax, Meapax, Itivas, Yleris
candesartan	Karbis, Candecor, Canocord
clopidogrel	Zyllt, Kardogrel
quetiapine	Kventiax, Quentiax
lansoprazole	Lanzul, Lansoptol
letrozole	Lortanda, Likarda
levocetirizine	Cezera, Lertazin
losartan	Lorista, Lavestra
memantine	Marixino, Memando, Maruxa, Memaxa, Mentixa, Maryzola
montelukast	Monkasta, Monalux
naproxen	Nalgesin, Analgesin, Naldorex
olanzapine	Zalasta, Zolrix
pantoprazole	Nolpaza, Appryo
perindopril	Prenessa, Perineva
perindopril and amlodipine	Amlessa, Dalnessa, Tonarssa, Dalneva
perindopril and indapamide	Co-Prenessa, Co-Perineva, Prenewel
rabeprazole	Gelbra, Zulbex
ramipril	Ampril, Amprilan
repaglinide	Enyglid, Repodiab
ropinirole	Rolpryna SR, Ralnea SR
rosuvastatin	Roswera, Roxera, Sorvasta
telmisartan	Tolura, Telmista
telmisartan and hydrochlorothiazide	Tolucombi, Telmista H
venlafaxine	Alventa, Olwexya
ziprasidone	Zypsilan, Zypsila, Ypsila
Non-prescription products	
Icelandic moss extract	Herbion Iceland moss, Herbisland, Herbimos
naproxen	Nalgesin, Analgesin, Nalgedol, Ilgesin
Animal health products	
enrofloxacin	Enroxil, Xacin, Enrox
flubendazole	Flimabend, Flimabo
marbofloxacin	Marfloxin, Quiflox
tiamulin	Entemulin, Tyawalt
toltrazuril	Toltarox, Tolzesya, Bovicox

Research and development

The core of Krka's research and development is the development of generic active substances, dosage forms and technologies. To develop generic products with added value, innovative research and development approaches, technologies and evaluation methods are required.

Krka's successful placement of new products on the markets is the result of a complex process which includes recognising opportunities on time, 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. The compliance of our product development and production procedures and documentation with regulatory requirements is essential to the rapid gaining of marketing authorisations for prescription pharmaceuticals, non-prescription products, animal health products and food supplements.

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 whose production we implemented multi-layer tablet technology. In order to provide clinical evidence of the efficacy of this group of products, we conducted complex pharmacokinetic and bioequivalence studies, which have become increasingly complex also due to the expansion to new therapeutic areas. This is particularly true of oncology medicines and medicines for treating diseases of the central nervous system. One of the key steps in product development is to conduct local clinical trials and other research to ensure compliance with regulatory procedures with which our operations are adjusted to the additional requirements of individual markets.

The successful placement of a generic product with added value onto the market is the result of creative and innovative procedures and especially teamwork in the research and development and regulatory areas.

To remain competitive in the future, we will need to focus on the efficient and innovative development of selected products in interesting therapeutic areas. In addition, we will have to devote our 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 place existing products on new markets.

The number of new Krka Group marketing authorisations by Region

In 2013 Krka received marketing authorisations for 17 new products in 35 new dosage forms and strengths.

KRKA RECEIVED MARKETING AUTHORISATIONS FOR 17 NEW PRODUCTS IN 35 DOSAGE FORMS AND STRENGTHS.

We acquired marketing authorisations for several new products and expanded our marketing opportunities in all Regions. Our products were authorised under different EU and national marketing authorisation procedures, resulting in 515 approvals in a number of countries.

The number of 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
2013	**18**	**45**	**98**	**279**	**72**	**193**	**135**	**395**	**155**	**446**	**37**	**79**
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

Protecting our know-how and industrial property

In 2013 Krka submitted patent applications for 10 inventions and, based on priority applications from 2012, two international patent applications.

In 2013 Krka registered 45 trademarks in Slovenia and submitted 38 international and 32 national trademark applications.

Prescription pharmaceuticals

In 2013 we received marketing authorisations for 13 new products in 31 dosage forms and strengths and expanded marketing opportunities for our key products in all regions through new marketing authorisations.

As the first generic producer in Europe, we gained marketing authorisation under the decentralised procedure (DCP) for a fixed-dose combination of three active substances

Co-Amlessa/**Co-Dalnessa** (perindopril, indapamide and amlodipine) in tablets in three strengths in Europe. Medicine used in the treatment of high blood pressure enables the concomitant intake of three medicines with complementary action. Simple once-daily administration contributes to better patient compliance and treatment outcome.

WE OBTAINED MARKETING AUTHORISATION FOR THE FIRST FIXED-DOSE COMBINATION OF THREE ACTIVE SUBSTANCES FOR THE TREATMENT OF HIGH BLOOD PRESSURE: PERINDOPRIL, INDAPAMIDE AND AMLODIPINE (CO-AMLESSA/CO-DALNESSA).

The range of products for lowering blood pressure was further expanded with our new medicine **Tolucombi** tablets, for which we gained marketing authorisations in all European countries under the EU centralised procedure (CP). It contains the combination of telmisartan and hydrochlorothiazide and is used to lower blood pressure in patients for whom treatment with only one active ingredient is not effective enough.

By obtaining marketing authorisation for Tolucombi, the development of the first two-layer tablet was completed and the use of the new technology on an industrial scale was approved. Two-layer tableting opens up additional possibilities for combining several active substances in a single tablet, even when they are difficult to combine due to their physical and chemical properties and interactions. In addition, the different release of one or more active substances in different layers can also be achieved using this technology. This tablet form enabled us to achieve appropriate stability and product quality in a very short time. We were awarded the Golden Award by the Chamber of Commerce and Industry of Slovenia.

BY OBTAINING APPROVALS FOR TOLUCOMBI, KRKA SUCCESSFULLY COMPLETED THE DEVELOPMENT OF THE FIRST TWO-LAYER TABLET AND WAS AWARDED THE GOLDEN AWARD.

Under the DCP, we acquired marketing authorisation for **Oprymea** (pramipexole) tablets with prolonged release in five different strengths. The medicine is used alone or in combination for the treatment of signs and symptoms of Parkinson's disease and affords once-daily administration.

WE RECEIVED MARKETING AUTHORISATIONS FOR OPRYMEA (PRAMIPEXOLE) IN THE FORM OF PROLONGED RELEASE TABLETS FOR THE TREATMENT OF SIGNS AND SYMPTOMS OF PARKINSON'S DISEASE.

By gaining European marketing authorisations for the new medicine **Amaloris**, we expanded our range of medicines for the treatment of cardiovascular diseases. Amaloris is available as film-coated tablets and contains 10 mg atorvastatin and 10 mg amlodipine. The combination of two active substances from different indication areas provides a comprehensive treatment option for cardiovascular patients and effectively reduces risks of cardiovascular diseases.

As the first generic producer we were granted marketing authorisation under the EU DCP for **Elernap** tablets, a fixed-dose combination of enalapril and lercanidipine in two strengths in 15 European countries. Elernap is used to treat essential hypertension in cases where monotherapy with lercanidipine is insufficient and does not have an adequate effect in the treatment of high blood pressure.

Another product authorised for marketing under the EU DCP was **Sobycor** (bisoprolol), available in tablets in three strengths. Sobycor is an adrenergic receptor blocker, which in a single dose effectively lowers high blood pressure in patients with mild to moderate hypertension and improves heart function in patients with angina pectoris.

Memantine film-coated tablets were authorised in two strengths in Europe. This medicine is used to treat patients with moderate to severe Alzheimer's disease. The marketing authorisation of memantine expanded Krka's portfolio of medicines for the treatment of Alzheimer's disease, which now contains all active ingredients used in clinical practice in this therapeutic area.

Under the EU DCP we acquired marketing authorisation in Europe for the new product **Aclexa** with which we expanded our portfolio of non-steroidal, anti-inflammatory medicines. The medicine contains the active ingredient celecoxib in hard capsules in two strengths. It is used for pain and inflammation relief in various rheumatic diseases, rheumatoid arthritis, osteoarthritis and ankylosing spondylitis.

Our portfolio of products used for the treatment of central nervous system diseases was expanded by the addition of a new dosage form of the antidepressive escilatopram. Under the EU DCP we obtained marketing authorisations for **Elicea Q-Tab** in the form of orodispersible tablets in four strengths. The orodispersible tablet dissolves in the mouth quickly so patients can take it without water. It is especially suitable for patients who have trouble swallowing tablets.

In the Russian Federation we gained marketing authorisation for our new medicine **Naklofen Protect dual pack**, which contains capsules of 75 mg diclofenac and capsules of 15 mg lansoprazole in one packaging unit. It is used for pain relief and treatment of rheumatic diseases which require long-term treatment with diclofenac. Concomitant use of lansoprazole decreases the risk of gastrointestinal bleeding, ulcers and perforations, which are common side effects of diclofenac, especially in long-term use, older patients and patients who are hypersensitive and have existing gastrointestinal ulcers.

In the area of oncology, we completed marketing authorisations for three new products. Under the EU DCP we obtained marketing authorisations for **Meaxin** (imatinib) film-coated tablets and **Tolnexa** (docetaxel) concentrate for a solution for infusion. Meaxin is used for the treatment of chronic myeloid leukaemia. Tolnexa is used alone or in combination with other medicines for the treatment of breast cancer, locally advanced or metastatic non-small-cell lung carcinoma, metastatic prostate cancer, metastatic stomach cancer and locally advanced cancer of the head and neck. Under the national procedure we gained marketing authorisation for **Balutar** (bicalutamide) film-coated tablets in two strengths in the Russian Federation. Balutar is the medicine of choice in the treatment of prostate cancer.

IN ONCOLOGY WE COMPLETED MARKETING AUTHORISATIONS FOR THREE NEW MEDICINES: MEAXIN/NEOPAX (IMATINIB), BALUTAR (BICALUTAMIDE) AND TOLNEXA (DOCETAXEL).

We expanded marketing opportunities for **Amlessa/Dalneva** tablets in four strengths with new marketing authorisations in the Russian Federation, Ukraine, Kazakhstan, Uzbekistan, Georgia, Moldavia, Turkmenistan, and Bosnia and Herzegovina. Amlessa/Dalneva contains perindopril and amlodipine – two active ingredients which complement each other to enable the safer and more effective lowering of high blood pressure.

In the Russian Federation, we gained marketing authorisations for the treatment of cardiovascular and oncological diseases. We acquired marketing authorisation for the fixed combination of **Vamloset** (amlodipine and valsartan) film-coated tablets in five strengths which, due to the interaction of both active ingredients, provides effective and safe treatment with one tablet daily. Marketing authorisations were obtained for **Valsacor** (valsartan) film-coated 320 mg tablets. We also acquired a new marketing authorisation for **Neopax** containing imatinib in hard gelatine capsules.

In the markets of Eastern Europe, we acquired new marketing authorisations for **Emanera** (esomeprazole) in the Russian Federation, Moldavia and Ukraine, and for **Roxera** (rosuvastatin) in Ukraine, Armenia, Turkmenistan, Kazakhstan and Kyrgyzstan. In the group of ACE inhibitors, we acquired marketing authorisations for **Zonixem** (lisinopril) and **Zonixem H** and **Zonixem HD** containing lisinopril and hydrochlorothiazide in Uzbekistan and Ukraine. We expanded our marketing opportunities for the established medicine **Atoris** (atorvastatin) and acquired marketing authorisation for 30 mg, 60 mg and 80 mg film-coated tablets in Uzbekistan and Turkmenistan. For **Perineva Q Tab** (perindopril) we gained a new marketing authorisation in the Russian Federation and Kazakhstan, and for **Gliclada** (gliclazide) and **Desradin** (desloratidine) in Kazakhstan.

In South-Eastern European markets, we adjusted to the market situation and regulatory changes which followed Croatia's entry to the European Union. We expanded the centralised procedures and acquired the first European marketing authorisations in Croatia. Under the national procedures we acquired new marketing authorisations for the fixed-dose combination of **Atordapin** (atorvastatin and amlodipine) film-coated tablets in two strengths, **Memando** (memantine) film-coated tablets in two strengths and the oncological medicines **Neopax** (imatinib), **Lortanda** (letrosole), **Etadron** (exemestan) and **Cansata** (capecitabine). Market opportunities for oncological medicines in the countries of South-Eastern Europe were enhanced by gaining marketing authorisation for **Meaxin** (imatinib) in Bosnia and Herzegovina and in Macedonia. In Serbia we obtained marketing authorisation for **Memando** (memantine) film-coated tablets in two strengths.

Non-prescription products

In 2013 three new products were authorised for marketing.

We acquired marketing authorisation for **Nalgesin 220 mg** (naproxen) film-coated tablets in a new strength of 220 mg that were authorised for marketing under the DCP in seven European countries. Nalgesin 220 mg was added to Krka's range of pain relief medicines in a strength that in most markets may be sold without a prescription and is intended for self-medication.

The portfolio of products used in the self-treatment of a cold was extended with two new products. Under the European DCP, we gained marketing authorisations for **Septanazal nasal spray for adults** and **Septanazal nasal spray for children**. The products contain a combination of local decongestant xylometazoline which reduces the swelling of the nasal mucosa and a runny nose, and dexpanthenol, which moistens and heals damaged nasal mucosa. They facilitate breathing and help relieve nasal congestion in people suffering from colds.

THE PORTFOLIO OF NON-PRESCRIPTION PRODUCTS WAS EXTENDED WITH TWO NEW PRODUCTS BY OBTAINING APPROVALS FOR SEPTANAZAL NASAL SPRAY FOR ADULTS AND SEPTANAZAL NASAL SPRAY FOR CHILDREN.

In European countries we expanded the marketing opportunities for **Nolpaza/Nolpacid** (pantoprazole) 20 mg gastro-resistant tablets, for which marketing authorisation was issued under a DCP in the category of non-prescription products.

The well-established brand **Septolete** was expanded in the markets of Europe. **Septolete plus honey/lime** lozenges and **Septolete Plus menthol** lozenges were approved in Austria. **Septolete plus oral spray** was approved in Georgia.

Markets were enlarged for **Septoaqua nasal spray for children** and **Septoaqua nasal spray for adults**. The products were granted marketing authorisations in the Russian Federation, Ukraine, Lithuania, the Czech Republic, Slovakia, Estonia and Bosnia and Herzegovina.

Among our herbal non-prescription products, we expanded the marketing possibilities for our key brands **Bilobil** and **Herbion**. **Bilobil Intense** 120 mg capsules were also approved in the Russian Federation, Armenia, Tajikistan, Lithuania, **Herbion island moss syrup** in Hungary, Lithuania, Macedonia, Bosnia and Herzegovina, Croatia, and **Herbion ivy syrup** in the Russian Federation.

Animal health products

In 2013 Krka obtained the first notification for a new veterinary hygiene biocidal product **Ecocid Advanced**. The first notification was granted in Lithuania, Latvia, Slovakia and the Czech Republic, and marketing authorisation was gained in the Russian Federation. This highly active all-purpose disinfectant for the safe and effective disinfection of surfaces and equipment in animal health and modern animal farming is based on peroxyacetate acid, which is effective against viruses, bacteria and their spores, and yeasts.

Toltarox/Tolzesya (toltrazuril) oral suspension was approved under the DCP and its use was extended to cattle. The product is used to prevent infections with coccidiosis and consequently diarrhoea in new-born calves.

We completed a DCP for **Enrox/Enroxal** (enrofloxacin) solution for injection for cattle and pigs in the strength of 100 mg/ml. For this product, which has the advantage of being used once daily in the treatment of respiratory illnesses, we were the first generic company to obtain a marketing authorisation for administration to a new animal species, pigs.

We increased the marketing opportunities for **Marfloxin** (marbofloxacin) solution for injection for calves and pigs, for which we gained additional marketing authorisations in Croatia, Ukraine, Macedonia and Kazakhstan. Marbofloxacin tablets for cats and dogs were authorised for marketing in Croatia, Bosnia and Herzegovina, Macedonia and Kazakhstan.

In some European countries, we completed the decentralised procedure for **Rycarfa** (carprofen) 20 mg, 50 mg and 100 mg tablets for dogs and solution for injection for cats and dogs. In South-Eastern European markets, we gained new marketing authorisations for the **Fypryst spot-on-solution** (fipronil) and the **Fypryst** (fipronil) cutaneous spray. In the markets of South-Eastern Europe, the Russian Federation and Kazakhstan, we acquired marketing authorisations for **Flimabend** (flubendazol) oral suspension for pigs and poultry. In Ukraine and Serbia, **Entemulin/Tiavalt** (tiamulin) water-soluble granules for drinking for pigs and poultry were approved. In the Russian Federation, marketing authorisation was issued for **Trisulfon** (sulfanometoxin and trimethoprim) oral suspension for the treatment of respiratory and intestinal infections in poultry and pigs.

Health resort and tourist services

The health resort and tourist services started in 2013 with the FIT family programme intended for families who, in addition to water-related and other holiday adventures, wish to participate in cooking workshops, obtain advice from a nutritionist and a sports trainer, have a physiotherapy session and visit a doctor's office. Within the medical wellness programme, we started developing a programme for people with a metabolic syndrome which is based on lipid and blood pressure management. The programme is designed to suit individual needs.

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, continually improving processes to reduce flow time along the entire supply chain, and operating an integrated supply process system including all Krka Group companies as well as other contracted production sites.

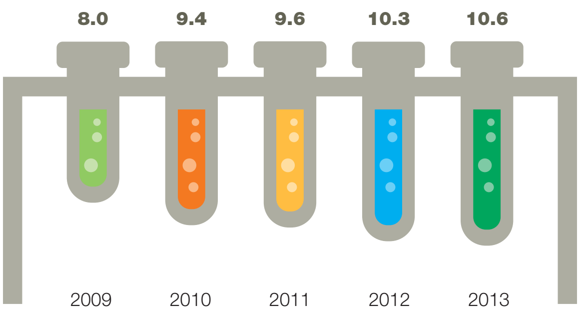
We have improved cost efficiency in Product Supply processes by continuously optimising our production processes in Slovenia and abroad, managing the entire product life cycle, and introducing equal-quality but lower-cost alternative sources of active pharmaceutical ingredients, excipients and packaging.

Product planning and realisation

In terms of volume, the production of finished pharmaceutical products followed market demand. Compared to 2012, production in 2013 increased by 3%. Once again we recorded the largest monthly and quarterly levels of production so far. By continually improving processes, we have considerably reduced the average order-to-delivery time.

In 2013 the production of active ingredients for pharmaceutical production recorded 24% growth and thereby the highest level of production so far.

Production of finished pharmaceutical products in billions pieces



Supply process

In 2013 we continued to operate electronically with our suppliers of secondary packaging, and began to have packaging materials supplied directly to production plants. This has simplified supply planning and accelerated procedures as well as reduced administrative costs. The changes made to the supply process were in accordance with the new requirements of European legislation, especially the Falsified Medicines Directive. We continued to improve our partnership strategies with suppliers and thus substantially shortened order-to-delivery times for the majority of raw materials, thereby reducing the key raw material input prices of our most important products. Certain suppliers are included in our processes as early as the development stage of a new product and, if necessary, they are informed of our development strategy and undergo training.

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. We achieved good results in optimising production processes and increasing production yields. In considering the ever more demanding quality standards in pharmaceutical production and expansion of the product portfolio, we managed to keep the costs of processes at the same level as in 2012.

We started regular production in the newly built distribution centre in the Russian Federation. This cutting-edge production plant has brought increased production capacity, greater flexibility and a strengthened position of a local producer in the Russian Federation. We also increased the production capacity and modernised the technological process for manufacturing sterile products. In this way, we are strengthening our position in the technologically most challenging area in the pharmaceutical industry.

We strengthened our information technology support for managing, monitoring and controlling processes by capturing data directly from the lines, calculating and visualising production process efficiency. We increased the standardisation level which we successfully passed on to our plants abroad, bringing a positive effect in terms of managing production costs.

Warehousing and transport

The principles we comply with in the warehousing and distribution of our products are, like elsewhere, quality, flexibility and responsiveness. In the Russian Federation, we considerably expanded our warehousing capacity, thereby lowering rental costs. We implemented a new dispatch system, which ensures improved vehicle utilisation. We also simplified the dispatch procedure to European Union countries and implemented direct shipment for buyers in Croatia.

Investments

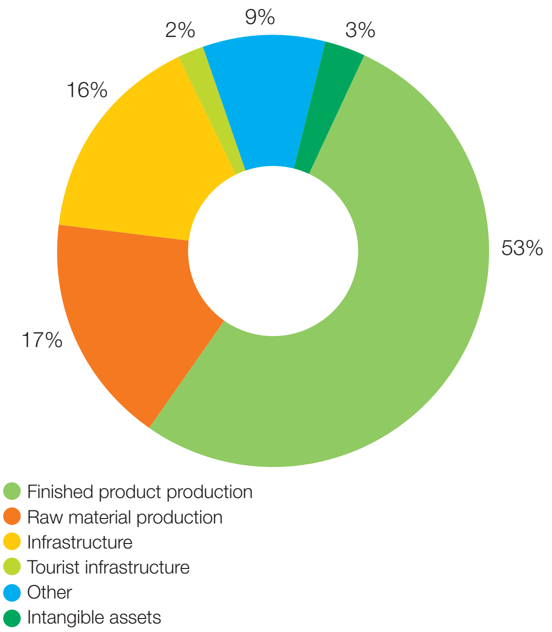
In 2013, the Krka Group allocated EUR 157 million to investments, of that EUR 117 million to the controlling company, and EUR 40 million to subsidiaries. The investments aim to increase and update production capacities and finance new machines and equipment. We also pursue our strategic objective of developing our own generic pharmaceuticals by investing in research and development capacities and through our production and distribution centres around the world.

IN 2013, WE ALLOCATED EUR 157 MILLION TO INVESTMENTS.

In the past decade we allocated EUR 1.2 billion to investments.

More than 20 investment projects are currently in progress in the Krka Group. All projects comply with environmental standards. The selected equipment matches the best available technology that guarantees environmental protection and efficient energy use and at the same time ensures safe and efficient operations.

Structure of Krka Group investments in 2013



We invest in various objects for the production of raw materials and finished products and in the modernisation of infrastructure to provide stable support to business functions of the entire Group. Investments represented 13.1% of revenues from sales generated in 2013.

Energy efficient investments

We continued working on 20 investment projects and were planning new ones. They all include the **latest technology available** for environmental protection and energy efficiency.

Despite a significant rise in the volume of production, we employed various measures to lower specific energy use again.

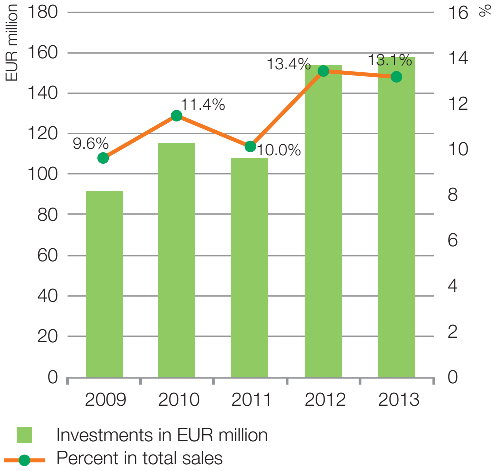
We reduced specific energy use by

4%.

Cogeneration for Krka's needs

In Novo mesto we completed the construction of a cogeneration system powered by a natural gas engine. This technology will **save 25% of primary energy** and reduce CO_2 emissions by 25%. We will produce 12 GWh of thermal energy and a similar quantity of electric energy for our own needs.

Krka Group investments in the period from 2009 to 2013



NOTOL 2 IS THE LARGEST INVESTMENT IN KRKA'S HISTORY

In Ločna in Novo mesto, Krka's pivotal location, the construction of a plant for the production of solid pharmaceutical dosage forms, Notol 2, is in full swing. This is the biggest investment in Krka's history and is estimated at EUR 200 million. The production plant will measure 55,000 square metres and its annual production capacity will reach 4.5 billion finished products. According to our plans, production will start by the end of 2015.

THE VALUE OF NOTOL 2, A PLANT FOR PRODUCING SOLID PHARMACEUTICAL DOSAGE FORMS, IS ESTIMATED AT EUR 200 MILLION.

WE ARE EXPANDING OUR API PRODUCTION

The construction of the new building complex for the production of active pharmaceutical ingredients (APIs) in Krško continues. The plant will increase our production capacities. In the first phase, we plan to construct the Sinteza 1 (Synthesis 1) production plant and implement the accompanying infrastructure. The investment is estimated at EUR 85 million. Production will start by the end of 2014.

ENERGY SUPPLY PROJECTS

The simultaneous production of thermal and electric power (cogeneration) increases the energy conversion yield and enhances the efficient use of primary energy.

WE ENHANCE OUR RESPONSIBILITY TO THE ENVIRONMENT BY EFFICIENTLY USING ENERGY.

We implemented the system powered by a natural gas engine and augmented the cost efficiency of our own energy supply production and exploitation of thermal energy. Our investment amounted to EUR 1.7 million.

A NEW PLANT IN THE RUSSIAN FEDERATION

One of the Krka Group's most important investments is Krka-Rus 2. The investment includes the construction of a new production plant and enlargement of the logistic centre in the Russian Federation. The plant's projected capacity is 1.8 billion tablets and capsules a year. It will allow Krka to consolidate its status as a domestic manufacturer in that country. The size of the new buildings will total approximately 34,500 square metres.

IN OCTOBER 2013, WE LAUNCHED PACKAGING OF FINISHED PRODUCTS IN OUR NEW PRODUCTION PLANT, KRKA-RUS 2.

The investment is estimated at EUR 135 million. The first stage was completed in 2013 and reached EUR 95 million. In July 2013, we started using the new logistic centre and the high-bay warehouse. In October, the packaging of finished materials commenced while, at the beginning of December, all formally required conditions had been met to start the production of bulk products.

TERME KRKA

In April 2013, our subsidiary Terme Krka opened a new adventure park in Otočec. The project has been partially financed from the LEADER 4 fund of the European Agricultural Fund for Rural Development (EAFRD).

We constructed a new geothermal well in Dolenjske Toplice and opened an enlarged and refurbished restaurant in Šmarješke Toplice.

FARMA GRS

The substantial investment in Krka's subsidiary Farma GRS, d. o. o., which was established by Krka and partners to enhance the development of the pharmaceutical industry, has entered to the finishing phase. In Ločna, they will establish new research-and-development and production facilities in a total value of EUR 45 million. The project was co-financed to a total of more than EUR 10 million by the EU's European Regional Development Fund (ERDF).

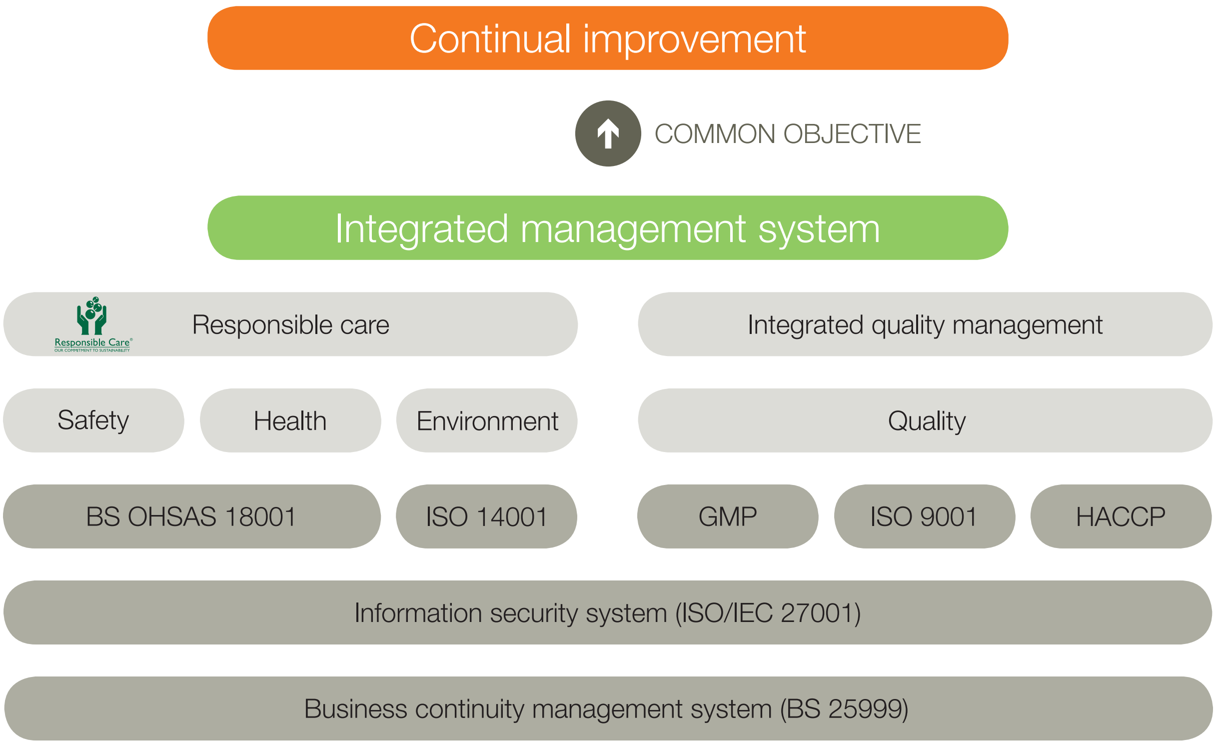
Integrated management system and quality

The basic strategic quality management guidelines focus on the sustained quality of products and services. We apply various methods of control and apply advanced work systems to meet the requirements of different clients and demonstrate the on-going suitability of processes for achieving the set goals. We upgrade product and service quality by making constant systematic process improvements. Thanks to the advances in process development, we have exceeded the expectations of our clients and gained new opportunities for further improvements.

Management and quality systems

We manage the different aspects of our operations (quality, the environment, health and safety at work, food safety, information security, and business continuity management) in a uniform way through our integrated management system (IMS). The purpose of the IMS is to achieve optimum business targets. Its structure is based on the ISO 9001 standard, which has been upgraded and extended 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. We are permanently upgrading it by reducing costs, shortening the time from production of a document to its enforcement, providing easy access to the documents and their security. To ensure the credibility of our IMS and augment 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 the regulatory and legal requirements (good practices, GxP). We regularly follow new developments in the area of good manufacturing practices and systematically introduce them into the management systems and processes.

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 EFFICIENTLY CARRYING OUT THE COMPANY'S BUSINESS CONTINUITY.

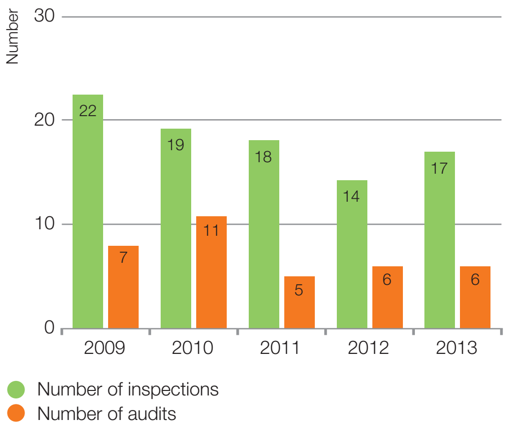


Constant improvements dictated by standards, quality guidelines and the PDCA (Plan-Do-Check-Act) approach are the driving force of the progress and upgrading in all areas of the Company's operations. We systematically manage the processes from customer requirements, research and development, production, marketing and sales to the monitoring of customer satisfaction. Customer satisfaction and business success will remain our key objectives in the future.

Inspections and audits of the management and quality system

The compliance of Krka's management system is examined and approved by regular audits and inspections carried out by domestic and foreign government agencies and inspectorates, certification organisations and partner audits.

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. THERE HAVE BEEN FEWER AUDITS AND INSPECTIONS AND THE TREND SHOWS THE RISK IS ASSESSED AS LOW AND THAT OUR PARTNERS PLACE CONSIDERABLE TRUST IN KRKA'S QUALITY SYSTEM.

The Agency for Medicinal Products and Medical Devices of the Republic of Slovenia (JAZMP) regularly inspects our control and quality assurance systems, processes for the production of pharmaceuticals and APIs, clinical trials, and pharmacovigilance. In 2013 we passed several inspections, among others:

- the verification of the new line for secondary packaging in Gotna vas and additional lines in the Sterile Products Department;
- two comprehensive inspections of the non-sterile production, which were both successful, and Krka obtained the Good Manufacturing Practice Certificate that applies uniformly to the complete non-sterile production in Ločna;
- the inspection of API production, which was successful, and Krka retained the validity of the already issued Good Manufacturing Practice Certificate for API production; and
- a joint inspection by the Agency for Medicinal Products and Medical Devices of the Republic of Slovenia (JAZMP) and the French agency for medicinal products, Agence nationale de sécurité du médicament et des produits de santé (ANSM) inspected the compliance with good clinical practice and good laboratory practice.

We successfully passed the inspections conducted by the Agency for Medicinal Products and Medical Devices of the Republic of Slovenia (JAZMP), which confirmed that our operations were up to the requirements applicable in the European Union. This is the prerequisite for the renewal of Good Manufacturing Practice Certificates and the maintenance of permits for the production of pharmaceuticals and active substances.

We also successfully passed the re-inspection conducted by the Chemical Office of the Republic of Slovenia of the Ministry of Health, which verified the compliance with the good laboratory practice principles set by the OECD.

We underwent regular inspections by other agencies for medicinal products as well in order to enter or remain in markets beyond the European Union where Krka markets its products. We successfully passed all inspections and the inspectors confirmed the suitability and compliance with regulatory requirements applied in the production of pharmaceuticals.

In certain countries, for example in the Russian Federation, Ukraine and Belarus, Krka has gained the special status of a manufacturer of high-quality pharmaceuticals. The quality control of imports is limited to three parameters, which decreases import costs and allows for the essentially quicker entrance of batches of finished products to the market. The verification inspection conducted by the Belarus inspection bodies was also successfully passed by our subsidiary Krka-Polska, and the company obtained the status of a manufacturer of non-sterile products registered in Belarus.

The Administration of the Republic of Slovenia for Food Safety, Veterinary and Plant Protection (UVHVVR) regularly sampled and controlled samples of feed additives in order to establish the quality of products, whether the conditions for the traceability of feed in three plants were suitable, and whether the requirements for the issuance of veterinary permits for exporting feed additives were met.

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 of the Slovenian Act Regulating the Sanitary Suitability of Foodstuffs, Products and Materials Coming into Contact with Foodstuffs, and examined the implementation of the HACCP requirements in our Catering Department.

Krka's auditors carry out audits of the management systems of suppliers and contract partners to ensure better control over the quality of our products and processes. Measures are implemented to reduce to an acceptable level risks related to the quality of products and raw materials produced by suppliers and contractors. The suitable quality and timely delivery of products and raw materials manufactured by suppliers and contract partners provides for the optimum planning of production processes.

Quality assurance processes

Krka has introduced six key processes for the implementation of its policies and attainment of strategic objectives. They are as follows: 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 the elementary corporate process rules of operation. Our permanent tasks are to upgrade quality systems, and to improve the process efficiency, quality of products and services. To achieve this, it is vital that our employees undergo continuous training and constantly upgrade their knowledge in the field of quality management. Our employees working in the area of quality assurance focus on the detection of new developments in the area of good manufacturing practice. They co-operate with experts from various areas, look for opportunities for improvement and introduce new developments to company processes.

We maintain awareness of the importance of quality in company processes at a high level through incentives and public releases and on the corporate website constantly look for new innovative approaches which we then introduce into such processes.

To produce a quality, safe and efficacious product, quality must be integrated into the earliest stages of research and development. We ensure that the quality of products and processes complies with the latest standards and requirements of international legislation by introducing new knowledge and tools, an in-depth understanding of processes and suitable sources.

We have established the quality management system for incoming materials and active ingredients. The system ensures that suitable materials are released for chemical and pharmaceutical production. In the production of the majority of our key products, we use active ingredients made according to our own technology and those that result from our own research and development. All active ingredients are assessed as complying with good manufacturing practice standards and registration documents.

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 contribute to quality assurance in production and control processes. Our employees give plenty of useful proposals related to their work, which contributed to substantial savings in 2013. In the future, we intend to continue our work in line with the guidelines and plans and strive to rationalise and minimise costs and solicit as many new useful proposals as possible.

We apply laboratory quality control to assess the quality of products, active ingredients, incoming materials and production environment in all of our production facilities. We fulfil the orders placed by our customers and provide for customer satisfaction through the constant improvement of quality control systems, a professional work attitude, constructive communications within and beyond quality control, and effective work organisation. In addition, we pay constant attention to increasing the quality of work in the contractual laboratories and subsidiaries abroad.

We control production processes, active ingredients, and finished pharmaceutical products. In particular, we control the critical stages of the production process, and examine and assess the documents for every product batch separately. Thanks to this, we are able to clearly demonstrate and confirm that our products are manufactured in compliance with the prescribed procedures and good manufacturing practice guidelines that apply to EU countries.

We constantly upgrade our documentary and information system in compliance with the process requirements to ensure the transparent and efficient use of information. The documents by which we prove the quality of our products are arranged systematically and available for inspections or partner audits.

In view of the sales and production requirements, we plan and bring in line activities for the timely release of incoming materials, bulk products and finished products. We are actively involved in a project for the integration of planning, which is being carried out within the supply chain optimisation project. We adjust the number of batches released to the market with regard to the sales requirements and performance of production activities. Activities essential for releasing batches on the market rise from activities performed throughout manufacturing, quality control and product quality assessment cycles. All manufactured batches are assessed in compliance with the standards of the good manufacturing practice and registration documents. The final assessment of an individual batch is prepared by appropriately qualified persons authorised to launch pharmaceuticals according to the provisions of the Slovenian Medicinal Products Act. The qualified persons are registered with the JAZMP, and are also listed in Krka's Pharmaceutical Manufacturing Licence.

RELEASING A BATCH TO THE MARKET IS THE RESULT OF PROCESSES THAT ARE IN PROGRESS THROUGHOUT THE PRODUCTION CYCLE.

We issue the certificate and prepare batch documentation for a customer according to quality assurance contracts, which we regularly harmonise and update together with customers and partners. In-depth communication and certain responsibilities within a partnership are the result of long-term co-operation. In 2013, we updated the finished product quality certificates in accordance with the guidelines of good manufacturing practices that apply to EU countries.

We follow the quality of our products on the market throughout their life-cycle and are actively involved in following the safety of a medicine within the pharmacovigilance system.

Constructive and effective communication and quality professional work will lead us to even better results.

Quality system orientation

Our quality system addresses our customers' demands and expecations in line with the legislative requirements and good manufacturing practice. To further improve the processes, we follow the customer satisfaction information regarding our products by constantly monitoring indirect indicators.

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

We provide for customer satisfaction in relation to our products and services through regulary updated quality assurance contracts and product quality reviews. Another indicator of customer satifaction is successfully passed audits of product manufacturing in compliance with the good manufacturing practice and registration documents.

Our Quality Committee periodically reviews all major processes with respect to our IMS and performance criteria, and proposes strategic guidelines for their further development.

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

Our on-going objective is to integrate and pursue the uniformity of quality systems in the processes of all Krka Group companies. In view of this, we upgrade the quality systems and pursue their optimisation. In 2013, the responsible persons from individual business functions of the parent Company, from which the required upgrading and optimisation of work in subsidiaries originate, visited the subsidiaries in order to accelerate activities to improve the quality assurance system. We are also implementing new developments connected with the pharmacopeia and good manufacturing practice. When conducting projects, we provide professional assistance to our subsidiaries. During the construction of a new plant in the Russian Federation in 2013, we were engaged in activities for quality assurance in warehousing processes, production, utilities, and the upgrading of laboratories, and we approved the production start-up of Krka-Rus 2. We regularly verify quality systems in our subsidiaries by audits. The internationalisation of quality system processes is leading to coherent and comprehensive quality management, optimisation and process efficiency.

Information security system

Our information security management system (ISMS) is ISO/IEC 27001 certified. We regularly assess information source risks. Krka's internal rules on archiving documentary materials comply with the Slovenian Protection of Documents and Archives and Archival Institutions Act, and the compliance was approved by the Archives of the Republic of Slovenia. The ISMS is regularly assessed by external security audits. Krka's Information Security Policy was extended to our subsidiaries. Key elements of the successful implementation of ISMS are training our employees and raising their awareness. They are also carried out by using contemporary technologies such as e-learning.

NO MAJOR INFORMATION SECURITY INCIDENTS WERE DETECTED IN KRKA IN 2013. THIS INDICATES A HIGH LEVEL OF AWARENESS AMONG OUR EMPLOYEES AND THAT THE INFORMATION INFRASTRUCTURE IS SAFE.

In 2013 we launched (and plan to finish in 2014) a systematic approach to personal data protection on the Krka Group level in compliance with EU directives and local legislation of countries in which Krka's subsidiaries operate. We intend to further pursue the in-depth application of contemporary tools for supervision of the information security level and to increase it; for example, intrusion detection and intrusion prevention systems (IDS/IPS), security information and event management (SIEM) system, vulnerability management, protection of Krka networks from unwanted traffic (Secure Web Gateway) and introduce Mobile Device Management (MDM) tools.

Business continuity management system

We set up our business continuity management system in accordance with the BS 25999 standard (Business Continuity Management). We assess process criticality and the risks that threaten their operability. We take effective measures to protect people, property and other key resources, and to prevent emergencies and disasters.

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

We prepared action plans in case of emergency and disaster relief measures as well as measures for direct damage relief. The efficiency of our business continuity management system is improved by constant system upgrading, training and drilling. In 2013, we paid special attention to measures in case of the failure of the information infrastructure. In the future, we intend to pay more attention to verifying the business continuity system plans and adjusting the system to the latest ISO 22301 standard.

We carry out research to develop effective, safe and quality generic pharmaceutical products.

We focus on developing our own generic pharmaceutical products whose quality, safety and efficiency are on a par with the originator's pharmaceutical products. We invest in own research and development capacities.

With regard to investment in research and development, Krka ranks among the top

250

companies in Europe.

We are developing

175

new products.

We received

4

awards.

Krka's researchers received 3 awards from the Chamber of Commerce of Dolenjska and Bela krajina and 1 golden award from the Chamber of Commerce and Industry of the Republic of Slovenia. The awards added to our growing competitiveness.

Responsibility to employees

Krka's organisational culture is based on the belief that company success, growth and development are the result of committed and qualified employees. We are creating a stimulating work environment which attracts and retains employees, creates opportunities and conditions where we feel safe, accepted and significant.

Together, we encourage a culture of mutual trust, respect, cooperation and teamwork, lifelong learning, and responsible and efficient work. We strive to ensure all our activities reflect the responsibility towards the employees and Krka values: speed and flexibility, partnership and trust, creativity and efficiency.

WE BUILD PARTNERSHIP AND TRUST.

Equal opportunity, respect for legal norms and rules, and an ethical approach to other people and the wider social community represent the foundations of our work. We respect human rights as they are defined in internationally recognised principles and guidelines, including the Universal Declaration of Human Rights. We abide by all legal norms and rules related to human rights issues in all the countries we operate in. All employees learn from the Krka Code of Ethics, which binds us to respect ethical and professional standards of work, knowledge and behaviour. Because we value quality, new employees are selected carefully and must maintain high professional and ethical standards in addition to having the necessary knowledge and skills. Our employees have the best possible conditions for work and development and are expected to engage in continual training and development, while striving for excellence in their work, personal development and interpersonal relations.

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

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

Because we think long-term, **we systematically work with young people even before they enter the job market**. We offer scholarships to those students who demonstrated a certain talent and ability during their studies. The students on our scholarships are connected with Krka during their studies and familiarise themselves with the Company and the working processes at organised meetings and in their internship, and have the possibility to show their skills and abilities. We assist students and junior researchers working on their theses of various topics. As lecturers at higher education institutions, we help design courses on undergraduate and master's study programmes. In 2013, 64 students received Krka scholarships and 14 completed their studies.

The number of employees is rising in both Slovenia and in the subsidiaries and representative companies abroad.

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

Many prizes and awards reflect the systematic and accountable work in the human resources field, which involves the efforts of senior management, specialist services and other partners. In 2013 we were awarded the TOP 10 award given by Planet GV for investing and work in education for the ninth consecutive time. Krka has been one of the most desired employers in Slovenia for several years, as confirmed by the Golden Thread award Krka received for being the best employer among big companies in Slovenia and the title of the most renowned employer from MojeDelo.com. Krka also received a special award from the Chamber of Commerce of Dolenjska and Bela Krajina for being the best employer in the region. The Slovenian Human Resource Association awarded Dr Boris Dular, Director of Human Resources, for his exemplary management of human resources.

Key data for 2013	
Number of employees	10,048 of which 48% in Slovenia
Average age	38.7 years
Share of female employees	62.8%
Share of female employees in management positions	54%
Share of employees with at least university qualification	53.4%
Share of employees for indefinite time	86.7% (women 86.8% and men 86.6%)
Change in the number of employees in 2013	+587
Fluctuation	10%

Number of employees on 31 December 2013

	2013	2012	2011	2010	2009	Index 2013/12
Krka Company in Slovenia	4,190	4,085	3,899	3,784	3,563	103
Krka Company representative offices outside Slovenia	438	410	480	749	1,697	107
Krka Company	**4,628**	**4,495**	**4,379**	**4,533**	**5,260**	**103**
Subsidiaries outside Slovenia	4,764	4,287	3,865	3,361	2,036	111
Terme Krka Group	605	627	653	675	679	96
Farma GRS	49	50	51			98
GRS VIZ FARMA	1	1				100
GRS TEH FARMA	1	1				100
Krka Group	**10,048**	**9,461**	**8,948**	**8,569**	**7,975**	**106**

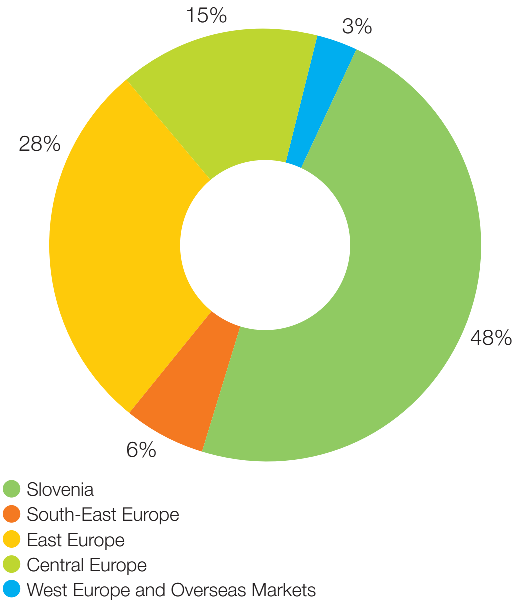
Education structure

We are aware that only extensive investment in development, new capacities, demanding technology and highly qualified experts enable a quick and effective response to the demands of a highly competitive market. It is for this reason that Krka's human resource policy has been put in place to enable continuous improvements in the education structure of our employees. The share of employees with at least university-level qualifications is 53%, which is 5,361 employees. They include 111 employees with a doctoral degree and 323 employees with a master's degree or specialisation.

Education structure on 31 December 2013

	2013	2012	2011	2010	2009
PhD	111	106	95	90	82
Master of Science	323	281	266	245	215
University Degree	4,927	4,522	4,230	4,076	3,730
Higher Professional Education Degree	1,200	1,072	945	780	698
Vocational College Degree	272	263	257	248	240
Secondary School Education, Level V	1,889	1,864	1,760	1,711	1,599
Other	1,326	1,353	1,395	1,419	1,411
Total Krka Group	**10,048**	**9,461**	**8,948**	**8,569**	**7,975**

Employee structure on 31 December 2013 by Region



Employee education and development

Investing in the knowledge and development of all employees is key to the success of Krka and its employees. Employee development is systematically planned and **continual education** enables our employees' professional and personal development as well as their advancement at work.

An important tool for the 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.

Competence-based systems for various working areas enable us to identify the needs for development, upgrade the knowledge and develop the skills of our employees. Competencies are a good basis for recruitment, designing education and training programmes and evaluating them.

We identify and systematically train our **key and promising employees** early in their careers. By training and allowing them to gain experience in various areas and by mentoring and coaching them we are preparing them to take on the most challenging and responsible tasks in the Company. In 2013 there were 1,235 key and promising employees, which represents 12.3% of the entire Krka Group team.

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

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 management, and modern information technology.

Our employees learn about the most recent developments at faculties, institutes and other institutions in Slovenia and abroad. In 2013, 511 Krka employees were also students, 67 in postgraduate studies. Krka supports them by partly funding the fees and by granting them study leave.

KNOWLEDGE IS A VALUE IN KRKA.

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 2013 we awarded 139 NVQ certificates. In total, we have awarded 1,104 certificates since 2004 – 962 to Krka employees and 142 to employees of other companies and pharmacies.

The need to have well-trained leaders encouraged us to start our own leadership programme, the **Krka Leadership School**. It comprises three programmes that are adjusted to the different levels of leadership, including the Krka International Leadership School, the Krka Operational Leadership School and a basic level leadership programme. We also provide an in-house international **programme for professional and project teams**, intended to train professionals in communication skills, teamwork and project work as well as employee professional development. Our employees also attend leadership and management training programmes at renowned business schools.

Training courses run by over 50 Krka trainers are available for our marketing and sales employees. An induction seminar is available to all of our new employees.

Traditional forms of education and training are being supplemented with e-learning and e-testing, which have become important training tools due to Krka being a widely geographically dispersed company. E-learning and e-testing are also used as preparation for seminars and meetings since they ensure a higher level of knowledge and participation at training sessions.

In 2013 every Krka Group employee attended different training sessions more than six times. On average, the employees undertook 52 hours of professional development. Krka spends 0.66% of its operating revenues on employee education and training.

Employee remuneration and motivation

We recognise good work and encourage employees to perform well through a performance bonus system.

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

WE PROMOTE COMMITMENT AND LOYALTY, WHILE REWARDING EXCELLENCE.

Krka has been recognising the efforts of its most loyal employees for decades by bestowing long-service awards and special recognition awards at the Krka Awards Day annual event.

Encouraging inventive work

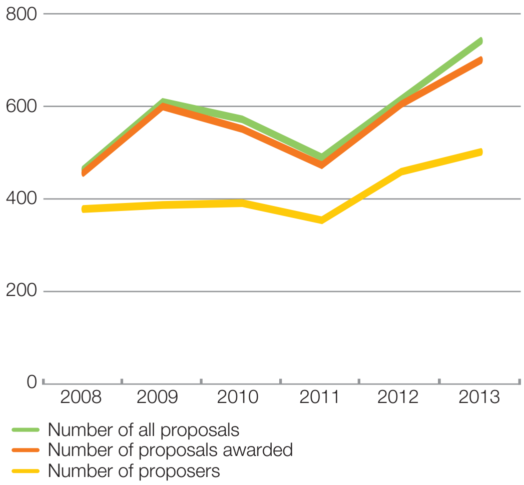
Krka's system of inventive work has been in place for 10 years, enabling every employee to suggest an improvement of the current situation. Throughout these years, employees have made over 3,000 useful suggestions and proposals for improvements, showing that inventive work is a well-established and well-known practice. Inventive work encourages employees to continuously think about how to do their jobs faster and better, and be as cost effective as possible.

Every employee who puts forward their ideas and suggestions contributes to the progress, development and improvement of work processes, products and services.

For the Company this is a competitive advantage, while for the employee it is an award and recognition.

We encourage inventive work by posting announcements on our intranet website Krkanet and in our in-house monthly magazine Utrip, as well as through quarterly awards, and awards and recognitions conferred for inventive work at the annual Krka Awards Day. In 2013 the number of suggestions rose by 20% compared to 2012.

Number of employee proposals and improvements



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 position 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.

Care for the health of our employees is a common responsibility of all employees, their managers, professional services and occupational medicine doctors. The Works Council and both trade unions are also incorporated into the system.

OUR WORK PROCESS RISKS ARE UNDER CONTROL.

The physical and emotional well-being of our employees and a pleasant psychosocial climate are ensured by open communication, regular weekly workouts, preventive medical workouts, sports, cultural and social events, and workshops given by doctors on the topic of living a healthy lifestyle and the effects of psychoactive substances, healthy meals at our canteens and similar.

A milestone in employment

+6%

At the end of 2013 the Krka Group had **over 10,000 employees** for the first time in history, namely a 6% increase over the year before. More than one-half of them are employed abroad. They work in 26 companies and 18 representative offices in 39 countries.

53%

of Krka employees have at least a university qualification.

Potential is recognised early

1,235

or 12.3% of all employees are considered key or promising employees. The early and systematic identification of promising employees who will carry Krka's development further is particularly important.

The Interpersonal Relations and Sick Leave project, which has helped reduce sick leave, has been in place for several years. In 2013, 4.8% of employees were on sick leave and 3.3% were on maternity leave.

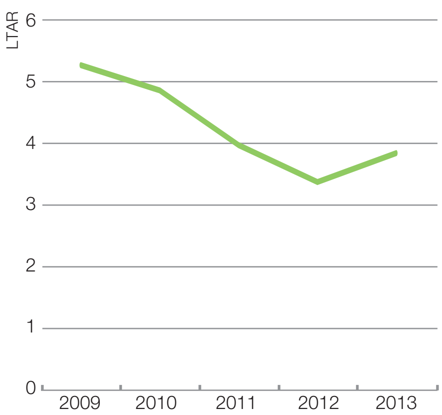
A total of 5% of employees have a registered disability who, in accordance with the legislation and regulations related to the disabled, work in appropriate job positions. We use various preventive measures to avoid additional health issues and disabilities. Apart from preventive and curative care, we guarantee our employees will continue to work in job positions that are adjusted to their abilities. Krka also provides appropriate re-qualification programmes for employees who can no longer perform in their current job positions.

TEAMWORK IN CARING FOR THE HEALTH OF OUR EMPLOYEES PRODUCES GOOD 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 workgroup 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 one million hours of work. In 2013, its value was 3.85, whereby all accidents except one, were minor.

Workplace accidents requiring three or more days of sick leave per one million hours of work (LTAR)



There were no major incidents like fires or major spillage of hazardous chemicals. The Fire Protection Department and the Industrial Fire Service Crew are responsible for emergency interventions. In 2013 we conducted 24 emergency procedures training exercises to be better prepared for cases of emergency. In one training exercise we co-operated with the Novo mesto Fire and Rescue Service. We presented realistic possibilities of an emergency situation, and tested the co-ordination of the internal and external emergency teams, as well as the Krka first aid and medical teams.

WE ARE WELL PREPARED FOR CASES OF EMERGENCY.

Quality of life

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

For several decades, we have supported the well-being of our employees and good interpersonal relationships by organising a wide range of cultural and sporting events. We inform our employees about the importance of a healthy diet and offer good quality meals in all of the Company's locations.

Employee gatherings are an important part of Krka's corporate culture. Employees get together on Krka Day – a social and sports event for all Krka employees, and on Krka Awards Day when we reward our most loyal employees as well as our best employees, best managers, and best proposers of innovations and useful suggestions. Skiing enthusiasts come together on a winter sports day. Krka employees also meet at gatherings honouring the disabled, blood donors, firemen, sportsmen, environmental cleaning campaign days, on occasions when new facilities are being opened and other events.

WE ENABLE OUR FORMER WORKERS AND EMPLOYEES TO LIVE A QUALITY LIFE.

We organise a traditional New Year's gathering for Krka retirees who are members of the Krka Pensioners Club through which they keep in touch with other former Krka employees.

Krka employees have access to different sports activities, holidays and trips in Slovenia and abroad. The Krka Trim Club organises sports activities which are attended by around 1,000 employees every week in their free time. The Krka Culture and Arts Society organises gallery exhibitions, a choir, a theatre club, creative workshops and visits to cultural events.

Communicating with employees

Open and regular communication with the employees is vital to the processes of the Company's internationalisation and optimisation as well as change and risk control, and decision-making.

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, develop 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 related to internal communication methods, and used the results to find improvements and optimise internal communication tools.

WE ENCOURAGE OPEN TWO-WAY COMMUNICATION.

The **Works Council** is the link between the 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 and the Worker Director.

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

If employees wish to talk to the **President of the Management Board**, they may do so by e-mail or they can make an appointment to see him personally.

Our intranet website **Krkanet** is a tool for internal communication. It is the central venue for posting documents and offers support for our business processes and project work. The portal allows employees to prepare, publish and find information and documents essential for their work, it enables co-operation across organisational units and allows work with shared documents and databases. It also promotes knowledge sharing and exchange, along with the collection and organisation of data and information in a single place. Krkanet is available to employees also as a local portal in five languages.

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

Employees also receive news about the Company via our internal weekly bulletin **Bilten**, which is available in print and electronic form, and via our monthly magazine **Utrip**. Utrip contributes to a better understanding of the Krka vision, mission and values, as well as the Company's strategies and policies. Local issues of Utrip ("Puls" in countries outside Slovenia) and Bilten report on local news from our markets and on the most relevant corporate news. Puls is issued in key markets – in Poland, the Russian Federation, Ukraine and Croatia – while Bilten is issued in eight markets.

Employees also receive daily information about events within the Company via e-news from Krkaš.si, notice boards and **information screens**. Another Krka newsletter in electronic form is the **M-Bulletin** that is intended for our marketing and sales staff outside Slovenia.

Responsibility to investors

Krka's principal objectives are to maximise the Company's value and act on behalf of all stakeholders, including shareholders (investors). We demonstrate our responsibility by achieving our business objectives, operating in a transparent manner and communicating with investors.

The transparency of our business operations complies with the adopted good practices of corporate governance as stipulated by corporate governance codes.

Quality communication with investors and analysts is an important aspect of Krka's attainment of its primary objective because it helps them understand our business story. In 2013, the Slovenian business daily Finance awarded Krka's annual report as the best annual report of 2012.

IN 2013, WE HELD MORE THAN 90 MEETINGS WITH INTERESTED INVESTORS.

We are striving 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 business results and the Company's future strategy. We comply with the Company's information disclosure policy at all times.

The main communication objectives are to:

- achieve a fair market valuation for Krka;
- gain easier and cheaper access to capital; and
- create 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;
- participation in various investor conferences;
- road shows in financial centres around the world;
- conference calls with financial analysts after releasing business results;
- publications for investors (Utrip prihodnosti magazine, presentation and promotional materials);
- Annual General Meetings;
- press conferences about business results; and
- communications with financial media.

Krka's business results are available in Slovenian and English on SEOnet (http://seonet.ljse.si) of the Ljubljana Stock Exchange, ESPI of the Warsaw Stock Exchange, and the Krka website.

For more information, shareholders may contact our Finance Division by phone +386 7 331 7591 or e-mail finance@krka.biz.

Responsibility to customers

Customers are one of the key target groups of any company.

Our customers are classified in four groups according to the nature of our operations:

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, buyers).

Responsibility to institutions

During the stages of product development, sales and marketing, we co-operate with various institutions, health insurance companies and other bodies dealing with medicinal and other Krka products. Our co-operation is based on prescribed procedures and providing current and reliable documents is our main concern. The reliability and currency of documentation is achieved by appropriate procedures and systematically and clearly organised and complete documentation. We work towards long-term co-operation with institutions and are quick and responsive in communicating with them.

OUR MAIN CONCERN IN CO-OPERATING WITH INSTITUTIONS IS TO PROVIDE CURRENT AND RELIABLE DOCUMENTATION.

We ensure compliance with the implemented quality systems in all phases of operation. We constantly modernise and upgrade all previously mentioned systems as well as standard procedures and good practices. This is confirmed by the successfully passed audits and inspections conducted by regulatory bodies when 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 knowledge with institutions and companies where target-oriented project co-operation with universities and institutes as well as other education and science institutions is particularly important. Another relevant aspect of Krka's co-operation with young people is the Krka Prizes and scholarships. Our experts are involved in continuous training and knowledge upgrade by co-operating with institutions and participating in the teaching process and scientific research.

In changing our professional, scientific and regulatory environment, we participate in various professional and industrial associations in Slovenia, the EU and in other markets.

Responsibility to direct customers

Direct customers of our products are wholesalers and other pharmaceutical companies. In the sales process, which includes concluding contracts, managing demands, orders and confirmation, dispatch and other necessary activities, it is of the utmost importance to recognise the expectations and demands of the customers. We deal with them systematically and according to procedures.

MEASUREMENTS OF DIRECT CUSTOMER SATISFACTION INDICATE THAT THE ALREADY HIGH LEVEL OF SATISFACTION KEEPS IMPROVING.

The satisfaction of direct customers with our products and services is regularly monitored by opinion surveys. This enables us to identify the level of customer satisfaction and use the results as ideas for how to improve.

The results of the opinion survey for 2013 are encouraging in terms of the respondents' participation level and satisfaction because the results were better than last year in both areas. The response was over 93% and was higher than in 2012, with the general index of customer satisfaction also being higher at 90%. We also monitor direct customer satisfaction in our subsidiaries which have an active sales function, and Krka's key buyers. Trends of the past few years indicate that direct customer satisfaction is constantly on the increase.

Responsibility to indirect customers

Indirect customers of Krka products for human use are doctors and pharmacists who represent one of the largest and most important groups of customers since they prescribe, recommend and dispense our products and as such constitute a link with the end users who use the products.

IN COMMUNICATING WITH THE PROFESSIONAL PUBLIC, WE ACT RESPONSIBLY AND IN LINE WITH LEGISLATION AND OTHER REGULATIONS.

Doctors and pharmacists are regularly informed about relevant professional information concerning our products, enabling them to make a professional choice regarding what is the most suitable product for their patients and customers. Our medical representatives inform them in print and electronically. We ensure that the information which is the basis for the appropriate and safe use of our products is current.

We also contribute to the professional development of doctors, pharmacists and veterinarians. Every year we organise and support several professional and educational meetings at which professionals have the opportunity to exchange opinions and experience, and make contacts. Meetings take place in various countries where Krka is present with its products. In addition to many local events, we organised several international symposia in 2013 which were held around large international congresses in Slovenia, Macedonia, France and the Netherlands. These international events were attended by over 850 participants from 27 countries.

In communicating with the professional public, we act responsibly and in accordance with the legislation and other regulations related to business operations including product marketing and personal data protection and operate according to good business practice and an ethical promotion code. The advertising of pharmaceutical products is subject to strict regulation and control.

Medical representatives are regularly trained to provide the professional public with accurate and current information about our products. We also make sure they have appropriate communication skills and are familiar with legal and other regulations and standards of work. Their knowledge is regularly tested.

We follow modern technological trends which show the increased use of digital media like smart phones and tablets. We are gradually introducing medical representatives to this equipment and training them to use it. In 2013 we introduced work with digital media in a few other large markets. We also frequently use modern methods of electronic learning and knowledge testing in training.

ACCORDING TO THE COMCON SURVEY, KRKA WAS THE MOST RECOGNISABLE GENERIC PHARMACEUTICAL COMPANY IN 2013.

The feedback and opinions of indirect customers matter to us. We collect them via market research conducted by independent agencies. In 2013 in the Russian Federation, our largest sales market, the ComCon survey, which measured the recognition and reputation of pharmaceutical companies with the professional public, was conducted. We were ranked first among all pharmaceutical companies in recognisability and second in terms of reputation.

Post-marketing clinical trials and monitoring the clinical efficacy and safety of medicines is also part of monitoring the satisfaction of end users and indirect customers. We are one of the few generic pharmaceutical companies to conduct these trials. In 2013, two extensive post-marketing clinical trials with rosuvastatin and valsartan were conducted.

Responsibility to end users

We care for the health of the end users of our products with quality, efficient and safe products. A broad range of Krka's products is used to treat the most widespread illnesses of modern time.

We feel great responsibility to our end users so we do our best to gain their trust in us and our products. The quality of active ingredients, excipients and all incoming materials through to finished products is examined with laboratory tests using state-of-the-art and validated analytical methods, devices and procedures. All of our prescription pharmaceuticals and non-prescription products are tested and comply with all regulations. We only market products which have been approved and comply with requirements and regulations.

Health protection systems along with consumer safety and protection systems are implemented with clear guidelines incorporated in our operations. The basis of our management system of health risks, consumer safety and protection is compliance with legal requirements and regulations.

WE ENSURE CONSUMER PROTECTION BY CAREFULLY MONITORING AND COLLECTING INFORMATION ON THE EFFECTS OF OUR PRODUCTS.

Our system of gathering information about risks to the health of patients or public health related to prescription pharmaceuticals and non-prescription products, scientific data evaluation, assessing the possibilities for reducing and preventing risks and adopting primary measures needed for the safe use of medicines complies with the European legislation and regulations of other countries where Krka holds marketing authorisations. Through pharmacovigilance we are actively contributing to protecting consumer and public health.

Trust is the result of a long-term relationship which we form and nourish through appropriate communication. With end users we engage in responsible and professional communication, complying with relevant legislation. We do our best to ensure our consumers receive all necessary information about our products.

Information about non-prescription products is published on our website. In 2013 we updated the Krka web pages and adjusted them so that the content is clearly visible regardless of the equipment used (computer, smart phone, and tablet). Legally permissible information about our prescription pharmaceuticals is also published on our website.

IN 2013 WE ADJUSTED THE WEBSITE FOR MOBILE USERS AND UPDATED THE E-ZDRAVJE WEBSITE.

In 2013 we updated the www.ezdravje.com website, which has been helping customers with information on health-related issues for over 10 years. The visual identity was redesigned and interactive tools that make the user experience more pleasant were added. The E-mesečnik electronic monthly newsletter web portal remains popular and is read every day by customers looking for information. The web page www.klopi-bolhe.com, intended for pet owners, is also very popular. Visits to the web page www.midva.com are also quite frequent as erectile dysfunction is quite common in the context of modern stressful life.

Social corporate responsibility

Social responsibility is inseparably related to our mission of living a healthy life and the Company has acted in a socially responsible way at all levels of its operations since the outset. We are aware that our contribution to the general community and natural environment has a direct connection with our operations and development. We, for that matter, base our relationships with the community on respect and dialogue.

WE ARE AWARE THAT OUR CONTRIBUTION TO THE GENERAL COMMUNITY AND NATURAL ENVIRONMENT INFLUENCES OUR OPERATIONS AND DEVELOPMENT. WE, FOR THAT MATTER, BASE OUR RELATIONSHIPS WITH THE COMMUNITY ON RESPECT AND DIALOGUE.

We contribute to social progress

Since the establishment of Krka, we have worked with our broader community and assisted it. We distribute considerable funds to non-profit activities at the local and national level, and support activities beyond Slovenia as well. Through contributions we 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 2013 WE ALLOCATED 0.32% OF TOTAL SALES TO SPONSORSHIPS AND GRANTS.

In 2013 the Krka Company allocated 0.32% of its total sales to sponsorships and grants. We express our social responsibility by supporting healthcare and sports, humanitarian actions, science, education and culture, and we also support those whose efforts help protect the natural environment.

We develop partnerships by sponsoring and donating to numerous organisations. Once a year, we organise a gathering of clubs and associations that appear under the Krka name. We present the Company's operations and plans at the event, and in turn learn about their achievements and goals. We exchange good practices and further strengthen our co-operation. Last year was the seventh consecutive time we arranged such a gathering.

We care for a healthy society

Krka allocates considerable funds to modernisation and equipment upgrades of healthcare institutions. In this way we intend 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 co-operation and partnership we encourage the development of a range of sports activities. We especially support amateur clubs at the broad local level that enable young people to take part in recreational and competitive sports.

Charity work

Our contribution to social progress also includes the voluntary work of individual employees. Many employees are long-standing blood donors or have been included as volunteers in various not-for-profit associations and organisations. Their dedicated voluntary work on several sponsorship boards and organisations promotes community development and improves people's lives in many different ways.

IN APRIL WE ORGANISED THE CAMPAIGN KRKA'S WEEK OF CHARITY AND VOLUNTEERING FOR THE SECOND TIME IN A ROW.

Many Krka employees also think and live as volunteers partly thanks to the socially responsible week-long campaign Krka's Week of Charity and Volunteering. The campaign under the title Charity is Also a Part of Us was launched in April 2013 for the second time in a row. More than 700 Krka employees, or almost 20% of Krka employees in Slovenia, participated in various charity activities. Of these, more than 220 acted as blood donors in Novo mesto, Ljubljana and Ljutomer. At various Krka locations in Slovenia, our employees collected clothes, toys, footwear, food, books and other consumables for adults and children. We collected cat and dog food as well. We collected almost 2 tonnes of consumable commodities and 540 kilograms of animal food. We kept company with the elderly at retirement homes and tenants of occupational activity centres. Krka hosted nearly 1,000 children from socially threatened families and visited the elderly in 15 retirement homes.

Last year we organised the campaign for the second consecutive time and we plan to organise it in 2014 as well. These days, many people live in distress and need so the humanitarian efforts of companies and individuals are an increasingly important expression of solidarity.

WE AGAIN CONFERRED RECOGNITION AWARDS ON KRKA'S BEST VOLUNTEERS.

In their daily lives, many Krka employees act in favour of and care for our fellow human beings. We pay 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. Also in 2013, 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 many in their community better.

At Krka we have always come to the aid of people who have suffered accidents or social misfortunes. For several years, we have been the biggest 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 the Red Cross and Karitas charity calls for donations. Through our Works Council, we also collect contributions for fellow employees going through major misfortunes.

We support new discoveries

The scientific community in Slovenia has come to recognise the merit of Krka Prizes, which act as a stimulus for young people to engage in creative and research work. In the past 43 years we have awarded up to 2,462 Krka Prizes. Our vision for the Krka Prizes is to pave the way for new discoveries that will contribute to upcoming new products. In 2013, five Krka Prizes were conferred for special achievements in the research field and 25 on graduate and postgraduate students, while 20 secondary school students were awarded 11 Krka Prizes for their group projects. This is the way we would like to emphasise the importance of research performed by young generations who encounter it already in primary and secondary school.

The Krka Prizes Fund was established in 1971 with the key goal of establishing co-operation between research and academic institutions and the Company because this is the only way to ensure the flow of knowledge. Many successful research projects in various areas of the pharmaceutical and related sciences that will contribute to health of patients around the world even more efficiently in the future stem from a combination of basic and applied research.

Every year the invitation for Krka Prizes attracts an increasing number of candidates for doctoral theses. They contribute essentially to the professional excellence in Slovenia and high quality of research work. Last year, more than 30 award winners held PhDs.

We support cultural creativity

We have been supporting many types of cultural expression since our incorporation. Since 1971, Krka's own Culture and Arts Society has been functioning. It arranges exhibitions of fine arts and photography at Krka galleries in Novo mesto and Ljubljana, 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 from our broad social environment, including the Novo mesto Anton Podbevšek Theatre, and several others such as the Marjan Kozina Music School, the Dolenjska Museum and the Krka Wind Orchestra. For several years we have been a sponsor of Slovenia's pivotal cultural institution, Cankarjev dom, and of the annual music summer festival Festival Ljubljana. We have organised the Krka Evening of Culture within the scope of Festival Ljubljana for several consecutive years, including in 2013.

We strive for quality of life

Started in 2009, one of our most visible projects is the Caring for Your Health – Together We Scale the Heights campaign. We worked with the Slovenian Mountaineering and Climbing Association to signpost and carry out maintenance work on 15 hiking trails around Slovenia. We intend to raise awareness with it, and encourage Slovenians to care for their health and to hike because walking is the easiest exercise and helps improve our physical as well as emotional well-being. Thousands of hikers have set off on the routes marked with the Krka signs, and we happily welcome each new one that our campaign has encouraged to take a new step towards their better health.

Together we protect the environment

Our fundamental principle when making business decisions is care for the quality of life. This means we place the protection of our natural environment at the forefront of our work. We organised our first Krka environmental clean-up event in 2009, and in April 2010 we joined the pan-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. In 2013, we again joined the pan-Slovenian volunteer clean-up campaign.

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

To minimise our impact on the environment, since autumn 2010 we have also been using renewable sources of energy. We have installed a new solar power station on the rooftop and the facade of the new packaging material warehouse to generate so-called green energy. Another contribution to cleaner environment is a zero-emission electric vehicle we use to deliver the Company's internal mail. We follow global trends that indicate that the development of electric vehicles is progressing rapidly so we built our first charging station in the car park in front of the Krka administrative building in Novo mesto, Slovenia.

Members of the Krka Volunteer Industrial Fire Service have been involved in the fire protection of Krka employees and local residents for over four decades.

Responsibility to our natural environment

The responsibility to our natural environment has become ever more important to our customers, employees and all interested parties so we have incorporated it into Krka's daily business operations. Thanks to the sustainable approach, we fulfil our environment-related tasks and objectives to the greatest extent. The environmental certificate ISO 14001, which we obtained 13 years ago and brands our business as environmentally responsible, and the integrated environmental protection permit bind us to reduce all of our impacts on the environment. This includes the reduction of all emissions, natural resources and energy consumption. We have included a clear definition of our responsibility to the natural environment in our environmental policy, which forms the basis for all environment-related objectives.

THE CLEANING EFFECT HAS BEEN IMPROVED BY 13% DUE TO LOWER QUANTITIES OF WASTEWATER AND THE CONSTRUCTION OF NEW WASTE TREATMENT PLANTS.

In 2013, emission monitoring and inspections were carried out. They indicated that our operations were compliant with the requirements of the integrated environmental protection permit for our facilities in Ločna, the requirements of environmental protection permits for the wastewater discharges of the Šentjernej, Ljutomer and Bršljin plants, and the requirements arising from legislation on environmental protection.

Environmental milestones in 2013

- Modernisation of the waste air treatment system at Chemical Production;
- a 43% reduction in the quantity of waste for disposal in landfills;
- an 11% increase in the quantity of collected usable waste;
- a 13% increase in the efficiency of waste water treatment;
- construction of a thermal and electric power cogeneration system; and
- modernisation of the sludge separating system at the waste treatment plant.

Environmental protection costs

In the past five years, Krka has invested EUR 30.3 million in environmental protection (current costs and investments). The exact value of the investments depends on particular projects and thus varies each year. In 2013 current costs of environmental protection amounted to EUR 4.6 million and investments to EUR 1.9 million.

Use of natural resources

WATER

We are well aware that water is a natural resource upon which economic development, the quality of life and our existence depend so Krka strives to use potable and river water rationally. We strictly plan, monitor and control the use of water, and direct many of our activities to protecting the water quality of the Krka River.

POTABLE WATER AND RIVER WATER

A computer-operated surveillance system is employed to monitor closely the consumption of potable water by large users. We prevent failures and uncontrolled runoffs through the correct planning, implementation and preventive maintenance of the pipelines. This is why the increase in potable water consumption lags behind the growth of production.

Over 80% of the potable water is used in production processes. Potable water is the raw material for the preparation of high-quality purified waters used in the production of pharmaceutical products. We use membrane technology in the process, which has lowered the consumption of chemicals and decreased the impact on the environment. We ensure consistent water quality by suitable preventive maintenance, monitoring operations and making technological improvements, and in the process extend the useful life of the equipment. This in turn reduces the consumption of water and chemicals and the amount of waste that is produced as well.

More than 62% of the river water is used for cooling by various heat exchangers especially in API production, while the remaining 38% of water is used in the preparation of technological waters for energy supply and production.

We have maintained the consumption of the river and potable waters at similar levels for years thanks to on-going activities to ensure the efficient use of electric power and water.

Consumption of potable and river water

ENERGY

Krka's main sources of energy are:

- natural gas;
- liquid petrol gas;
- electric power; and
- fuel oil as back-up fuel.

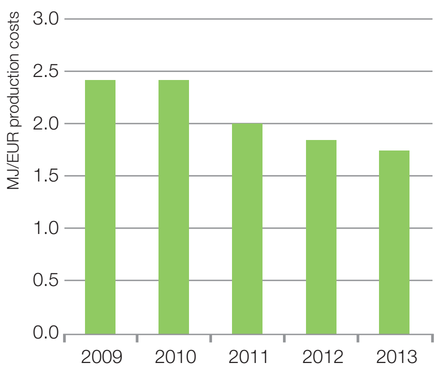
The electric power supply comes from the public utility electricity grid, from our generators powered by renewable sources, for example the solar power station, and from natural gas powered cogeneration of thermal and electric power.

SPECIFIC ENERGY USE

Specific energy use has been on a decline for years thanks to our numerous energy efficiency measures.

Despite the significant increase in the volume of production, specific energy use in 2013 was again down compared to the year before.

Specific energy use



COGENERATION OF ELECTRIC AND THERMAL POWER

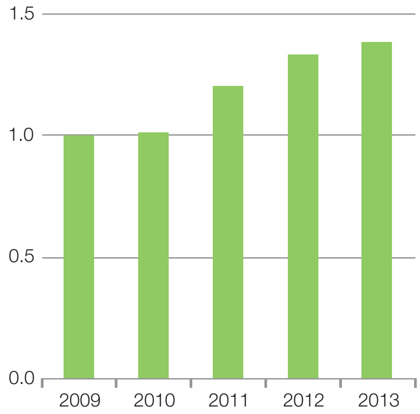
In 2013 we completed the construction of a natural gas cogeneration system for the generation of thermal and electric power. Cogeneration allows for the highly efficient use of primary energy. In Ločna, we installed a natural gas powered piston engine. The cost efficiency of thermal power generation has increased and now we are able to generate our own electric power. The system is intended for operation during the heating season, i.e. roughly from October to April, and has already been put to regular use. The system will produce approximately 12 GWh of heat energy and approximately the same amount of electric power, both exclusively for our own consumption. Compared to the separate production of thermal power and electric power, the electric power plant cogeneration will result in savings of over 25% in primary energy consumption and reduce CO_2 emissions to the same extent.

THE COGENERATION OF ELECTRIC AND THERMAL POWER WILL PRODUCE APPROXIMATELY 12 GWh OF HEAT ENERGY AND ROUGHLY THE SAME AMOUNT OF ELECTRIC POWER, BOTH EXCLUSIVELY FOR OUR OWN CONSUMPTION.

ENERGY EFFICIENCY INDEX

Similarly to how we have been constantly reducing specific energy use for several years now, in past five years we also improved our energy efficiency index by 38%.

Energy efficiency index



The energy efficiency index is set in compliance with the reference document Energy efficiency, Chapter 1.3.1.: Energy efficiency ratio and its improvement.

BIODIVERSITY

The entire watercourse of the Krka River is included in Natura 2000, the European ecological network, so we are bound to maintain the biological diversity* of organisms, above all the endangered ones. These include several fish species (such as the asp, huchen, and cactus roach), the thick-shelled river mussel and the European otter, which is often spotted along the entire watercourse. All Krka industrial buildings are concentrated within their respective sites and do not extend into ecologically sensitive areas. We closely follow the strictest measures for protection of the environment in the existing buildings as well as in the newly planned ones. The collection and discharge of treated wastewaters from our water treatment plant do not pose any hazard to the preservation of water and riparian areas and the conditions for connecting those areas. Our sustainable attitude to environmental protection is a guarantee of the preservation of environmental values and biodiversity.

The area of our Ljutomer plant is not included in the European ecological network, Natura 2000. Even so, we treat waste waters suitably at the municipal waste water treatment plant in Ljutomer and do not pose any threat to biodiversity.

** Biodiversity is the degree of variation of living organisms from all sources. Among others, it includes terrestrial, marine and other aqueous ecosystems and ecological complexes. It may refer to genetic variation, species variation, or ecosystem variation.*

TRANSPORT

We use all means of transport. Transport is organised by our own transport department that employs our own vehicles or engages external carriers. We deliver products to the European and Asian markets by lorry. We use the most advanced cargo vehicles with ecologically suitable engines (the predominant types are EURO5 EEV and EURO6). We also supply products to certain Asian markets by air and exceptionally by rail. We supply products to far-away markets by boat or by air.

In 2013, we organised transport for 6,600 shipments of finished products, raw materials and packaging materials.

In 2013, we recorded no extraordinary events or accidents that would have jeopardised the environment, assets or safety of people. The competent national bodies for transport control established no violations of legislation related to Krka in any way. All of our carriers and other parties involved in transport are subject to annual trainings. We pay special attention to ensure that all of our contractual carriers and their drivers are duly informed of the requirements and particularities of pharmaceutical product transport.

Emissions

WASTEWATERS

Our plant in Ločna generates industrial, municipal and cooling wastewaters. We treat the industrial and municipal wastewaters at our own biological water treatment plant. In 2013, we treated 639,507 cubic metres of wastewaters, or 62,443 cubic metres less than the year before. Our professional management of the complex wastewater treatment technology has

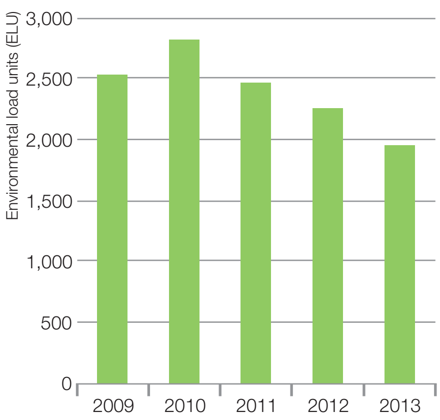
THE HIGHLY EFFICIENT WASTEWATER TREATMENT PLANT REDUCED THE ENVIRONMENTAL LOAD ON THE KRKA RIVER BY 12%.

resulted in the plant's high operational efficiency and a 12% reduction of the total environmental load on the Krka River. In 2013, we generated 894,236 cubic metres of cooling waters that were not polluted and were discharged into the Krka River by a cooling and rainwater discharge system.

Our plant in Bršljin generates industrial and municipal wastewater. Effluents are discharged by the public sewerage system and are treated by the municipal waste treatment plant in Novo mesto. In 2013, we generated a total of 21,600 cubic metres of wastewater.

Our plant in Šentjernej creates industrial and municipal wastewater. Effluents are discharged by the public sewerage system and are treated by the new municipal waste treatment plant in Šentjernej. In 2013, we generated a total of 18,546 cubic metres of wastewater.

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, the suspended solids load and the impact of wastewater treatment.

Our plant in Ljutomer generates industrial, municipal and cooling wastewater. The industrial and municipal wastewater amounted to 21,600 cubic metres and was discharged by the public sewage system into the municipal waste treatment plant in Ljutomer. Cooling water generation reached 1,200 cubic metres in 2013 but, since cooling waters are not polluted, they were discharged through the road and rainwater drainage system into the Ščavnica River.

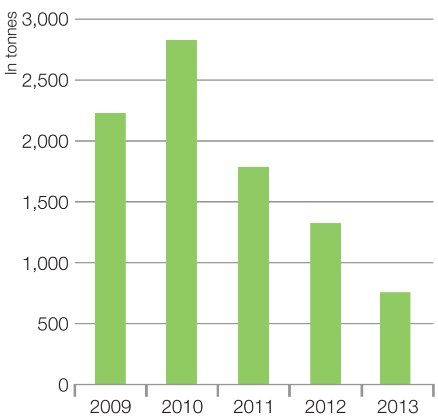
Total environmental load units (ELU) were reduced by 13% in 2013 over the previous year for several reasons. The plant in Ločna reduced the quantity of its wastewater compared to the year before and the efficiency of wastewater treatment at our own treatment plant was improved. In Ločna, a modern municipal water treatment plant was put to use. It treats all wastewater from the Bršljin plant. The plant in Šentjernej was connected in 2013 to a new municipal water treatment plant in Šentjernej.

WASTE

Special attention is paid to separating waste at the source, i.e. at the point it is generated. For this purpose, we have set up our own waste management system. Disposal at landfills is the least environmentally acceptable alternative and therefore the last option in the waste management process. Our strategic objec-

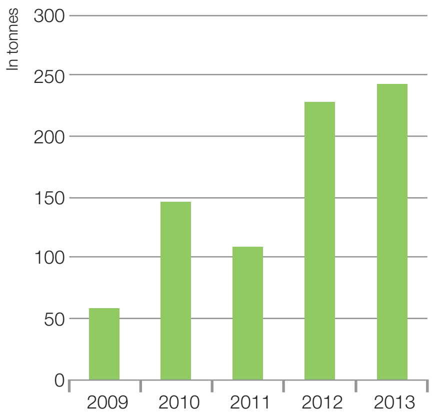
Recyclable waste

Waste disposed at landfills

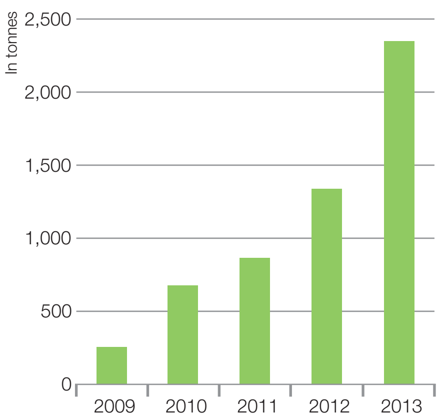


tive is to reduce the quantity of waste disposed at landfills. Krka successfully reduced its solid waste disposal at landfills in 2013. We disposed of 751 tonnes of waste in landfills, a 43% decrease compared to 2012. We achieved this by transferring sludge from wastewater treatment to waste processing, by increasing the quantity of high energy waste collected separately and directing it into energy use. In 2013, we increased the quantity of useful separated waste (paper, plastic, glass, metal, wood) by 11%. Even though the volume of our production grew in 2013, we reduced the quantity of hazardous materials by 5%. We placed waste compactors at all major waste source sites and essentially reduced the number of waste transfers and the transport-related load on the environment. We are constantly upgrading the system of separate waste collection by arranging collection points, purchasing new equipment and conducting employee training.

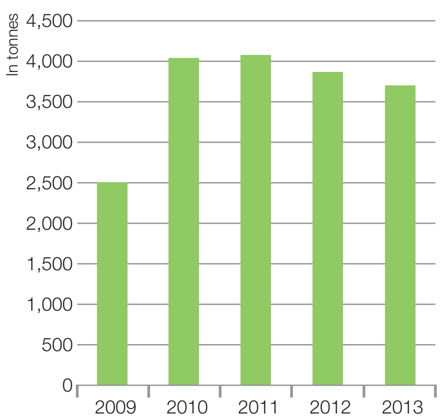
Waste for energy use



Waste for biological processing



Waste for incineration



NOISE

We have been reducing noise emissions as much as possible by putting in place equipment with reduced noise emissions, setting up noise barriers, and by fitting cargo vehicles with electrical cooling aggregates. All measurements have complied with the legal provisions.

AIR EMISSIONS

We reduce air emissions with treatment systems fitted to all outlets that constitute a potential source of air pollution. Effective de-dusting systems, filters, wet-type filtration systems, condenser columns and thermal oxidisers keep air emissions below the legal threshold values and at the levels made possible by state-of-the-art emission control technology. In 2013, we completed the modernisation of the waste air treatment system in chemical production and further reduced air 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.

We generate direct emissions of CO_2 by using fuels and indirect emissions by exploiting electric power from the public utility electricity grid, which is produced by burning fossil fuels at thermo-electric plants.

Environmental protection at Krka's subsidiaries beyond Slovenia

Our subsidiaries beyond Slovenia manage emissions in compliance with the local legislation. Although the environmental impact of our subsidiaries is lower than that of Krka, because they only accommodate production facilities for finished products, we have also implemented cutting-edge processes there to keep emissions to the absolute minimum. We have set up separate waste collection systems whereby hazardous waste is transferred to incineration, wastewater is treated by municipal wastewater treatment plants, and particle emissions are reduced by filtration.

ENVIRONMENTAL COMMUNICATION

Environmental protection includes environmental communication with the employees, as well as the local and wide social community. Krka raises the deep environmental awareness and responsibility of its employees to the environment by informing and training all of its personnel. Responsible environmental management is included in the induction seminar for newly recruited employees and in the national vocational qualifications. We regularly cover environmental topics in our internal magazine and on the website.

We inform the public about our environmental activities in public announcements in the media and at various seminars, symposia and round tables. We are actively engaged in the drafting of environmental legislation and are also co-founders of the Environment and Energy Section of the Dolenjska and Bela krajina Chamber of Commerce and Industry.

We work hand in hand with professional and scientific organisations. Educational establishments of all levels come to visit our plants to see our state-of-the-art environmental protection technology. They also invite us to participate as lecturers. We hence co-produce study programmes for undergraduate and master's studies, and assist students and young researchers in their work assignments by providing themes and professional knowledge.

We feel greatly responsible to the local community that shares the environment with us. We organise a traditional bi-annual gathering for the local residents. Our latest gathering was in 2013. We inform the local residents about our activities, performance, and plans related to environmental protection. We then consider their incentives and remarks in the preparation of our environment-related objectives and programmes.

Krka's sustainable development indicators for 2013

Environment		2013	2012	2011	2010	2009
Used water (total)	**m^3**	**1,978,658**	**2,001,988**	**2,446,635**	**2,688,846**	**2,263,385**
Potable water	m^3	455,403	447,268	439,821	443,472	421,378
River water	m^3	1,523,255	1,554,720	2,006,814	2,245,374	1,842,007
Used energy (total)	**GJ[1]**	**802,293**	**792,221**	**811,792**	**809,634**	**731,887**
Electric power	GJ	310,387	317,064	327,565	314,004	285,730
Natural gas	GJ	469,241	447,338	462,804	467,945	426,901
Liquefied petroleum gas	GJ	19,372	19,303	18,480	23,195	16,211
Fuel oil	GJ	3,293	8,516	2,943	4,490	3,046
Generated electric power – alternative sources (total)	**GJ**	**13,481**	**289**	**277**	**14**	**0**
Solar power plant	GJ	243	289	277	14	0
Combined heat and power plant (Cogeneration)	GJ	13,238	0	0	0	0
Energy intensity						
Specific use of energy	MJ/EUR	1,76	1,83	2,02	2,43	2,44
Energy efficiency index[2]		1,38	1,33	1,20	1,01	1,00
Wastewater (total)	**m^3**	**1,632,795**	**1,721,739**	**2,309,996**	**2,504,819**	**1,909,944**
Cooling water	m^3	930,988	894,236	1,215,235	1,450,556	994,375
Industrial wastewater	m^3	701,807	827,503	1,094,761	1,054,263	915,569
– Suspended solids load	t	20.62	22.1	34.35	22.2	14.4
– Biochemical oxygen demand	t	7.0	20.8	22.3	14.8	7.4
– Chemical oxygen demand	t	66.7	88.5	96.4	99.8	83
– Nitrogen	t	3.8	3.8	7.4	6.1	5.9
– Phosphorus	t	0.3	0.4	0.4	0.5	1.3
Environmental load units (ELU)[3]	EO	1,967	2,271	2,480	2,839	2,539
Waste (total)	**t**	**8,881**	**8,397**	**8,335**	**9,243**	**6,231**
Hazardous waste (subtotal)	t	3,705	3,878	4,087	4,045	2,499
– Solid waste	t	508	518	660	511	489
– Liquid waste	t	3,197	3,360	3,427	3,534	2,010
Non-hazardous waste (subtotal)	t	5,176	4,519	4,298	5,198	3,732
– Disposal at landfills (subtotal)	t	751	1,319	1,786	2,835	2,232
– Mixed waste (disposal)	t	751	665	795	790	815
– Biomass (disposal)	t	0	654	991	2,045	1,358
– Mixed waste (energy use)	t	244	229	110	147	59
Biomass (composting)	t	2,351	1,338	866	677	255

Environment		2013	2012	2011	2010	2009
Recycling waste (subtotal)	t	1,819	1,633	1,526	1,533	1,176
– Paper	t	953	790	859	852	703
– Plastics	t	237	221	223	193	137
– Glass	t	104	105	114	114	97
– Metal	t	121	129	69	100	94
– Wood	t	404	382	251	274	145
Electric and electronic equipment	t	11	6	10	6	10
Air emissions						
Energy-related CO_2 – direct	t CO_2 ek[4]	27,367	26,542	26,991	27,331	24,811
Energy-related CO_2 – indirect	t CO_2 ek	42,593	43,596	45,040	43,176	39,288
Energy-related SO_2	t	1	1	1	1	1
Energy-related NO_X	t	23	23	22	24	21
Ozone-depleting substances and fluorinated greenhouse gases	t CO_2 ek	903	2.203	991	3.300	948
Compliance						
Extraordinary events		0	0	0	0	0
Environmental protection (total)	**EUR thousand**	**5,950**	**6,545**	**5,310**	**5,470**	**4,771**
Environmental protection costs	EUR thousand	4,103	4,220	4,322	4,244	3,616
Investments in environmental programmes	EUR thousand	1,874	2,325	988	1,226	1,155
Society						
Number of employees		**4,627**	**4,495**	**4,379**	**4,533**	**5,260**
Slovenia		4,189	4,085	3,899	3,784	3,563
Representative offices abroad		438	410	480	749	1,697
Health and safety						
Sick leave rate	%	4.8	4.7	5.0	5.1	5.0
Number of accidents		28	22	25	31	32
Lost time accident rate (LTAR)		3.85	3.38	3.98	4.9	5.3
Proportion of disabled employees	%	4.9	5	5.2	5.8	5.5
Education and training						
Number of education and training hours	hour/employee	40.6	40	41.2	40	38
Education and training cost	EUR/employee	750	822	807	737	950

[1] *The calculation of GJ was based on net caloric values published on the website of Agencija Republike Slovenije za okolje (Slovenian Environment Agency).*

[2] *The energy efficiency index is set in compliance with the reference document Energy efficiency, Chapter 1.3.1.: Energy efficiency ratios and their improvement.*

[3] *Environmental load units (ELU) indicate the annual load on the environment due to the discharge of wastewater at a particular pollution source. The calculation takes into account the average annual value of an individual parameter, which is assigned the appropriate factor, and the annual wastewater rate of discharge at a particular outlet (Decree on reporting form applied in occasional or regular measurements within the operational monitoring of wastewaters; Official Gazette of the Republic of Slovenia No. 1/01, changes and amendments, Nos. 106/01, No. 13/04).*

[4] *The calculation of tonnes of CO_2 was based on the emission factors published on the website of Agencija Republike Slovenije za okolje.*


We are expanding the
field of innovation.

In 2013 we focused on efficiency and proved that in Krka every proposal counts. That is why it is no coincidence we exceeded several goals and also achieved a high level of growth in innovations. The useful suggestions put forward by our employees contributed to the more efficient use of company resources, simplified work processes, lower expenses and more efficient energy use.

We encourage the inventive work of our employees through a special system of incentives, awarding innovations and continuous improvements to the quality system.

3,800

useful proposals were contributed by the employees in the last 10 years.

In 2013 we awarded

608

useful proposals and improvements. We announced the proposers of the best useful suggestions and improvements. The most useful proposals were made in Engineering and Technical Services.

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, whereas the second section encompasses the financial statements and related notes of Krka, d. d., Novo mesto (hereinafter "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 Krka and the Krka Group are presented in euros, rounded to the nearest thousand.

They are an integral part of the 2013 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.biz/en/for-investors/financial-reports/).

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 2013.

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, 14 February 2014

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 2013	31 Dec 2012
Assets			
Property, plant and equipment	12	823,704	772,291
Intangible assets	13	115,744	118,507
Loans	14	5,845	5,387
Investments	15	5,231	5,100
Deferred tax assets	16	23,236	24,512
Other non-current assets		194	203
Total non-current assets		**973,954**	**926,000**
Inventories	17	235,820	250,751
Trade receivables	18	430,435	372,305
Other receivables	18	31,393	42,928
Loans	14	20,215	11,091
Investments	15	792	679
Cash and cash equivalents	19	67,275	22,994
Total current assets		**785,930**	**700,748**
Total assets		**1,759,884**	**1,626,748**
Equity			
Share capital	20	59,126	59,126
Treasury shares	20	-69,372	-55,656
Reserves	20	194,459	192,069
Retained earnings	20	1,147,030	1,043,544
Equity holders of the parent		**1,331,243**	**1,239,083**
Non-controlling interests within equity	20	1,368	1,438
Total equity		**1,332,611**	**1,240,521**
Liabilities			
Non-current borrowings	22	0	12,900
Provisions	23	103,103	104,746
Deferred revenue	24	12,805	12,424
Deferred tax liabilities	16	12,925	15,292
Total non-current liabilities		**128,833**	**145,362**
Trade payables	25	131,227	105,415
Current borrowings	22	0	13,355
Income tax liabilities		7,030	2,497
Other current liabilities	26	160,183	119,598
Total current liabilities		**298,440**	**240,865**
Total liabilities		**427,273**	**386,227**
Total equity and liabilities		**1,759,884**	**1,626,748**

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	2013	2012
Revenues	5	1,200,827	1,143,301
Cost of sales		-489,266	-467,557
Gross profit		**711,561**	**675,744**
Other income	6	5,868	8,526
Distribution expenses		-323,361	-318,215
R&D costs		-97,235	-101,102
Administrative expenses		-69,245	-72,645
Operating profit		**227,588**	**192,308**
Financial income	10	2,114	5,418
Financial expenses	10	-28,361	-7,227
Net financial result		**-26,247**	**-1,809**
Profit before tax		**201,341**	**190,499**
Income tax expense	11	-28,575	-30,660
Profit for the year		**172,766**	**159,839**
Attributable to:			
– equity holders of the parent		172,836	159,915
– non-controlling interest		-70	-76
Basic earnings per share (in EUR)	**21**	**5.24**	**4.80**
Diluted earnings per share (in EUR)	**21**	**5.24**	**4.80**

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	2013	2012
Profit for the year		**172,766**	**159,839**
Other comprehensive income for the year			
Other comprehensive income reclassified to profit or loss in future periods			
Translation reserve	20	-13,542	4,463
Change in fair value of available-for-sale-financial assets	20	131	106
Deferred tax effect	20	-2	19
Other	20	-2,494	0
Other comprehensive income reclassified to profit or loss in future periods (net)		**-15,907**	**4,588**
Other comprehensive income that will not be reclassified to profit or loss in future periods			
Recalculation of post-employment benefits	23	2,514	-910
Deferred tax effect	23	-427	260
Other comprehensive income not to be reclassified to profit or loss in the subsequent periods (net)		**2,087**	**-650**
Total other comprehensive income for the year (after tax)		**-13,820**	**3,938**
Total comprehensive income for the year (after tax)		**158,946**	**163,777**
Attributable to:			
– equity holders of the parent		159,016	163,853
– non-controlling interest		-70	-76

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

EUR thousand	Share capital	Treasury shares	Reserves				
			Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	
Balance at 1 Jan 2013	**59,126**	**-55,656**	**55,656**	**101,503**	**14,990**	**30,000**	
Profit for the year	**0**	**0**	**0**	**0**	**0**	**0**	
Total other comprehensive income for the year (after tax)	**0**	**0**	**0**	**0**	**0**	**0**	
Total comprehensive income for the year (after tax)	**0**	**0**	**0**	**0**	**0**	**0**	
Transactions with owners, recognised directly in equity							
Formation of legal reserves	0	0	0	0	0	0	
Formation of statutory reserves	0	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 Shareholders Meeting	0	0	0	0	0	0	
Formation of reserves for treasury shares	0	0	13,716	0	0	0	
Repurchase of treasury shares	0	-13,716	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**	**-13,716**	**13,716**	**0**	**0**	**0**	
Balance at 31 Dec 2013	**59,126**	**-69,372**	**69,372**	**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 reserves	Translation reserve	Other revenue reserves	Profit for the year	Retained earnings	Total equity holders of the parent	Non-controlling interests within equity	Total equity
	1,667	-11,747	846,998	121,843	74,703	1,239,083	1,438	1,240,521
	0	0	0	172,836	0	172,836	-70	172,766
	2,216	-13,542	0	-1	-2,493	-13,820	0	-13,820
	2,216	-13,542	0	172,835	-2,493	159,016	-70	158,946
	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0
	0	0	34,000	-34,000	0	0	0	0
	0	0	0	-121,843	121,843	0	0	0
	0	0	62,395	0	-62,395	0	0	0
	0	0	0	-13,716	0	0	0	0
	0	0	0	0	0	-13,716	0	-13,716
	0	0	0	0	-53,140	-53,140	0	-53,140
	0	0	0	0	0	0	0	0
	0	0	96,395	-169,559	6,308	-66,856	0	-66,856
	3,883	-25,289	943,393	125,119	78,518	1,331,243	1,368	1,332,611

			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**	
Total other comprehensive income for the year (after tax)	**0**	**0**	**0**	**0**	**0**	**0**	
Total comprehensive income for the year (after tax)	**0**	**0**	**0**	**0**	**0**	**0**	
Transactions with owners, recognised directly in equity							
Formation of legal reserves	0	0	0	0	0	0	
Formation of statutory reserves	0	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 Shareholders 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	
Acquisition 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 reserves	Translation reserve	Other revenue reserves	Profit for the year	Retained earnings	Total equity holders of the parent	Non-controlling interests within equity	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**
	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	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**

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR thousand	Notes	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**172,766**	**159,839**
Adjustments for:		**121,983**	**129,360**
– amortisation/depreciation	12, 13	94,144	89,968
– foreign exchange differences		-770	2,242
– investment income		-2,253	-1,894
– investment expense		2,063	6,146
– interest expense and other financial expense		718	2,238
– financial income		-494	0
– income tax	11	28,575	30,660
Operating profit before changes in net operating current assets		**294,749**	**289,199**
Change in trade receivables		-54,132	-18,189
Change in inventories		14,931	3,478
Change in trade payables		25,812	14,527
Change in provisions		871	-983
Change in deferred revenue		381	5,754
Change in other current liabilities		40,938	16,538
Income taxes paid		-20,799	-31,995
Net cash from operating activities		**302,751**	**278,329**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,628	1,129
Dividends received		24	17
Proceeds from sale of property, plant and equipment		868	767
Purchase of intangible assets	13	-5,592	-8,155
Purchase of property, plant and equipment	12	-151,676	-145,132
Non-current loans		-1,818	-1,673
Proceeds from repayment of non-current loans		1,281	904
Acquisition of non-current investments		-50	-134
Proceeds from sale of non-current investments		59	47
Payments in connection with current investments and loans		-8,789	-9,795
Payments in connection with derivative financial instruments		0	-4,987
Proceeds from derivative financial instruments		0	102
Net cash used in investing activities		**-164,065**	**-166,910**
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		-1,098	-2,860
Repayment of non-current borrowings		-25,500	-41,300
Repayment of current borrowings		-375	-1,010
Dividends paid	20	-52,995	-49,770
Repurchase of treasury shares	20	-13,715	-13,072
Net cash used in financing activities		**-93,683**	**-108,012**
Net increase in cash and cash equivalents		**45,003**	**3,407**
Cash and cash equivalents at beginning of period		22,994	20,187
Effect of exchange rate fluctuations on cash held		-722	-600
Net cash and cash equivalents at end of period		**67,275**	**22,994**

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 2013 relate to the Krka Group consisting of the controlling company and its subsidiaries in Slovenia as well as abroad.

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

1. Basis 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 Group between IFRS and IFRS adopted by the EU.

The consolidated financial statements were approved by the Krka's Management Board on 14 February 2014.

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 Group 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. 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.

Until 31 December 2012, the Krka Group recognised the TAD trademark as an item of intangible assets with indefinite useful life, determining its assessed replaceable value at each reporting dates. As from 1 January 2013, the TAD trademark is recognised as an item of intangible assets with finite useful life.

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

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

- Note 2 Impairment testing of non-financial assets

  The controlling company checks for each cash generating unit whether there are any indicators of impairment at least once a year. The recoverable amount of non-financial assets determined as the present value of future cash flows is based on an estimate of expected cash flows from the cash generating unit and on determination of the appropriate discount rate. The controlling company has found no need for impairment of non-financial assets as at 31 December 2013.

- Note 13 Impairment testing of 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 controlling company has found no evidence of goodwill impairment. The carrying amount of goodwill of EUR 42,644 thousand did not change in the 2013 financial year.

- Note 23 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 23 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. Contingent liabilities are not recognised in the financial statements as their actual existence will be confirmed only upon the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of 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 Krka Group applies the same accounting policies in all periods, presented in the accompanying consolidated financial statements.

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

The accounting policies and calculation methods used are consistent with those applied in the year ended 31 December 2012, with exception of newly adopted standards and interpretations, which are noted below and which have been applied if relevant events occurred in the 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 2012, except for adoption of the amended standards and interpretations effective from 1 January 2013 and which are noted below.

IAS 1 – *Financial Statement Presentation – Presentation of Items of Other Comprehensive Income*

The amendment becomes effective for annual periods beginning on or after 1 June 2012. The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified to profit or loss at a future point in time (for example, upon derecognition or settlement) are presented separately from items that will never be reclassified. The amendment does not change the nature of the items that were recognised in OCI, nor do they impact the determination of whether items in OCI are reclassified through profit and loss in future periods.

The amendment affects presentation only and there is no impact on the Group's financial position or performance.

IAS 19 – *Employee Benefits (Revised)*

The revised standard includes a number of amendments that range from fundamental changes to simple clarifications and rewording. The more significant changes include the following: for defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e. the corridor approach) has been removed. Furthermore, there are new or revised disclosure requirements which include quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption. Accordingly, retirement benefits are recognised at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognised under IAS 37. The distinction between short-term and other long-term employee benefits is based on expected timing of settlement rather than the employee's entitlement to the benefits. In accordance with the revised standard, the cost of labour and interest expense are recognised in profit or loss, with recalculation of employee post-benefits as unrealised actuarial gains or losses recognised in OCI. Before the new standard came into effect, all the changes were recognised in profit or loss. This standard is effective for annual periods beginning on or after 1 January 2013.

The revised standard has an impact on the Group's financial position and performance. The effect is explained in Notes 8 and 23. Comparable data has not been recalculated as the management assessed that the impact is insignificant.

IFRS 7 – *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*

The amendment is effective for annual periods beginning on or after 1 January 2013. The amendment requires an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosure would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all categorised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar arrangement, irrespective of whether they are set-off in accordance with IAS 32.

The revised standard has no impact on the Krka Group's financial position or performance.

IFRS 13 – *Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted.

Fair value under IFRS 13 is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" (i.e. "an exit price"). "Fair value" as used in IFRS 2 Share-based payments and IAS 17 Leases is excluded from the scope of IFRS 13.

The standard provides clarification on a number of areas, including the following:

- concepts of "highest and best use" and "valuation premise" are relevant only for non-financial assets;
- adjustments for blockage factors (block discounts) are prohibited in all fair value measurements; and
- a description of how to measure fair value when a market becomes less active.

New disclosures related to fair value measurements are also required to help users understand the valuation techniques and inputs used to develop fair value measurements and the effect of fair value measurements on profit or loss.

The revised standard has no significant impact on financial statements of the Krka Group.

Basis for consolidation

SUBSIDIARIES

Subsidiaries are entities controlled by the controlling company. Control exists when the controlling company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently 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 – as translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

OPERATING PROFIT

Operating profit comprises profit before tax and financial items. Financial items include interest on bank balances, deposits, 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 sight 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. 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.

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 Shareholders 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 Krka Group. If borrowings raised by the Group are earmarked and they cannot be attributed directly to the acquisition of an asset under construction, the pro-rata amount of costs is capitalised only when borrowings exceed 10% of the value of all investments of the accounting period. The pro-rata amount of costs is calculated using the capitalisation rate as the weighted average costs of borrowings that 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 item of property, plant and equipment or its individual parts. Land and assets being acquired are not depreciated.

The estimated useful lives are as follows:

- for buildings 15 to 60 years;
- for plant and equipment 2 to 20 years;
- for furniture 5 years;
- for computer equipment 4 to 6 years; and
- for means of transportation 5 to 15 years.

Intangible assets

GOODWILL

Goodwill, which 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

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 COSTS

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) from the date that they are available for use.

The estimated useful lives for software, licences and other rights are 2 to 10 years, and 50 years for TAD trademark.

Inventories

In the statement of financial position, 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 control. 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.

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 of countries where the controlling company and subsidiaries are located, the Krka Group is liable to pay to its employees anniversary bonuses and termination benefits upon retirement. Provisions are set aside for these obligations. There is no other obligation in respect of pensions.

Provisions are determined by discounting, at the reporting date, the estimated future benefits in respect of retirement benefits and anniversary bonuses paid to employees in those countries, where this legal obligation exists. The obligation is calculated by estimating the costs of retirement benefits upon retirement and the costs of all expected anniversary bonuses until retirement. The calculation is performed by the use of the projected unit credit method. The cost of labour and interest expense are recognised in profit or loss, with recalculation of employee post-benefits as unrealised actuarial gains or losses recognised in OCI.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

PROVISIONS FOR LAWSUITS

The Group discloses provisions for lawsuits 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 sales of goods and services rendered

Revenues from sales of goods are recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. Revenues from services rendered are recognised in profit or loss 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.

Government assistance

Revenues 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. Revenues 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 reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. The amount of deferred tax bases on the expected way of settling the carrying amount of assets and liabilities, using tax rates enacted at the reporting date. Deferred tax assets are offset against deferred tax liabilities when an entity has a legal right to offset current tax assets and liabilities, and deferred tax assets and liabilities refer to the same taxable entity and the same tax authority.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits 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 Krka Group presents basic and diluted earnings per share (EPS) data. EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS equals the basic EPS, as all shares of the Krka Group belong to the same class of ordinary 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 Krka 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: the European Union (all countries of the European Union), South-East Europe (Serbia, Bosnia and Herzegovina, Macedonia, 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 following new and amended standards will be applied in future periods as required by IFRSs and the European Union: The Group is currently assessing the potential impact of the new and revised standards and interpretations that will be effective or adopted by the European Union on or after 1 January 2014.

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

IAS 28 – *Investments in Associates and Joint Ventures (Revised)*

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates.

The revised standard has no significant impact in the Krka Group's financial position or performance.

IAS 32 – *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*

In December 2011, IASB issued an amendment to IAS 32, which is intended to clarify existing application issues relating to the offsetting rules and reduce level of diversity in current practice. The amendment is effective for annual periods beginning on or after 1 January 2014. The amendments clarify that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The IAS 32 offsetting criteria require the reporting entity to intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The amendment clarifies that only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement and, therefore, meet the net settlement criterion.

The Krka Group does not expect the amendment will have an impact on the consolidated financial statements.

IAS 36 – *Impairment of Assets (Recoverable Amount Disclosure for Non-Financial Assets)*

The amendment clarifies the disclosure requirements in respect of fair value less costs of disposal. When IAS 36 Impairment of Assets was originally changed as a consequence of IFRS 13, the IASB intended to require disclosure of information about the recoverable amount of impaired assets if that amount was based on fair value less costs to sell. An unintended consequence of the amendments was that an entity would be required to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit was significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. This requirement has been deleted by the amendment.

In addition, the IASB added two disclosure requirements:

- additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal; and
- information about the discount rates that have been used when the recoverable amount is based on fair value less costs of disposal using a present value technique. The amendment harmonises disclosure requirements between value in use and fair value less costs of disposal.

The amendment is effective for financial statements beginning on or after 1 January 2014. The Krka Group does not expect the amendment will have an impact on the consolidated financial statements.

IAS 39 – *Financial Instruments: Recognition and Measurement (Novation of Derivatives and Continuation of Hedge Accounting)*

The amendment provides an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument.

The amendment covers novations:

- that arise as a consequence of laws or regulations, or the introduction of laws or regulations;
- where the parties to the hedging instrument agree that one or more clearing counterparties replace the original counterparty to become the new counterparty to each of the parties; and
- that did not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing.

All of the above criteria must be met to continue hedge accounting under this exception. The amendments cover novations to central counterparties, as well as to intermediaries such as clearing members, or clients of the latter that are themselves intermediaries. For novations that do not meet the criteria for the exception, entities have to assess the changes to the hedging instrument against the derecognition criteria for financial instruments and the general conditions for continuation of hedge accounting.

The amendment is effective for financial periods beginning on or after 1 January 2014. The Krka Group does not expect the amendment will have an impact on its consolidated financial statements.

IFRS 9 – *Financial Instruments – Classification and Measurement*

The IFRS 9 was originally issued in November 2009, and is intended to replace IAS 39 Financial Instruments: Recognition and Measurement. The standard introduces new requirements for classifying and measuring financial assets and liabilities.

In October 2010 the IASB added to IFRS 9 the requirements for classification and measurement of financial liabilities and derecognition of financial assets and liabilities. Most of the requirements in IAS 39 for classification and measurement of financial liabilities and derecognition of financial assets and liabilities were carried forward unchanged to IFRS 9. The standard eliminates categories of financial instruments currently existing in IAS 39: available-for-sale and held-to-maturity. According to IFRS 9 all financial assets and liabilities are initially recognised at fair value plus transaction costs.

Financial Assets

Debt instruments may, if the fair value option (FVO) is not invoked, be subsequently measured at amortised cost if:

- the asset is held within a business model that has the objective to hold the assets to collect the contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

All other debt instruments, where the above mentioned conditions are not met, are subsequently measured at fair value.

All equity investment financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity instruments held for trading must be measured at fair value through profit or loss. Entities have an irrevocable choice of recognising changes in fair value either in OCI or profit or loss by instrument for all other equity investment financial assets.

Financial Liabilities

For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

Hedge Accounting

A new chapter on hedge accounting has been added to IFRS 9. This represents a major overhaul of hedge accounting and puts in place a new model that introduces significant improvements principally by aligning the accounting more closely with risk management. There are also improvements to the disclosures about hedge accounting and risk management.

The standard does not currently indicate the mandatory effective date. The IASB decided to defer the mandatory effective date of IFRS 9 until the date of the completed version of IFRS 9 is known. The standard has not yet been endorsed by the EU.

The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets and liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture of its effects on the consolidated financial statements.

IFRS 10 – *Consolidated Financial Statements*

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation - Special Purpose Entities, which resulted in SIC-12 being withdrawn. IAS 27, as revised, is limited to the accounting for investments in subsidiaries, joint ventures, and associates in separate financial statements.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 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 changes definition of control, which exists when an investor has:

- power over the investee (defined in IFRS 10 as when the investor has existing rights that give it the current ability to direct the relevant activities);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

This standard is effective for annual periods beginning on or after 1 January 2013. The endorsement process within EU adopted the standard and decided that the standard should be applied, at the latest, as from the commencement date of a financial year starting on or after 1 January 2014.

The Krka Group does not expect the amendment will have significant impact on its consolidated financial statements.

IFRS 11 – *Joint Arrangements*

IFRS 11 replaces IAS 31: Interest in Joint Ventures and SIC 13 Jointly-controlled Entities – Non-monetary Contributions by Venturers.

Joint control under IFRS 11 is defined as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. 'Control' in 'joint control' refers to the definition of 'control' in IFRS 10. IFRS 11 also changes the accounting for joint arrangements by moving from three categories under IAS 31 to the following two categories:

- joint operation - An arrangement in which the parties with joint control have rights to the assets and obligations for the liabilities relating to that arrangement. In respect of its interest in a joint operation, a joint operator must recognise all of its assets, liabilities, revenues and expenses, including its relative share of jointly controlled assets, liabilities, revenue and expenses; and
- joint venture - An arrangement in which the parties with joint control have rights to the net assets of the arrangement. Joint ventures are accounted for using the equity method. The option in IAS 31 to account for joint ventures (as defined in IFRS 11) using proportionate consolidation has been removed.

Under these new categories, the structure of the joint arrangement is not the only factor considered when classifying the joint arrangement as either a joint operation or a joint venture, which is a change from IAS 31. Under IFRS 11, parties are required to consider whether a separate vehicle exists and, if so, the legal form of the separate vehicle, the contractual terms and conditions, and other facts and circumstances.

This standard becomes effective for annual periods beginning on or after 1 January 2013. The endorsement process within EU adopted the standard and decided that the standard should be applied, at the latest, as from the commencement date of a financial year starting on or after 1 January 2014.

The Krka Group does not expect the amendment will have significant impact on its consolidated financial statements.

IFRS 12 – *Disclosure of Involvement with Other Entities*

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Some of the more extensive qualitative and quantitative disclosures of IFRS 12 include: provision of summarised financial information for each subsidiary with a material non-controlling interest; description of significant judgments used by management in determining control, joint control and significant influence, and the type of joint arrangement (i.e. joint operation or joint venture); provision of summarised financial information for each individually material joint venture and associate; and description of the nature of the risks associated with an entity's interests in unconsolidated structured entities.

This standard becomes effective for annual periods beginning on or after 1 January 2013 and may affect the disclosures in the notes to financial statements. The endorsement process within EU adopted the standard and decided that the standard should be applied, at the latest, as from the commencement date of a financial year starting on or after 1 January 2014.

The standard affects presentation only and there is no impact on the Group's financial position or performance.

IFRIC 21 – *Levies*

The interpretation is applicable to all levies other than outflows that are within the scope of other standards (e.g. IAS 12) and fines or other penalties for breaches of legislation. Levies are defined in the interpretation as outflows of resources embodying economic benefits imposed by government on entities in accordance with legislation. The interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability is recognised before the specified minimum threshold is reached. The interpretation does not address the accounting for the debit side of the transaction that arises from recognising a liability to pay a levy. Entities look to other standards to decide whether the recognition of a liability to pay a levy would give rise to an asset or an expense under the relevant standards. The interpretation is effective for annual periods beginning on or after 1 January 2014.

The Krka Group is currently assessing the impact that this interpretation could have on the Group's financial position and performance.

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. 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

EUR thousand	European Union		South-East Europe	
	2013	2012	2013	2012
Revenues to non-group companies	**676,967**	**699,593**	**51,840**	**54,587**
Revenues to Group companies	**158,031**	**122,969**	**20,405**	**24,292**
Revenues from reversal of provisions and other income	5,388	4,921	750	489
Operating expenses	-544,830	-577,552	-39,280	-39,745
Operating expense to Group companies	-307,399	-273,263	-25,331	-27,902
Operating profit	**137,525**	**126,962**	**13,310**	**15,331**
Interest income	1,320	1,145	2	1
Interest revenue to Group companies	1,043	805	0	0
Interest expense	-488	-1,587	0	0
Interest expense to Group companies	-1,239	-1,011	0	0
Net financial result	**-396**	**-971**	**-152**	**-810**
Income tax expense	-16,682	-19,491	-1,142	-1,754
Profit for the year	**120,447**	**106,500**	**12,016**	**12,767**
Investments	127,094	96,295	146	3,284
Depreciation	62,015	60,833	1,559	1,768
Amortisation	5,012	6,577	264	304
Goodwill	42,644	42,644	0	0
Trademark	41,555	42,403	0	0
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Total assets	**1,304,092**	**1,228,787**	**34,641**	**36,778**
Total liabilities	**317,839**	**283,925**	**8,321**	**10,422**

As a result of Croatia's accession to the European Union, comparable data for 2012 has been adjusted accordingly.

East Europe		Other markets		Elimination		Total	
2013	2012	2013	2012	2013	2012	2013	2012
427,803	**354,213**	**44,217**	**34,908**	**0**	**0**	**1,200,827**	**1,143,301**
214,421	**143,208**	**0**	**0**	**-392,857**	**-290,469**	**785,714**	**580,938**
-270	3,116	0	0	0	0	5,868	8,526
-368,956	-319,029	-26,041	-23,193	0	0	-979,107	-959,519
-428,330	-330,260	-10	-8	761,070	631,433	0	0
58,577	**38,300**	**18,176**	**11,715**	**0**	**0**	**227,588**	**192,308**
200	16	0	0	0	0	1,522	1,162
0	212	0	0	-1,043	-1,017	0	o
-3	-2	0	0	0	0	-491	-1,589
-1,009	234	0	0	2,248	1,2457	0	0
-25,813	**112**	**114**	**-140**	**0**	**0**	**-26,247**	**-1,809**
-9,286	-8,368	-1,465	-1,047	0	0	-28,575	-30,660
23,478	**30,044**	**16,825**	**10,528**	**0**	**0**	**172,766**	**159,839**
30,028	53,709	0	0	0	0	157,268	153,288
22,317	18,145	364	392	0	0	86,255	81,138
2,394	1,768	219	181	0	0	7,889	8,830
0	0	0	0	0	0	42,644	42,644
0	0	0	0	0	0	41,555	42,403
31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
410,819	**350,559**	**10,332**	**10,624**	**0**	**0**	**1,759,884**	**1,626,748**
85,200	**76,507**	**15,913**	**15,373**	**0**	**0**	**427,273**	**386,227**

5. Revenues

EUR thousand	2013	2012
Revenues from the sale of products	1,104,524	1,044,665
Revenues from the sale of services	33,038	32,899
Revenues from the sale of material and merchandise	63,265	65,737
Total revenues	**1,200,827**	**1,143,301**

6. Other income

EUR thousand	2013	2012
Reversal of provisions	88	49
Deferred revenue reversal	1,740	1,780
Gain on sale of property, plant and equipment and intangible assets	506	534
Reversal of receivable allowance	292	1,572
Collected written-off receivables	22	46
Other income	3,220	4,545
Total other income	**5,868**	**8,526**

7. Costs by nature

EUR thousand	2013	2012
Cost of goods and material	334,832	294,935
Cost of services	222,909	228,619
Employee benefit cost	310,939	293,179
Depreciation	94,144	89,968
Inventory write-offs and allowances	15,383	9,690
Receivables impairment and write-offs	3,903	7,166
Formation of provisions for lawsuits	94	0
Other expenses	32,536	40,441
Total costs	**1,014,740**	**963,998**
Change in inventories of products and work in progress	-35,633	-4,479
Total	**979,107**	**959,519**

8. Employee benefit cost

EUR thousand	2013	2012
Gross wages and salaries and continued pay	240,586	227,737
Social security contributions	18,732	18,236
Pension insurance contributions	33,954	30,932
Payroll tax	1,006	1,038
Post-employment benefits and other non-current employee benefits	3,987	3,512
Other employee benefits cost	12,674	11,724
Total employee benefits cost	**310,939**	**293,179**

Other employee benefits cost in 2013 includes mostly the vacation bonus and commuting allowances.

EUR 1,366 thousand of post-employment benefits and other non-current employee benefits refer to the formation and reversal of provisions for post-employment benefits, which is explained in Note 23.

9. Other expenses

EUR thousand	2013	2012
Grants and assistance for humanitarian and other purposes	1,810	3,623
Environmental levies	2,919	2,957
Other taxes and levies	19,986	27,156
Loss on sale of property, plant and equipment and intangible assets	2,063	1,156
Other costs	5,758	5,549
Total other expenses	**32,536**	**40,441**

10. Financial income and expenses

EUR thousand	2013	2012
Net foreign exchange differences	0	4,059
Interest income	1,522	1,162
Change in fair value of investments through profit or loss	113	78
Derivatives income	0	102
Income from dividends and other shares of the profit	24	17
Other income	455	0
Total financial income	**2,114**	**5,418**
Net foreign exchange differences	-27,642	0
Interest expense	-491	-1,588
Change in fair value of investments through profit or loss	0	-3
Derivatives expense	0	-4,987
Other expenses	-228	-649
Total financial expenses	**-28,361**	**-7,227**
Net financial result	**-26,247**	**-1,809**

11. Income tax expense

Adjustment to effective tax rate

EUR thousand	2013	2012
Income tax	32,870	30,232
Deferred tax	-4,295	428
Total income tax	**28,575**	**30,660**
Profit before tax	201,341	190,499
Income tax at the rate of 17-percent (2012: 18-percent tax rate)	34,228	34,290
Increased expenses	-1,038	-183
Tax exempt expenses	2,038	4,918
Tax incentives	-11,320	-11,821
Revenues decreasing the tax base	-133	-55
Revenues increasing the tax base	122	101
Changed tax rates on effect of deferred tax	1,133	2.299
Effect of different tax rates	1,001	993
Other	2,544	118
Total income tax	**28,575**	**30,660**
Effective tax rate	**14.2%**	**16.1%**

Major share of tax incentives represent investments in R&D and investment relief.

In the next three years the tax rate is expected to remain at 17 percent.

12. Property, plant and equipment

EUR thousand	31 Dec 2013	31 Dec 2012
Property	32,295	31,083
Plant	362,654	318,078
Equipment	305,619	293,397
Property, plant and equipment being acquired	123,136	129,733
Total property, plant and equipment	**823,704**	**772,291**

The Group's largest investment in 2013, in the amount of EUR 45,475 thousand refers to the construction of the Notol 2 plant (2012: EUR 10,572 thousand). EUR 31,962 thousand was invested in the construction of the Sinteza 1 Plant in Krško for the production of active pharmaceutical ingredients (2012: EUR 4,309 thousand); EUR 1,660 thousand was spent on the construction of the Plant for production of solid pharmaceutical forms (2012: EUR 11,410 thousand); EUR 1,158 thousand was invested in the construction of an extension to the administrative headquarters (this is a new project, therefore no figures are available for 2012); EUR 905 thousand was spent on the sterile products production expansion (2012: EUR 8,928 thousand); and EUR 898 thousand on the reconstruction of the laboratory in the Plant at Bršljin (this is a new project, therefore no figures are available for 2012). A total of EUR 5,130 thousand was spent on various projects in the area of information technology and telecommunications (2012: EUR 3,486 thousand).

Moreover, production capacities are being increased in the subsidiary Krka-Rus (EUR 17,450 thousand in 2013 as compared with EUR 50,080 thousand in 2012). As for the company Farma GRS, there have been two investment projects in progress since 2012, namely the construction of the Production centre for finalising active substances and the Chemical development centre. In 2013 EUR 5,046 thousand was invested in the projects (2012: EUR 22,985 thousand), whereas EUR 2,425 thousand was invested in the Terme Krka Group (2012: 193 thousand).

Movement of property, plant and equipment (PPE)

EUR thousand	Property	Plant	Equipment	PPE being acquired	Total
Cost					
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 being acquired	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**
Balance at 1 Jan 2013	**31,083**	**600,730**	**748,318**	**129,733**	**1,509,864**
Additions	0	0	0	151,676	151,676
Capitalisation – transfer from PPE being acquired	1,389	73,263	79,293	-153,945	0
Disposals	-69	-2,030	-18,410	-603	-21,112
Exchange differences	-108	-6,508	-6,387	-3,517	-16,520
Transfers	0	-22	48	-208	-182
Balance at 31 Dec 2013	**32,295**	**665,433**	**802,862**	**123,136**	**1,623,726**
Accumulated depreciation					
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**
Balance at 1 Jan 2013	**0**	**-282,652**	**-454,921**	**0**	**-737,573**
Depreciation	0	-23,343	-62,912	0	-86,255
Disposals	0	1,499	17,577	0	19,076
Transfers, reclassification	0	2	-42	0	-40
Exchange differences	0	1,715	3,055	0	4,770
Balance at 31 Dec 2013	**0**	**-302,779**	**-497,243**	**0**	**-800,022**
Carrying amount					
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**
Balance at 1 Jan 2013	**31,083**	**318,078**	**293,397**	**129,733**	**772,291**
Balance at 31 Dec 2013	**32,295**	**362,654**	**305,619**	**123,136**	**823,704**

No borrowing costs were attributed to the items of property, plant and equipment in 2013.

The carrying amount of items of property, plant and equipment, which are temporarily not used, amounted to EUR 3,435 thousand as at 31 December 2013 (2012: EUR 3,368 thousand).

53% of total property, plant and equipment, which were used as at 31 December 2013, were fully depreciated (51% as at 31 December 2012).

13. Intangible assets

EUR thousand	31 Dec 2013	31 Dec 2012
Goodwill	42,644	42,644
Trademark	41,555	42,403
Concessions, patents, licences and similar rights	26,489	28,627
Intangible assets being acquired	5,056	4,833
Total intangible assets	**115,744**	**118,507**

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, licences and similar rights	IA being acquired	Total
Cost					
Balance at 1 Jan 2012	**42,644**	**42,403**	**85,752**	**3,801**	**174,600**
Additions	0	0	0	8,155	8,155
Transfer from IA being acquired	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**
Balance at 1 Jan 2013	**42,644**	**42,403**	**92,888**	**4,833**	**182,768**
Additions	0	0	0	5,592	5,592
Transfer from IA being acquired	0	0	5,366	-5,366	0
Disposals	0	0	-2,174	0	-2,174
Transfer to PPE	0	0	181	0	181
Exchange differences	0	0	-463	-3	-466
Balance at 31 Dec 2013	**42,644**	**42,403**	**95,798**	**5,056**	**185,901**
Accumulated amortisation					
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**
Balance at 1 Jan 2013	**0**	**0**	**-64,261**	**0**	**-64,261**
Amortisation	0	-848	-7,041	0	-7,889
Disposals	0	0	1,784	0	1,784
Transfers from PPE	0	0	34	0	34
Exchange differences	0	0	175	0	175
Balance at 31 Dec 2013	**0**	**-848**	**-69,309**	**0**	**-70,157**
Carrying amount					
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**
Balance at 1 Jan 2013	**42,644**	**42,403**	**28,627**	**4,833**	**118,507**
Balance at 31 Dec 2013	**42,644**	**41,555**	**26,489**	**5,056**	**115,744**

34% of total intangible assets used at 31 December 2013 were fully amortised (2012: 38%).

TAD Pharma goodwill impairment testing

Impairment testing relates to goodwill arising from Krka's take-over of German company TAD Pharma at the end of 2007.

The replaceable value of goodwill arising on acquisition of an interest in TAD Pharma was based on projected cash flows according to the 5-year financial plan of Krka and TAD Pharma cash-generating units. The pre-tax discount rate taken into account in the projection was 12.84% for TAD Pharma and 11.64% for the Krka cash generating unit; and 9.55% for residual amount of TAD Pharma and 10.19% for the Krka cash-generating unit. Cash flows over 5 years are extrapolated using the average annual growth of 2.0% for TAD Pharma and 2.5% for the Krka cash-generating unit.

The Management Board believe that reasonable change in discount or growth rates would not result in the goodwill impairment.

According to aforementioned assumptions, the assessed value exceeds the carrying amount of goodwill and hence there is no need for goodwill impairment.

14. Loans

EUR thousand	31 Dec 2013	31 Dec 2012
Non-current loans	**5,845**	**5,387**
– loans to others	5,845	5,387
Current loans	**20,215**	**11,091**
– portion of non-current borrowings maturing next year	1,180	984
– loans to others	19,034	10,069
– current interest receivable	1	38
Total loans	**26,060**	**16,478**

The item of non-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 set by the Minister of Finance in accordance with the Corporate Income Tax Act that defines the interest rate for related parties. In 2013, the interest rate ranged between 1.220% and 1.432%. The maximum repayment period is 15 years.

15. Investments

EUR thousand	31 Dec 2013	31 Dec 2012
Non-current investments	**5,231**	**5,100**
– available-for-sale financial assets	5,231	5,100
Current investments including derivatives	**792**	**679**
– shares and interests held for trading	131	103
– other current investments	661	576
Total investments	**6,023**	**5,779**

EUR 848 thousand of available-for-sale financial assets refer to investments in shares and interests in companies in Slovenia (2012: EUR 654 thousand), and EUR 4,383 thousand to investments in shares of companies abroad (2012: EUR 4,237 thousand).

Other current investments refer to Slovenian mutual funds in the amount of EUR 351 thousand (2012: EUR 302 thousand) and assets under management in the amount of EUR 310 thousand (2012: EUR 274 thousand).

Movement in available-for-sale financial assets

EUR thousand	Available-for-sale financial assets
Balance at 1 Jan 2012	**4,944**
Purchase	50
Adjustment to market value	106
Balance at 31 Dec 2012	**5,100**
Balance at 1 Jan 2013	**5,100**
Adjustment to market value	131
Balance at 31 Dec 2013	**5,231**

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 131 thousand in 2013 (2012: EUR 106 thousand). Adjustments are not recognised in the profit or loss.

16. Deferred tax assets and liabilities

EUR thousand	Assets		Liabilities		Assets - liabilities	
	2013	2012	2013	2012	2013	2012
Investments, property, plant and equipment and intangible assets	976	1,072	14,141	13,973	-13,165	-12,901
Available-for-sale financial assets	17	187	368	367	-351	-180
Inventories	4,505	26	431	419	4,074	-393
Assets/liabilities	4,456	6,640	312	533	4,144	6,107
Provisions for lawsuits	8,330	8,820	0	0	8,330	8,820
Provisions for post-employment and other non-current employee benefits	6,292	7,310	0	0	6,292	7,310
Transfer of tax loss	988	457	0	0	988	457
Total	**25,564**	**24,512**	**15,252**	**15,292**	**10,312**	**9,220**

EUR thousand	Balance at 1 Jan 2012	Recog-nised in profit or loss	Trans-lation reserves	Recog-nised in compre-hensive income	Balance at 31 Dec 2012	Recog-nised in profit or loss	Trans-lation reserves	Recog-nised in compre-hensive income	Balance at 31 Dec 2013
Investments, property, plant and equipment and intangible assets	**-13,637**	856	-120	0	**-12,901**	-255	-9	0	**-13,165**
Available-for-sale financial assets	**-366**	167	0	19	**-180**	-169	0	-2	**-351**
Inventories	**-564**	188	-17	0	**-393**	4,448	19	0	**4,074**
Assets/liabilities	**5,691**	157	259	0	**6,107**	825	-288	-2,500	**4,144**
Provisions for lawsuits	**9,800**	-980	0	0	**8,820**	-490	0	0	**8,330**
Provisions for post-employment and other non-current employee benefits	**8,280**	-1,241	11	260	**7,310**	-595	4	-427	**6,292**
Transfer of tax loss	**32**	425	0	0	**457**	531	0	0	**988**
Total	**9,236**	**-428**	**133**	**279**	**9,220**	**4,295**	**-274**	**-2,929**	**10,312**

Unrecognised deferred tax on account of tax losses of subsidiaries amounted to EUR 1,970 thousand at the end of 2013 (2012: EUR 2,074 thousand).

17. Inventories

EUR thousand	31 Dec 2013	31 Dec 2012
Material	96,785	98,118
Work in progress	57,903	54,081
Products	77,069	92,711
Merchandise	3,923	4,638
Inventory advances	140	1,203
Total inventories	**235,820**	**250,751**

The write-down of inventories to net realisable value amounted to EUR 8,490 thousand (2012: EUR 2,129 thousand), whereas write-offs of inventory totalled EUR 6,893 thousand (2012: EUR 7,561 thousand).

18. Trade and other receivables

EUR thousand	31 Dec 2013	31 Dec 2012
Current trade receivables	430,435	372,305
Other current receivables	31,393	42,928
Total receivables	**461,828**	**415,233**

Allowances for and write-offs of receivables recorded within financial expenses amounted to EUR 3,903 thousand in 2013 (2012: EUR 7,166 thousand).

Current trade receivables

EUR thousand	Gross value	Allowances for doubtful and disputed debt	Net value at 31 Dec 2013	Net value at 31 Dec 2012
Domestic customers	11,038	350	10,688	12,548
Foreign customers	438,947	19,200	419,747	359,757
Total current trade receivables	**449,985**	**19,550**	**430,435**	**372,305**

50% of trade receivables were secured with the SID–Prva kreditna zavarovalnica, d. d. In 2012, 49% of trade receivables was secured.

Other current receivables

Other current receivables refer mostly to receivables due by the state, in particular arising from corporate income tax in the amount of EUR 1,870 thousand and other receivables due by the state in total amount of EUR 17,985 thousand.

19. Cash and cash equivalents

EUR thousand	31 Dec 2013	31 Dec 2012
Cash in hand and cheques	39	108
Bank balances	67,236	22,886
Total cash and cash equivalents	**67,275**	**22,994**

The Krka 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 2012.

No negative balances were recorded on these bank accounts as at 31 December 2013, hence no overdraft limits were used.

20. Equity

Share capital

Share capital of the controlling company consists of 35,426,120 ordinary registered no-par value shares. There is solely one class of shares, whereas the first and only issue of shares was carried out in 1995. The share capital was fully paid.

Treasury shares

As at 31 December 2013, the controlling company recorded 2,561,005 treasury shares, which accounts for 7.23% 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, under the condition that the combined share of all treasury shares acquired and already held, did 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. 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.

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; and
- to be used for listing of Krka shares on stock exchange markets outside the Republic of Slovenia.

Repurchase of treasury shares in 2013

EUR thousand	Number of shares	Weighted average share price (in EUR)	Value of shares (in EUR thousand)
Balance at 31 Dec 2012	**2,304,314**		**55,656**
Total repurchases in 2013	256,691	53.43	13,716
Balance at 31 Dec 2013	**2,561,005**		**69,372**

The repurchases of treasury shares in 2013 refer to repurchases that were recorded in books of accounts in 2013. Due to the delay in recording, the number of shares differs from the actual repurchased number of shares in 2013, which was announced by the Company on the Ljubljana Stock Exchange website.

The 2013 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 69,372 thousand as at the reporting date and increased by EUR 13,715 thousand based on their formation as a result of additional repurchase 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 2013 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 2013.

Legal reserves are to be formed up to 30% of the share capital. They amounted to EUR 14,990 thousand as at 31 December 2013 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 and post-employment benefits. Compared to the previous period the fair value reserve increased by EUR 2,216 thousand and amounted to EUR 3,883 thousand as at 31 December 2013. The total change results from an increase in the fair value of available-for-sale financial assets (by EUR 131 thousand), reduction of EUR 2 thousand referring to the related deferred tax effect; recalculation of post-employment benefits by EUR 2,514 thousand, and a decrease of EUR 427 thousand referring to the recalculation of post-employment benefits effect.

The translation reserve decreased by EUR 13,542 thousand compared to 2012 and amounted to EUR -25,289 thousand as at 31 December 2013. The decrease 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 172,836 thousand. The decrease, on the other hand, is a result of allocation of accumulated profit to dividend payout (EUR 53,140 thousand) in accordance with the resolution adopted by the 18th Annual Meeting held on 4 July 2013; of an additional formation of reserves for treasury shares by the controlling company in 2013 (EUR 13,716 thousand); and of the changes to past period's profits the amount of EUR 2,493 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 145 thousand (2012: EUR 168 thousand).

Dividends per share

In 2013, the declared gross dividend per share was EUR 1.61 (2012: EUR 1.50).

Non-controlling interests within equity

	Non-controlling interest		Equity attributable to non-controlling interest		Profit for the year attributable to the non-controlling interest	
EUR thousand	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Interest held by minority shareholders in Golf Grad Otočec, d. o. o.	36.9%	36.9%	1,339	1,424	-85	-86
Interest held by minority shareholders in Farma GRS, d. o. o.	0.3%	0.3%	29	14	15	10
Total			**1,368**	**1,438**	**-70**	**-76**

* *Terme Krka has a 63.1-percent holding in Golf Grad Otočec, d. o. o., whereas holdings of the other partners are as follows: IMP PROMONT-ELEKTRO d.o.o. (3.5%), Abanka Vipa d.d. (6.10%), Trimo, d.d. (6.10%), Begrad, d. d. (3.05%), Lesnina inženiring, d.d. (6.10%), Telekom Slovenije, d.d. (4.51%), Kovinotehna MKI d.o.o. (3.05%), IMP PROMONT d.o.o. (3.05%) and Vodnogospodarsko podjetje Novo mesto, d.d. (1.91%)*

** *Krka has a 99.7-percent holding in Farma GRS, d. o. o. with Metronik d.o.o., Iskra Pio d.o.o. and Gospodarska zbornica Dolenjske in Bele krajine each having a 0.1% holding.*

21. Earnings per share

Basic earnings per share amounted to EUR 5.24 in 2013 and increased by 9.0% over the previous year, when it amounted to EUR 4.80. The calculation of earnings per share took account of the profit for the period attributable to the controlling interests in the amount of EUR 172,836 thousand (2012: EUR 159,915 thousand). The weighted average number of shares was accounted for in the calculation for both years, i.e. 33,002,621 shares for 2013 and 33,285,030 shares for 2012. 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.

22. Borrowings

EUR thousand	31 Dec 2013	31 Dec 2012
Non-current borrowings	**0**	**12,900**
– borrowings from domestic banks	0	12,900
Current borrowings	**0**	**13,355**
– portion of non-current borrowings maturing next year	0	12,600
– borrowings from other entities	0	375
– current interest payable	0	380
Total borrowings	**0**	**26,255**

Non-current borrowings

		Carrying amount	
EUR thousand	Currency	31 Dec 2013	31 Dec 2012
Borrowings from domestic bank	EUR	0	13,500
Borrowings from domestic bank	EUR	0	12,000
Total non-current borrowings		**0**	**25,500**

23. Provisions

EUR thousand	Balance at 31 Dec 2012	Formation	Utilisation	Reversal	Translation reserves	Balance at 31 Dec 2013
Obligations for post-employment and other non-current employee benefits	55,388	4,095	-3,063	-2,787	-9	53,624
Other provisions	49,358	220	-99	0	0	49,479
– provisions for lawsuits	49,100	141	-99	0	0	49,142
– other provisions	258	79	0	0	0	337
Total provisions	**104,746**	**4,315**	**-3,162**	**-2,787**	**-9**	**103,103**

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 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 49,100 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 aforementioned lawsuits referring to intellectual property, another 12 lawsuits are in progress against Krka and its subsidiaries totalling EUR 11,050 thousand, as well as 19 lawsuits referring to other areas (labour legislation, civil lawsuits) totalling EUR 504 thousand.

Provisions for post-employment benefits and other non-current employee benefits are based on a calculation performed by a certified actuary and they were accounted for under following assumption:

- discount rate of 5.00% in the reporting period referring to the 10-year government (Republic of Slovenia) bond yield as per 31 December 2013 (2012: 5.42%);
- 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; and
- increase in wages by 1.80% (2012: 2.55%).

Post-employment and other non-current employee benefits

EUR thousand	2013	2012
Balance at 1 Jan	**43,390**	**44,358**
Current service cost	1,836	1,614
Interest cost	2,376	2,124
Post-employment benefits paid	-2,444	-3,969
Actuarial changes	-2,514	-737
Balance at 31 Dec	**42,644**	**43,390**

Sensitivity analysis

	Discount rate		Salary increase		Staff turnover	
Change in	Percentage point		Percentage point		Percent	
Change by	0.5	-0.5	0.5	-0.5	10%	-10%
Impact on obligation (EUR thousand)	-2,413	2,636	2,610	-2,405	-174	176

24. Deferred revenue

EUR thousand	Balance at 31 Dec 2012	New deferred revenue received	Deferred revenue reversal	Balance at 31 Dec 2013
Grants received for the Beta production plant in Šentjernej	37	0	-37	0
Grants received for the Dolenjske and Šmarješke Toplice health resorts and Golf Grad Otočec	4,675	98	-258	4,515
Grants by the European Regional Development Fund	17	0	-4	13
Grants by the European Fund – development of new technologies (FBD project)	731	0	-98	633
Grants by the European Fund – Development Centres of the Slovene Economy	6,377	1,829	-1,115	7,091
Property, plant and equipment received for free	565	1	-13	553
Emission coupons	22	0	-22	0
Other deferred revenue	0	193	-193	0
Total deferred revenue	**12,424**	**2,121**	**-1,740**	**12,805**

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.

25. Trade payables

EUR thousand	31 Dec 2013	31 Dec 2012
Payables to domestic suppliers	51,905	37,074
Payables to foreign suppliers	70,859	62,978
Payables from advances	8,463	5,363
Total trade payables	**131,227**	**105,415**

26. Other current liabilities

EUR thousand	31 Dec 2013	31 Dec 2012
Accrued contractual discounts on products sold	102,952	70,895
Payables to employees – gross wages, other receipts and charges	32,028	32,505
Other	25,203	16,198
Total other current liabilities	**160,183**	**119,598**

27. Contingent liabilities and commitments

EUR thousand	31 Dec 2013	31 Dec 2012
Guarantees issued	19,710	16,779
Other	620	620
Total contingent liabilities	**20,330**	**17,399**

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 abroad (EUR 4,000 thousand) and in Slovenia (EUR 2,500 thousand). The item 'Other' includes solely the affected property in Serbia in the amount of EUR 620 thousand.

The Group set aside provision in the amount of EUR 47,500 thousand for potential liabilities related to proceedings by the European Commission against the Company regarding the alleged violation of the competition law. In addition, 13 lawsuits were lodged against Company and its subsidiaries referring to intellectual property, and further 19 referring to other areas (labour law and civil lawsuits) totalling EUR 16,254 thousand. Based on in-depth knowledge of the content of these proceedings and legal opinions of external experts, the Management Board has assessed potential liabilities relating to these proceedings at EUR 1,643 thousand and made the relevant amount of provisions.

Based on contracts agreed for projects currently in progress, at the end of 2013 the balance of known future liabilities for acquisition of property, plant and equipment totalled EUR 120,890 thousand (2012: EUR 116,252 thousand).

Operating lease

EUR thousand	31 Dec 2013	31 Dec 2012
Up to 1 year	4,492	5,573
1–5 years	2,906	7,996
More than 5 years	159	275
Total lease payable	**7,557**	**13,844**

Lease contracts with terms in excess of 5 years refer to lease of real estate (primarily business premises), whereas lease contracts for a period of up to one year and from 1 to 5 years refer also to lease of equipment and cars.

28. Financial instruments and financial risks

Long-term stability of the Group's performance is managed by means of active risk management policies. Due to the extensive scope of international import and export business, the Group is primarily exposed to foreign exchange rate and credit risks.

Credit risk

The credit control procedure includes the credit rating of customers who on an annual basis purchase products from the controlling company and its subsidiaries 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. None of the customers generated a 10% share or more of total sales revenue.

In accordance with expansion of the sales network, in 2013 new customers of our subsidiaries in Italy, Spain and France were also included in the credit control system.

Compared to the balance at the beginning of the year, at 2013 year-end, the level of total receivables slightly increased. The two key reasons for the increase in trade receivables are growth and dynamics of sales. In the last quarter, Krka achieved significant growth in sales. At the end of the year under review, maturity structure of trade receivables remained within the levels which are acceptable to Krka.

At the end of the year, 50% 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 Krka Group in 2013.

EXPOSURE TO CREDIT RISK

The largest exposure to credit risk as at the reporting date was noted with regard to carrying values of financial assets as follows:

EUR thousand	Notes	31 Dec 2013	31 Dec 2012
Loans	14	26,060	16,478
Financial investments	15	6,023	5,779
Receivables less amounts due from the state and advances	18	437,701	376,073
– of that trade receivables		430,435	372,305
Cash and cash equivalents	19	67,275	22,994
Total		**537,059**	**421,324**

Of total financial assets exposed to credit risk, loans and receivables are presented separately.

Loans by geographical region

EUR thousand	31 Dec 2013	31 Dec 2012
Slovenia	25,336	15,832
South-East Europe	152	151
East Europe	317	242
Central Europe	255	253
West Europe and Overseas Markets	0	0
Total	**26,060**	**16,478**

Receivables less amounts due from the state and advances by geographical region

EUR thousand	31 Dec 2013	31 Dec 2012
Slovenia	15,385	13,292
South-East Europe	99,475	101,547
East Europe	183,799	146,066
Central Europe	63,995	58,759
West Europe and Overseas Markets	75,047	56,409
Total	**437,701**	**376,073**

A total 50% of trade receivables were insured with the SID – Prva kreditna zavarovalnica, d. d. in 2013 (2012: 49%).

Maturity analysis of loans as at reporting date

EUR thousand	Gross 2013	Impairment 2013	Gross 2012	Impairment 2012
Not past due	26,055	0	16,469	2
Past due up to 20 days	3	0	0	0
Past due between 21 and 50 days	2	0	11	0
Past due between 51 and 180 days	0	0	0	0
Past due in excess of 180 days	41	41	46	46
Total	**26,101**	**41**	**16,526**	**48**

Maturity analysis of receivables less amounts due from the state and advances as at reporting date

EUR thousand	Gross 2013	Impairment 2013	Gross 2012	Impairment 2012
Not past due	414,693	3,440	346,283	1,062
Past due up to 20 days	7,311	83	6,104	94
Past due between 21 and 50 days	2,989	57	4,940	147
Past due between 51 and 180 days	11,841	64	15,328	110
Past due in excess of 180 days	20,417	15,906	19,864	15,033
Total	**457,251**	**19,550**	**392,519**	**16,446**

The Krka Group agrees extended terms with some customers. If the group did not extend payment terms to some of the customers, maturity structure would be as follows as at reporting date: EUR 357,985 thousand not past due, EUR 19,726 thousand past due up to 20 days, EUR 11,576 thousand past due between 21 and 50 days, EUR 46,817 thousand past due between 51 and 180 days and EUR 21,147 thousand past due in excess of 180 days.

Movements in loan impairments

EUR thousand	2013	2012
Balance at 1 Jan	**48**	**50**
Impairment reversal	-2	-2
Recovery of receivables written-off	-5	0
Balance at 31 Dec	**41**	**48**

Movements in receivable impairment less amounts due from the state and advances

EUR thousand	2013	2012
Balance at 1 Jan	**16,446**	**15,567**
Impairments	3,704	4,944
Receivables written-off and charged to impairments	-185	-2,656
Impairment reversal	-292	-1,572
Recovery of receivables written-off	-15	-5
Effect of exchange rate differences	-108	168
Balance at 31 Dec	**19,550**	**16,446**

Liquidity risk

Stable performance with no major fluctuations or deviations, investment financing with own assets, organic growth and a stable cash flow from operations continued to assure Krka's strong financial structure and thus low liquidity risk in 2013. As at the year-end, the Group had no borrowings.

In 2012, several safety measures were implemented in the area of payment transactions in the controlling entity, whereas in 2013, similar mechanisms were implemented also in our subsidiaries and representative offices abroad, thus mitigating the risk of wide-spread attempts of e-banking abuse.

Furthermore, we weighted the risks of commercial banks including their interest rates for deposits and borrowings and accordingly in 2013 we revised our cooperation with selected banks. Increasing competition between banks and financial institutions enabled the Group to significantly reduce payment and documentary transaction costs with banks.

As is true for the majority of business functions, the Krka Group's liquidity risk is managed centrally by the parent. The parent also ensures efficient management of cash on accounts of subsidiaries and representative offices, oversees joint planning of their cash requirements and secures sufficient financial resources.

Krka has for several years shown stable and good liquidity ratios and is known among business partners as a partner with consistent payment discipline.

MATURITY OF FINANCIAL LIABILITIES

Financial liabilities in terms of maturity are outlined in the tables below.

Financial liabilities maturity as at 31 December 2013

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						
Payables to suppliers	122,764	122,764	122,764	0	0	0
Total non-derivative financial liabilities	**122,764**	**122,764**	**122,764**	**0**	**0**	**0**
Total derivative assets/liabilities	**0**	**0**	**0**	**0**	**0**	**0**
Total	**122,764**	**122,764**	**122,764**	**0**	**0**	**0**

Financial liabilities maturity 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
Payables to suppliers	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 derivative assets/liabilities	**0**	**0**	**0**	**0**	**0**	**0**
Total	**126,307**	**127,000**	**107,081**	**6,704**	**13,215**	**0**

Currency risk

The Krka 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 Krka 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 trade payables.

Due to positive fluctuation of the key currencies in the first quarter, Krka recorded exchange rate gains. Uncertainties with regards to mitigation of the US Central Bank's expansionary monetary policy resulted in an exceptionally negative volatility of currencies on emerging markets. In the second quarter the Polish zloty lost 3.6% against the euro, whereas the Russian rouble recorded a 7.2% drop in its value. This resulted in the Company recording major exchange rate losses at the half-year mark.

In the second half of the year the Polish zloty again gained against euro and thus neutralised the majority of exchange rate losses from the first half of the year. In contrast, the Russian rouble continued its decline in value also in the second half of the year. Whilst the pressure of global factors on the value of rouble decreased, there were several internal macroeconomic indicators that negatively impacted the value of the rouble, particularly gradual slowdown of economic growth and sluggish fall in inflation. Over the year, the Russian rouble lost as much as 11% of its value against the euro.

In comparison, other currencies had only a minor effect on total amount of exchange rate differences recorded by Krka Group.

In 2013, no currency positions were hedged.

CURRENCY RISK EXPOSURE

	31 Dec 2013				
EUR thousand	EUR*	PLN	HRK	RUB	RON
Trade receivables	143,451	31,932	32,513	146,946	51,542
Borrowings from banks	0	0	0	0	0
Trade payables	-109,257	-1,232	-385	-9,687	-387
Financial position exposure (net)	**34,194**	**30,700**	**32,128**	**137,259**	**51,155**

** EUR is the functional currency and does not represent exposure to foreign currency risk.*

	31 Dec 2012				
EUR thousand	EUR*	PLN	HRK	RUB	RON
Trade receivables	98,265	33,347	35,186	127,723	49,180
Borrowings from banks	-26,255	0	0	0	0
Trade payables	-84,054	-1,250	-472	-8,140	-441
Financial position exposure (net)	**-12,044**	**32,097**	**34,715**	**119,583**	**48,739**

** EUR is the functional currency and does not represent exposure to foreign currency risk.*

Significant foreign exchange rates

	Average exchange rate*		Final exchange rate*	
	2013	2012	2013	2012
PLN	4.20	4.18	4.15	4.07
HRK	7.58	7.52	7.63	6.56
RUB	42.33	39.93	45.32	40.33
RON	4.42	4.46	4.47	4.44

** 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 and equal the exchange rate of the ECB effective on 31 December.

SENSITIVITY ANALYSIS

A 1% increase of the euro exchange rate in respect of currencies stated as at 31 December 2013 or 31 December 2012 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	2013	2012
PLN	-304	-318
HRK	-319	-344
RUB	-1,374	-1,184
RON	-507	-483

A 1% decrease of the euro value in respect of currencies stated as at 31 December 2013 or 31 December 2012 would have the same effect – but in reverse direction – provided that all other elements remain unchanged.

Interest rate risk

In 2013 the Krka Group repaid all of its non-current borrowings. The reference interest rate changes no longer have a decisive impact on the Group's overall financial expenses.

EXPOSURE TO INTEREST RATE RISK

EUR thousand	2013	2012
Financial instruments at fixed interest rate	**26,060**	**16,065**
Financial assets	26,060	16,440
Financial liabilities	0	-375
Financial instruments at variable interest rate	**0**	**-25,500**
Financial assets	0	0
Financial liabilities	0	-25,500

ANALYSIS OF THE CASH FLOW'S SENSITIVITY BY APPLYING THE VARIABLE INTEREST RATE

Decrease/increase of the interest rate by 100 basis points would have no impact on the profit or loss for 2013 (in 2012 increase/decrease would increase/decrease the profit or loss by EUR 255 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 2013	31 Dec 2012
Non-current borrowings	0	25,500
– thereof current portion	0	12,600
Average balance of non-current borrowings	12,750	46,363
Interest paid in the financial year	406	1,477
Other expenses for non-current borrowings	0	0
Average effective cost of non-current borrowings (financial year)	3.18%	3.19%
Maturity of up to three years	/	100%
Currency of non-current borrowings		
– EUR	/	100%
Structure of non-current borrowings in terms of interest rates		
– variable	/	100%

Current borrowings

EUR thousand	31 Dec 2013	31 Dec 2012
Current borrowings inclusive of current portion of non-current borrowings	0	12,975
– from banks	0	12,600
– other	0	375
Current borrowings exclusive of current portion of non-current borrowings	0	375
Average balance of current borrowings (financial year)	188	870
Interest paid in the financial year	78	67
Other cost of raising current borrowings	15	10
Average effective cost of current borrowings (financial year)	49.60%	8.86%
Currency structure of current borrowings		
– EUR	/	100%
Structure of current borrowings in terms of interest rates		
– fixed	/	100%

Capital management

Share capital of the Company consists of 35,426,120 ordinary registered no-par value shares. There is solely one class of shares, whereas the first and only issue of shares was carried out in 1995. 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 Krka Group follows the changes in the economic environment by managing and adjusting its equity structure. The dividends are paid out on an annual basis. In accordance with the *Krka Group Development Strategy for the Period 2014 to 2018* we will allocate for dividends up to 50% of the consolidated profit of major shareholders generated in the year before. When determining the dividend pay-out in a particular year, Krka Group's financial requirements for investments and take-overs in that year will also be taken into consideration. The Krka Group has no specific goals as regards the ownership share held by employees or share options plans.

There were no changes in the Company's approach to capital management in 2013 and 2012.

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	31 Dec 2013	31 Dec 2012
Borrowings	0	26,255
Trade and other current liabilities	291,410	225,013
Cash and cash equivalents	-67,275	-22,994
Net indebtedness	**224,135**	**228,274**
Equity	1,332,611	1,240,521
Equity and net indebtedness	**1,556,746**	**1,468,795**
Gearing (debt/equity) ratio	**14.4%**	**15.5%**

Fair value

In terms of fair value, financial assets 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.

Fair value of assets

EUR thousand	31 Dec 2013				31 Dec 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at fair value								
Available-for-sale financial assets	3,657	0	1,574	5,231	3,526	0	1,574	5,100
Shares and interests held for trading	131	0	0	131	103	0	0	103
Other current investments (mutual funds and assets under management)	661	0	0	661	576	0	0	576
Total assets at fair value	**4,449**	**0**	**1,574**	**6,023**	**4,205**	**0**	**1,574**	**5,779**
Assets for which fair value is disclosed								
Non-current loans	0	0	5,845	5,845	0	0	5,387	5,387
Current loans	0	0	20,215	20,215	0	0	11,091	11,091
Trade and other receivables	0	0	461,828	461,828	0	0	415,233	415,233
Cash and cash equivalents	0	0	67,274	67,274	0	0	22,994	22,994
Total assets for which fair value is disclosed	**0**	**0**	**555,162**	**555,162**	**0**	**0**	**454,705**	**454,705**
Total	**4,449**	**0**	**556,736**	**561,185**	**4,205**	**0**	**456,279**	**460,484**

Fair value of liabilities

EUR thousand	31 Dec 2013				31 Dec 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities at fair value								
Total liabilities at fair value	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Liabilities for which fair value is disclosed								
Borrowings	0	0	0	0	0	0	26,255	26,255
Trade and other liabilities	0	0	298,440	298,440	0	0	227,510	227,510
Total liabilities for which fair value is disclosed	**0**	**0**	**298,440**	**298,440**	**0**	**0**	**253,765**	**253,765**
Total	**0**	**0**	**298,440**	**298,440**	**0**	**0**	**253,765**	**253,765**

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.

29. 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 0.1132% of voting rights, whereas members of the Supervisory Board of the controlling company held 13,445 shares, i.e. 0.038% of total equity or 0.041% of voting rights, and the Managing Directors of subsidiaries held 26,410 of shares, i.e. 0.075% of the total equity or 0.080% of voting rights.

Equity stakes held by members of the Management and the Supervisory Boards and their shares of voting rights

	31 Dec 2013			31 Dec 2012		
	Number of shares	Equity share (in %)	Share of voting rights (in %)	Number of shares	Equity share (in %)	Share of voting rights (in %)
Members of the Management Board						
Jože Colarič	22,500	0.0635	0.0685	22,500	0.0635	0.0679
Aleš Rotar	12,770	0.0360	0.0389	12,770	0.036	0.0386
Zvezdana Bajc	1,660	0.0047	0.0051	1,660	0.0047	0.0050
Vinko Zupančič	120	0.0003	0.0004	120	0.0003	0.0004
Danica Novak Malnar	0	0	0	0	0	0.0000
Total members of the Management Board	**37,050**	**0.1046**	**0.1127**	**37,050**	**0.1045**	**0.1119**
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	0.0351	11,543	0.0326	0.0349
Mojca Osolnik Videmšek	452	0.0013	0.0014	452	0.0013	0.0014
Matjaž Rakovec	0	0	0	400	0.0011	0.0012
Sergeja Slapničar	0	0	0	0	0	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	0	0	0	0.0000
Total members of the Supervisory Board	**13,445**	**0.0380**	**0.0409**	**13,845**	**0.0391**	**0.0415**
Total	**50,495**	**0.1425**	**0.1536**	**50,895**	**0.1436**	**0.1524**

Treasury shares were eliminated from the calculation of voting rights (2,561,005 treasury shares as at 31 December 2013 and 2,307,739 as at 31 December 2012).

Gross remuneration paid to groups of persons

EUR thousand	2013	2012
Members of the Management Board in the controlling company	2,390	2,286
Managers of subsidiaries	2,514	2,275
Members of the Supervisory Board in the controlling company	209	228
Members of the Supervisory and Management Boards in subsidiaries	189	100
Total gross remuneration paid to groups of persons	**5,302**	**4,889**

Remuneration paid to members of the Management Board in the controlling company and managers of subsidiaries includes wages and salaries, fringe benefits and any other earnings.

Remuneration paid to members of the Supervisory Board in the controlling company represents earnings in connection with exercising the function within the Supervisory Board. Remuneration paid to members of the Supervisory and Management Boards in subsidiaries, who simultaneously act as members of the Management Board in the controlling company or are employed under individual employment contracts, includes also sole earnings for exercising the function within the Supervisory and Management Boards.

Gross earnings paid to employees employed under individual employment contracts were in 2013 recorded at EUR 15,618 thousand (2012: EUR 16,759 thousand).

Remuneration paid to members of the Management Board in the controlling company in 2013

	Salary - fixed part			Salary - variable part		Total	
EUR thousand	Gross	Net payout	Net bonuses and other earnings	Gross	Net	Gross	Net
Jože Colarič	362	146	8	407	159	769	313
Aleš Rotar	286	117	9	273	107	559	233
Zvezdana Bajc	262	105	10	247	97	509	212
Vinko Zupančič	211	86	12	194	76	405	174
Danica Novak Malnar	137	62	6	11	5	148	73
Total remuneration paid to members of the Management Board	**1,258**	**516**	**45**	**1,132**	**444**	**2,390**	**1,005**

	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	4.15	2.82	0.10	0.04	0.58	7.69
Aleš Rotar	3.32	2.82	1.28	0.90	0.59	8.90
Zvezdana Bajc	3.32	2.82	2.22	1.00	0.59	9.95
Vinko Zupančič	3.33	2.82	4.05	0.74	0.61	11.54
Danica Novak Malnar	1.45	2.82	0.50	0.90	0.64	6.31
Total net bonuses and other earnings paid to members of the Management Board	**15.57**	**14.10**	**8.15**	**3.57**	**3.00**	**44.38**

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 remuneration paid to 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 net bonuses paid to members of the Management Board	**18.90**	**13.78**	**13.89**	**3.41**	**3.18**	**53.16**

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 2013

	Basic pay for exercising the function		Attendance fees		Commuting allowances		Total	
EUR thousand	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Jože Lenič	23.25	18.02	3.19	2.47	0	0	26.44	20.49
Julijana Kristl	19.38	15.02	2.04	1.58	0.41	0.32	21.82	16.91
Vincenc Manček	19.38	15.02	2.31	1.79	0	0	21.69	16.81
Mojca Osolnik Videmšek	21.31	16.52	2.48	1.92	0.42	0.33	24.21	18.76
Matjaž Rakovec	20.93	16.22	1.54	1.19	0.24	0.18	22.70	17.60
Sergeja Slapničar	19.38	15.02	1.98	1.54	0.49	0.38	21.85	16.93
Franc Šašek	20.93	16.22	2.75	2.13	0	0	23.68	18.35
Tomaž Sever	19.38	15.02	2.75	2.13	0.42	0.33	22.54	17.47
Mateja Vrečer	21.31	16.52	2.31	1.79	0	0	23.62	18.31
Total remuneration paid to members of the Supervisory Board	**185.22**	**143.55**	**21.34**	**16.54**	**1.98**	**1.53**	**208.54**	**161.62**

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 Chairman 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 Vice-Chairman 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 2013	31 Dec 2012	2013	2012
Members of the Management Board in the controlling company	3	5	1	1
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	**3**	**5**	**1**	**1**

Loans granted to staff employed under individual employment contracts were as at 31 December 2013 recorded at EUR 121 thousand (2012: EUR 64 thousand). Repayments of the respective loans amounted in the reporting period to EUR 27 thousand (2012: EUR 24 thousand).

30. Profile of the Group

Transactions between Group companies and the groups of persons were implemented on the basis of sale and purchase contracts, whereby intercompany transactions were based on market prices of products and services.

	Share in equity	Share capital value at 31 Dec 2013	Currency	Number of employees at 31 Dec 2013	Number of employees at 31 Dec 2012
Controlling company					
KRKA, d. d., Novo mesto, Slovenia		59,126,194	EUR	4628	4495
Subsidiaries					
TERME KRKA, d. o. o., Novo mesto; Slovenia	100%	14,753,239	EUR	605	627
Farma GRS, d. o. o., Novo mesto; Slovenia	99.7%	1,003,000	EUR	51	52
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	194	211
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	111,080	RSD	62	61
KRKA-FARMA DOOEL, Skopje, Macedonia	100%	49,060,618	MKD	32	32
KRKA Bulgaria EOOD, Sofia, Bulgaria	100%	19,550	BGN	56	
KRKA FARMA d.o.o., Sarajevo, Bosnia and Herzegovina	100%	20,000	BAM	1	1
KRKA-RUS LLC Istra, Russian Federation	100%	3,311,374,765	RUB	261	216
KRKA FARMA LLC, Sergiev Posad, Russian Federation	100%	3,874,800	RUB	1701	1419
KRKA UKRAINE LLC, Kiev, Ukraine	100%	100,000	UAH	381	345
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	100%	13,500	USD	112	88
KRKA - POLSKA, Sp. z o. o., Warsaw, Poland	100%	17,490,000	PLN	811	804
KRKA ČR, s. r. o., Prague, Czech Republic	100%	100,000	CZK	259	247
KRKA Magyarország Kft., Budapest, Hungary	100%	44,880,000	HUF	159	159
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10,000	EUR	120	114
UAB KRKA Lietuva, Vilnius, Lithuania	100%	34,000	LTL	77	84
SIA KRKA Latvija, Riga, Latvia	100%	7,000	LVL	37	33
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650,000	EUR	170	175
KRKA Sverige AB, Stockholm, Sweden	100%	150,000	SEK	4	5
KRKA Pharma GmbH, Vienna, Austria	100%	36,500	EUR	21	12
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10,000	EUR	20	18
KRKA FARMACÉUTICA, S.L., Madrid, Spain	100%	10,000	EUR	22	27
KRKA Farmaceutici Milano S.r.l., Milan, Italy	100%	10,000	EUR	36	23
KRKA France Eurl, Paris, France	100%	10,000	EUR	38	24
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1,000	EUR	7	7
KRKA Belgium, SA, Brussels, Belgium	95%	71,250	EUR	1	0
KRKA USA LLC, Wilmington, USA	100%	10,000	USD	0	0

The subsidiary Terme Krka held 63.10-percent interest in Golf Grad Otočec, d. o. o., at 31 December 2013; Farma GRS, d. o. o., held 100-percent interest in its subsidiaries GRS Vizfarma, d. o. o. Novo mesto, and GRS Tehfarma, d. o. o., Novo mesto; and subsidiary Krka France Eurl held a 5-percent interest in subsidiary KRKA Belgium, SA.

31. Educational structure of employees

	2013		2012	
	Headcount	Share (in %)	Headcount	Share (in %)
PhD	109	1.1	101	1.1
MSc	309	3.2	272	3.0
University education	4,729	48.3	4,350	47.3
Higher professional education	1,130	11.6	1,015	11.0
Vocational college education	269	2.7	261	2.8
Secondary school education	1,889	19.3	1,817	19.8
Skilled workers	988	10.1	987	10.7
Unskilled workers	360	3.7	394	4.3
Total (average for the period)	**9,783**	**100.0**	**9,197**	**100.0**

32. Transactions with audit firms

The annual fee for auditing the Group in 2013 amounted to EUR 488 thousand (2012: EUR 475 thousand).

33. Events after the accounting period

Below is a presentation of events that took place from the end of 2013 and up to 31 March 2014:

- the uncertainty of business operations in the Ukrainian market has increased;
- in February 2014, Krka's subsidiary in Sweden, Krka Sverige AB, received the decision of the Appeal Court from Oslo on the dispute between AstraZeneca AB and Krka Sverige AB over the alleged infringement of patent right NO 307 378 protecting the special purity level of medicine containing the active substance esomeprazole. The Appeal Court from Oslo ruled that the subsidiary Krka Sverige had infringed the patent right. Krka Sverige was selling the product Esomeprazol Krka in Norway from October to December 2010, so it was ordered to compensate the company Astra Zeneca for lost profit and legal expenses in a total of approximately EUR 2 million. Krka has filed an appeal with the Supreme Court of Norway. The claimed liability is included in the consolidated accounting statements of the Krka Group for 2013;
- on 1 January 2014, Krka's five sales regions were complemented with another one. Our sixth sales region, Overseas Markets, aims to exploit the sales potential of the Middle East, Far East, Africa, and the Americas; and
- in the period from 2 January 2014 to 31 January 2014 (followed by the Close Period), we acquired 51,595 treasury shares in a total value of EUR 3,180,371.97. The holding currently totals 2,612,600 treasury shares (7.375% of all shares).

Independent Auditor's Report

Building a better working world

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the 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, 2013, and the consolidated income statement, consolidated statement of other 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.

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, 2013, 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 10, 2014

Sanja Košir Nikašinović
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 2013	31 Dec 2012
Assets			
Property, plant and equipment	12	563,978	519,219
Intangible assets	13	28,303	29,908
Investments in subsidiaries	14	288,323	259,455
Trade receivables from subsidiaries		14,018	0
Loans	15	31,009	32,837
Investments	16	5,022	4,891
Deferred tax assets	17	15,167	16,987
Other non-current assets		127	145
Total non-current assets		**945,947**	**863,442**
Inventories	18	190,968	190,555
Trade receivables	19	426,195	412,856
Other receivables	19	15,424	20,079
Loans	15	72,492	65,305
Investments	16	792	679
Cash and cash equivalents	20	49,417	13,369
Total current assets		**755,288**	**702,843**
Total assets		**1,701,235**	**1,566,285**
Equity			
Share capital	21	59,126	59,126
Treasury shares	21	-69,372	-55,656
Reserves	21	219,746	203,816
Retained earnings	21	1,122,746	1,024,929
Total equity		**1,332,246**	**1,232,215**
Liabilities			
Non-current borrowings	23	2,000	13,700
Provisions	24	94,464	96,491
Deferred revenue	25	2,314	2,752
Deferred tax liabilities	17	0	367
Total non-current liabilities		**98,778**	**113,310**
Trade payables	26	145,921	118,496
Current borrowings	23	70,190	58,917
Income tax liabilities		4,823	0
Other current liabilities	27	49,277	43,347
Total current liabilities		**270,211**	**220,760**
Total liabilities		**368,989**	**334,070**
Total equity and liabilities		**1,701,235**	**1,566,285**

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

INCOME STATEMENT

EUR thousand	Notes	2013	2012
Revenues	5	1,116,339	1,035,280
Cost of sales		-457,925	-433,531
Gross profit		**658,414**	**601,749**
Other income	6	3,007	2,316
Distribution expenses		-295,791	-288,695
R&D costs		-100,161	-98,446
Administrative expenses		-53,942	-55,542
Operating profit		**211,527**	**161,382**
Financial income	10	5,316	22,431
Financial expenses	10	-28,967	-7,690
Net financial result		**-23,651**	**14,741**
Profit before tax		**187,876**	**176,123**
Income tax expense	11	-23,203	-21,508
Profit for the year		**164,673**	**154,615**
Basic earnings per share (in EUR)	**22**	**4.99**	**4.65**
Diluted earnings per share (in EUR)	**22**	**4.99**	**4.65**

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	2013	2012
Profit for the year		**164,673**	**154,615**
Other comprehensive income for the year			
Other comprehensive income reclassified to profit or loss in future periods			
Change in fair value of available-for-sale financial assets	21	131	106
Deferred tax effect	21	-2	19
Other comprehensive income reclassified to profit or loss in subsequent periods (net)		**129**	**125**
Other comprehensive income not to be reclassified to profit or loss in future periods			
Recalculation of post-employment benefits	24	2,512	0
Deferred tax effect	24	-427	0
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net)		**2,085**	**0**
Total other comprehensive income for the year (after tax)		**2,214**	**125**
Total comprehensive income for the year (after tax)		**166,887**	**154,740**

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

STATEMENT OF CHANGES IN EQUITY

			Reserves	
EUR thousand	Share capital	Treasury shares	Reserves for treasury shares	Share premium
Balance at 1 Jan 2013	**59,126**	**-55,656**	**55,656**	**101,503**
Profit for the year	**0**	**0**	**0**	**0**
Total other comprehensive income for the year (after tax)	**0**	**0**	**0**	**0**
Total comprehensive income for the year (after tax)	**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	13,716	0
Repurchase of treasury shares	0	-13,716	0	0
Dividends paid	0	0	0	0
Total transactions with owners, recognised directly in equity	**0**	**-13,716**	**13,716**	**0**
Balance at 31 Dec 2013	**59,126**	**-69,372**	**69,372**	**101,503**

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

			Reserves	
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**
Total other comprehensive income for the year (after tax)	**0**	**0**	**0**	**0**
Total comprehensive income for the year (after tax)	**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.

				Retained earnings			
	Legal reserves	Statutory reserves	Fair value reserve	Other revenue reserves	Profit for the year	Retained earnings	Total equity
	14,990	30,000	1,667	846,998	116,543	61,388	1,232,215
	0	0	0	0	164,673	0	164,673
	0	0	2,214	0	0	0	2,214
	0	0	2,214	0	164,673	0	166,887
	0	0	0	0	0	0	0
	0	0	0	34,000	-34,000	0	0
	0	0	0	0	-116,543	116,543	0
	0	0	0	62,395	0	-62,395	0
	0	0	0	0	-13,716	0	0
	0	0	0	0	0	0	-13,716
	0	0	0	0	0	-53,140	-53,140
	0	0	0	96,395	-164,259	1,008	-66,856
	14,990	30,000	3,881	943,393	116,957	62,396	1,332,246

				Retained earnings			
	Legal reserves	Statutory reserves	Fair value reserve	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	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

STATEMENT OF CASH FLOWS

EUR thousand	Notes	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**164,673**	**154,615**
Adjustments for:		**95,503**	**81,917**
– amortisation/depreciation	12, 13	71,466	69,612
– foreign exchange differences		2,904	-103
– investment income		-5,493	-17,515
– investment expense		1,741	5,714
– interest expense and other financial expense		1,682	2,701
– income tax	11	23,203	21,508
Operating profit before changes in net operating current assets		**260,176**	**236,532**
Change in trade receivables		-30,814	-34,352
Change in inventories		-413	2,746
Change in trade payables		27,425	22,946
Change in provisions		484	-1,014
Change in deferred revenue		-438	-687
Change in other current liabilities		5,786	2,893
Income taxes paid		-10,252	-21,848
Net cash from operating activities		**251,954**	**207,216**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		3,457	1,980
Dividends received		23	17
Proportionate profit of subsidiaries		2,519	13,661
Proceeds from sale of property, plant and equipment		699	5,110
Purchase of intangible assets	13	-4,661	-6,340
Purchase of property, plant and equipment	12	-112,053	-63,620
Acquisition of subsidiaries and a share of minority interest without obtained assets		-30,952	-33,938
Refund of subsequent payments in subsidiaries		2,267	185
Non-current loans		-3,090	-25,384
Proceeds from repayment of non-current loans		1,413	3,261
Acquisition of non-current investments		-41	-89
Proceeds from sale of non-current investments		59	47
Payments in connection with current investments and loans		-6,162	-19,918
Payments in connection with derivative financial instruments		0	-4,987
Proceeds from derivative financial instruments		0	102
Net cash used in investing activities		**-146,522**	**-129,913**
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		-2,069	-3,293
Repayment of non-current borrowings		-25,500	-41,300
Non-current borrowings		1,200	800
Acquisition of current borrowings		24,259	28,057
Dividends paid	21	-52,995	-49,770
Repurchase of treasury shares	21	-13,716	-13,072
Net cash used in financing activities		**-68,821**	**-78,578**
Net increase in cash and cash equivalents		**36,611**	**-1,275**
Cash and cash equivalents at beginning of period		13,369	15,023
Effect of exchange rate fluctuations on cash held		-563	-379
Net cash and cash equivalents at end of period		**49,417**	**13,369**

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 sales 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 Krka's Management Board on 14 February 2014.

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, and assumptions and estimates used in goodwill impairment. 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 14 Impairment testing of investments in subsidiaries

  The Company checks whether there are any indicators of impairment of investments in subsidiaries at least once a year. The fair value of investments that may be impaired determined as the present value of future cash flows is based on an estimate of expected cash flows from the cash-generating unit and on determination of the appropriate discount rate. The Company has found no need for impairment of non-financial assets as at 31 December 2013.
- 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 the Company has present obligations (legal or constructive) as a result of past events, a reliable estimate can be made of the amount of obligation, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Contingent liabilities are not recognised in the financial statements as their actual existence will be confirmed only upon the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. The management continually assesses 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 2012. An exception presents adoption of new standards and interpretations, which are noted below and which have been applied if relevant events occurred in the Company 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 2012, except for adoption of the amended standards and interpretations effective from 1 January 2013 and which are noted below.

IAS 1 – *Financial Statement Presentation – Presentation of Items of Other Comprehensive Income*

The amendment becomes effective for annual periods beginning on or after 1 June 2012. The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified to profit or loss at a future point in time (for example, upon derecognition or settlement) are presented separately from items that will never be reclassified. The amendment does not change the nature of the items that were recognised in OCI, nor do they impact the determination of whether items in OCI are reclassified through profit and loss in future periods.

The amendment affects presentation only and there is no impact on the Company's financial position or performance.

IAS 19 – *Employee Benefits (Revised)*

The revised standard includes a number of amendments that range from fundamental changes to simple clarifications and rewording. The more significant changes include the following: for defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e. the corridor approach) has been removed. Furthermore, there are new or revised disclosure requirements which include quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption. Accordingly, retirement benefits are recognised at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognised under IAS 37. The distinction between short-term and other long-term employee benefits is based on expected timing of settlement rather than the employee's entitlement to the benefits. In accordance with the revised standard, the cost of labour and interest expense are recognised in profit or loss, with recalculation of employee post-benefits as unrealised actuarial gains or losses recognised in OCI. Before the new standard came into effect, all the changes were recognised in profit or loss. This standard is effective for annual periods beginning on or after 1 January 2013.

IFRS 7 – *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*

The amendment is effective for annual periods beginning on or after 1 January 2013. The amendment requires an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosure would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all categorised financial instruments that are set off in accordance with IAS 32 Financial Instruments Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar arrangement, irrespective of whether they are set-off in accordance with IAS 32.

The revised standard has no impact on Krka's financial position or performance.

IFRS 13 – *Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted.

Fair value under IFRS 13 is defined as "the price that would be received to sell and asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" (i.e. "an exit price"). "Fair value" as used in IFRS 2 Share-based payments and IAS 17 Leases is excluded from the scope of IFRS 13.

The standard provides clarification on a number of areas, including the following:

- concepts of "highest and best use" and "valuation premise" are relevant only for non-financial assets;

- adjustments for blockage factors (block discounts) are prohibited in all fair value measurements; and
- a description of how to measure fair value when a market becomes less active.

New disclosures related to fair value measurements are also required to help users understand the valuation techniques and inputs used to develop fair value measurements and the effect of fair value measurements on profit or loss.

Amended standard has no significant impact on financial statements of Krka.

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 the euro at the exchange rate applicable on the reporting date. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are retranslated to the euro at the exchange rate at the date that the fair value was determined. Foreign currency differences are recognised in profit or loss, except for differences arising on the translation of 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 sight 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 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 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 the item 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 Company. 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 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

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 COSTS

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

In the statement of financial position, 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 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. There is no other obligation in respect of pensions.

Provisions are determined by discounting, at the reporting date, the estimated future benefits in respect of retirement benefits and anniversary bonuses paid to employees in those countries, where this legal obligation exists. The obligation is calculated by estimating the costs of retirement benefits upon retirement and the costs of all expected anniversary bonuses until retirement. The calculation is made using the projected unit credit method. Labour cost and interest expense are recognised in profit or loss, whereas recalculation of post-employment benefits, i.e. unrealised actuarial gains or losses, is reported in comprehensive income in the capital.

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 sales of goods and services rendered

Revenues from sales 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 profit or loss 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, or 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.

Government assistance

Revenues 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. Revenues 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, foreign exchange gains and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Financial expenses comprise interest expense on borrowings, foreign exchange losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method, except those that are attributable to property, plant and equipment under construction.

Income tax 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. Deferred tax is also not recognised for taxable temporary differences on 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. Deferred tax assets are offset against deferred tax liabilities when an entity has a legal right to offset current tax assets and liabilities, and deferred tax assets and liabilities relate to the same taxable entity and the same tax authority.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits 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. 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 Company's segment reporting is based on its 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: the European Union (all countries of the European Union), South-East Europe (Serbia, Bosnia and Herzegovina, Macedonia, 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 following new and amended standards will be applied in future periods as required by IFRSs and the European Union. The Company is currently assessing the potential impact of the new and revised standards and interpretations that will be effective or adopted by the European Union on or after 1 January 2014.

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.

IAS 28 – *Investments in Associates and Joint Ventures (Revised)*

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. Revised standard has no significant impact on the Company's financial position or performance.

IAS 32 – *Financial Instruments: Presentation (Amended) – Offsetting Financial Assets and Financial Liabilities*

In December 2011, IASB issued an amendment to IAS 32, which is intended to clarify existing application issues relating to the offsetting rules and reduce level of diversity in current practice. The amendment is effective for annual periods beginning on or after 1 January 2014. The amendments clarify that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The IAS 32 offsetting criteria require the reporting entity to intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The amendment clarifies that only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement and, therefore, meet the net settlement criterion.

The Company does not expect the amendment will have an impact on its financial statements.

IAS 36 – *Impairment of Assets (Recoverable Amount Disclosure for Non-Financial Assets)*

The amendment clarifies the disclosure requirements in respect of fair value less costs of disposal. When IAS 36 Impairment of Assets was originally changed as a consequence of IFRS 13, the IASB intended to require disclosure of information about the recoverable amount of impaired assets if that amount was based on fair value less costs to sell. An unintended consequence of the amendments was that an entity would be required to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit was significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. This requirement has been deleted by the amendment.

In addition, the IASB added two disclosure requirements:

- additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal; and
- information about the discount rates that have been used when the recoverable amount is based on fair value less costs of disposal using a present value technique. The amendment harmonises disclosure requirements between value in use and fair value less costs of disposal.

The amendment is effective for financial statements beginning on or after 1 January 2014. The Company does not expect the amendment will have an impact on its financial statements.

IAS 39 – *Financial Instruments: Recognition and Measurement (Novation of Derivatives and Continuation of Hedge Accounting)*

The amendment provides an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument.

The amendment covers novations:

- that arise as a consequence of laws or regulations, or the introduction of laws or regulations;
- where the parties to the hedging instrument agree that one or more clearing counterparties replace the original counterparty to become the new counterparty to each of the parties; and
- that did not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing.

All of the above criteria must be met to continue hedge accounting under this exception. The amendments cover novations to central counterparties, as well as to intermediaries such as clearing members, or clients of the latter that are themselves intermediaries. For novations that do not meet the criteria for the exception, entities have to assess the changes to the hedging instrument against the derecognition criteria for financial instruments and the general conditions for continuation of hedge accounting.

The amendment is effective for financial periods beginning on or after 1 January 2014. The Company does not expect the amendment will have an impact on its financial statements.

IFRS 9 – *Financial Instruments – Classification and Measurement*

The IFRS 9 was originally issued in November 2009, and is intended to replace IAS 39 Financial Instruments: Recognition and Measurement The standard introduces new requirements for classifying and measuring financial assets and liabilities. In October 2010 the IASB added to IFRS 9 the requirements for classification and measurement of financial liabilities and derecognition of financial assets and liabilities. Most of the requirements in IAS 39 for classification and measurement of financial liabilities and derecognition of financial assets and liabilities were carried forward unchanged to IFRS 9. The standard eliminates categories of financial instruments currently existing in IAS 39: available-for-sale and held-to-maturity. According to IFRS 9 all financial assets and liabilities are initially recognised at fair value plus transaction costs.

Financial Assets

Debt instruments may, if the fair value option (FVO) is not invoked, be subsequently measured at amortised cost if:

- the asset is held within a business model that has the objective to hold the assets to collect the contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

All other debt instruments, where the above mentioned conditions are not met, are subsequently measured at fair value.

All equity investment financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity instruments held for trading must be measured at fair value through profit or loss. Entities have an irrevocable choice of recognising changes in fair value either in OCI or profit or loss by instrument for all other equity investment financial assets.

Financial Liabilities

For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

Hedge Accounting

A new chapter on hedge accounting has been added to IFRS 9. This represents a major overhaul of hedge accounting and puts in place a new model that introduces significant improvements principally by aligning the accounting more closely with risk management. There are also improvements to the disclosures about hedge accounting and risk management.

The standard does not currently indicate the mandatory effective date. The IASB decided to defer the mandatory effective date of IFRS 9 until the date of the completed version of IFRS 9 is known. The standard has not yet been endorsed by the EU.

The adoption of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets and liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture of its effects on the consolidated financial statements.

IFRS 10 – *Consolidated Financial Statements*

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation - Special Purpose Entities, which resulted in SIC-12 being withdrawn. IAS 27, as revised, is limited to the accounting for investments in subsidiaries, joint ventures, and associates in separate financial statements.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 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 changes definition of control, which exists when an investor has:

- power over the investee (defined in IFRS 10 as when the investor has existing rights that give it the current ability to direct the relevant activities);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

This standard is effective for annual periods beginning on or after 1 January 2013. The endorsement process within EU adopted the standard and decided that the standard should be applied, at the latest, as from the commencement date of a financial year starting on or after 1 January 2014.

The Company does not expect the amendment will have a significant impact on its existing interests in companies.

IFRS 11 – *Joint Arrangements*

IFRS 11 replaces IAS 31: Interest in Joint Ventures and SIC 13 Jointly-controlled Entities – Non-monetary Contributions by Venturers.

Joint control under IFRS 11 is defined as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. 'Control' in 'joint control' refers to the definition of 'control' in IFRS 10. IFRS 11 also changes the accounting for joint arrangements by moving from three categories under IAS 31 to the following two categories:

- joint operation - An arrangement in which the parties with joint control have rights to the assets and obligations for the liabilities relating to that arrangement. In respect of its interest in a joint operation, a joint operator must recognise all of its assets, liabilities, revenues and expenses, including its relative share of jointly controlled assets, liabilities, revenue and expenses; and
- joint venture - An arrangement in which the parties with joint control have rights to the net assets of the arrangement. Joint ventures are accounted for under the equity method. The option in IAS 31 to account for joint ventures (as defined in IFRS 11) using proportionate consolidation has been removed.

Under these new categories, the structure of the joint arrangement is not the only factor considered when classifying the joint arrangement as either a joint operation or a joint venture, which is a change from IAS 31. Under IFRS 11, parties are required to consider whether a separate vehicle exists and, if so, the legal form of the separate vehicle, the contractual terms and conditions, and other facts and circumstances.

This standard becomes effective for annual periods beginning on or after 1 January 2013. The endorsement process within EU adopted the standard and decided that the standard should be applied, at the latest, as from the commencement date of a financial year starting on or after 1 January 2014.

Krka does not expect the amendment will have a significant impact on its existing interests in companies.

IFRS 12 – *Disclosure of Involvement with Other Entities*

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Some of the more extensive qualitative and quantitative disclosures of IFRS 12 include: provision of summarised financial information for each subsidiary with a material non-controlling interest; description of significant judgments used by management in determining control, joint control and significant influence, and the type of joint arrangement (i.e. joint operation or joint venture); provision of summarised financial information for each individually material joint venture and associate; and description of the nature of the risks associated with an entity's interests in unconsolidated structured entities.

This standard becomes effective for annual periods beginning on or after 1 January 2013 and may affect the disclosures in the notes to financial statements. The endorsement process within EU adopted the standard and decided that the standard should be applied, at the latest, as from the commencement date of a financial year starting on or after 1 January 2014.

The standard affects presentation only and there is no impact on the Company's financial position or performance.

IFRIC 21 – *Levies*

The interpretation is applicable to all levies other than outflows that are within the scope of other standards (e.g. IAS 12) and fines or other penalties for breaches of legislation. Levies are defined in the interpretation as outflows of resources embodying economic benefits imposed by government on entities in accordance with legislation. The interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability is recognised before the specified minimum threshold is reached. The interpretation does not address the accounting for the debit side of the transaction that arises from recognising a liability to pay a levy. Entities look to other standards to decide whether the recognition of a liability to pay a levy would give rise to an asset or an expense under the relevant standards. The interpretation is effective for annual periods beginning on or after 1 January 2014.

The Company is currently assessing the impact that this interpretation could have on its financial position and performance.

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. Segment reporting

The Company reports in terms of certain geographical segments. Revenues generated by individual segments are presented in terms of customers' geographical location.

Segment reporting

	European Union		South-East Europe		East Europe		Other markets		Total	
EUR thousand	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Revenues	**642,138**	**657,692**	**45,922**	**50,927**	**388,884**	**295,612**	**39,395**	**31,049**	**1,116,339**	**1,035,280**
Revenues from reversal of provisions and other income	2,667	1,976	26	25	314	315	0	0	3,007	2,316
Operating expenses	-508,171	-539,284	-35,623	-37,827	-337,984	-275,910	-26,041	-23,193	-907,819	-876,214
Operating profit	**136,634**	**120,384**	**10,325**	**13,125**	**51,214**	**20,017**	**13,354**	**7,856**	**211,527**	**161,382**
Interest income	2,491	1,986	0	0	1,009	235	0	0	3,500	2,221
Interest expense	-1,511	-2,351	0	0	0	-212	0	0	-1,511	-2,563
Net financial result	**-280**	**14,875**	**30**	**-24**	**-23,515**	**30**	**114**	**-140**	**-23,651**	**14,741**
Income tax expense	-14,988	-16,044	-1,132	-1,749	-5,618	-2,668	-1,465	-1,047	-23,203	-21,508
Profit for the year	**121,366**	**119,215**	**9,223**	**11,352**	**22,081**	**17,379**	**12,003**	**6,669**	**164,673**	**154,615**
Investments	116,714	69,959	0	0	0	0	0	0	116,714	69,959
Depreciation	47,836	48,079	1,336	1,520	15,720	13,583	364	392	65,256	63,574
Amortisation	3,572	3,836	256	297	2,163	1,724	219	181	6,210	6,038
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Total assets	**1,242,625**	**1,168,936**	**35,407**	**38,206**	**412,873**	**348,820**	**10,330**	**10,623**	**1,701,235**	**1,566,285**
Total liabilities	**270,622**	**248,105**	**7,368**	**9,371**	**75,086**	**61,221**	**15,913**	**15,373**	**368,989**	**334,070**

As a result of Croatia's accession to the European Union, comparable data for 2012 has been adjusted accordingly.

5. Revenues

EUR thousand	2013	2012
Revenues from the sale of products	991,164	931,842
Revenues from the sale of services	3,494	1,665
Revenues from the sale of material and merchandise	121,681	101,773
Total revenues	**1,116,339**	**1,035,280**

6. Other income

EUR thousand	2013	2012
Deferred revenue reversal	749	708
Gain on sale of property, plant and equipment and intangible assets	178	427
Collected written-off receivables	177	46
Other income	1,903	1,135
Total other income	**3,007**	**2,316**

7. Costs by nature

EUR thousand	2013	2012
Cost of goods and material	316,298	290,493
Cost of services	314,827	297,064
Employee benefit cost	185,705	178,045
Depreciation	71,466	69,612
Inventory write-offs and allowances	10,936	6,704
Receivables impairment and write-offs	2,566	4,353
Other expenses	19,480	28,357
Total costs	**921,278**	**874,628**
Change in inventories of products and work in progress	-13,459	1,586
Total	**907,819**	**876,214**

8. Employee benefit cost

EUR thousand	2013	2012
Gross wages and salaries and continued pay	144,787	139,174
Social security contributions	10,774	10,400
Pension insurance contributions	18,483	17,634
Post-employment benefits and other non-current employee benefits	3,304	3,233
Other employee benefits cost	8,357	7,604
Total employee benefits cost	**185,705**	**178,045**

The item of post-employment and other non-current employee benefits refers to the reversal of related provisions as explained in Note 24.

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 2013 amounted to EUR 35,039 thousand (2012: EUR 33,749 thousand). Additional pension insurance amounted to EUR 5,251 thousand (2012: EUR 4,873 thousand).

9. Other expenses

EUR thousand	2013	2012
Grants and assistance for humanitarian and other purposes	1,302	1,641
Environmental levies	2,086	2,207
Other taxes and levies	12,833	20,907
Loss on sale of property, plant and equipment and intangible assets	1,572	724
Other costs	1,687	2,878
Total other expenses	**19,480**	**28,357**

10. Financial income and expenses

EUR thousand	2013	2012
Net foreign exchange differences	0	5,344
Interest income	3,500	2,221
Change in fair value of investments through profit or loss	113	78
Derivatives income	0	102
Income from dividends and other shares of the profit	1,703	14,686
Total financial income	**5,316**	**22,431**
Net foreign exchange differences	-27,284	0
Interest expense	-1,511	-2,563
Change in fair value of investments through profit or loss	0	-3
Derivatives expense	0	-4,987
Other expenses	-172	-137
Total financial expenses	**-28,967**	**-7,690**
Net financial result	**-23,651**	**14,741**

11. Income tax expense

Adjustment to effective tax rate

EUR thousand	2013	2012
Income tax	22,179	19,918
Deferred tax	1,024	1,590
Total income tax	**23,203**	**21,508**
Profit before tax	187,876	176,123
Income tax at the rate of 17-percent (2012: 18-percent tax rate)	31,939	31,702
Tax exempt expenses	1,853	1,764
Tax incentives	-11,093	-11,349
Revenues decreasing the tax base	-440	-2,467
Effect of changed tax rate on deferred taxes	944	1,858
Total income tax	**23,203**	**21,508**
Effective tax rate	**12.4%**	**12.2%**

Major share of tax incentives represent investments in R&D and investment relief.

In the next three years the tax rate is expected to remain at 17-percent.

12. Property, plant and equipment

EUR thousand	31 Dec 2013	31 Dec 2012
Property	19,348	19,020
Plant	206,786	218,714
Equipment	222,865	235,022
Property, plant and equipment being acquired	114,979	46,463
Total property, plant and equipment	**563,978**	**519,219**

The Company's largest investments in 2013, in the amount of EUR 45,475 thousand refers to the construction of the Notol 2 plant (2012: EUR 10,572 thousand). EUR 31,962 thousand was invested in the construction of the Sinteza 1 Plant in Krško for the production of active pharmaceutical ingredients (2012: EUR 4,309 thousand); EUR 1,660 thousand was spent on the construction of the Plant for production of solid pharmaceutical forms (2012: EUR 11,410 thousand); EUR 1,158 thousand was invested in the construction of an extension to the administrative headquarters (this is a new project, therefore no figures are available for 2012); EUR 905 thousand was spent on the sterile products production expansion (2012: EUR 8,928 thousand); and EUR 898 thousand on the reconstruction of the laboratory in the Plant at Bršljin (this is a new project, therefore no figures are available for 2012). A total of EUR 5,130 thousand was spent on various projects in the area of information technology and telecommunications (2012: EUR 3,486 thousand).

Movement of property, plant and equipment (PPE)

EUR thousand	Property	Plant	Equipment	PPE being acquired	Total
Cost					
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 being acquired	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**
Balance at 1 Jan 2013	**19,020**	**418,102**	**618,431**	**46,463**	**1,102,016**
Additions	0	0	0	112,053	112,053
Capitalisation – transfer from PPE being acquired	397	5,524	37,013	-42,934	0
Disposals, deficit, surplus	-69	-1,077	-15,211	-603	-16,960
Transfers within PPE	0	-22	61	0	39
Balance at 31 Dec 2013	**19,348**	**422,527**	**640,294**	**114,979**	**1,197,148**
Accumulated depreciation					
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**
Balance at 1 Jan 2013	**0**	**-199,388**	**-383,409**	**0**	**-582,797**
Depreciation	0	-17,110	-48,146	0	-65,256
Disposals, deficit, surplus	0	755	14,167	0	14,922
Transfers within PPE	0	2	-41	0	-39
Balance at 31 Dec 2013	**0**	**-215,741**	**-417,429**	**0**	**-633,170**
Carrying amount					
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**
Balance at 1 Jan 2013	**19,020**	**218,714**	**235,022**	**46,463**	**519,219**
Balance at 31 Dec 2013	**19,348**	**206,786**	**222,865**	**114,979**	**563,978**

No borrowing costs were attributed to the items of property, plant and equipment in 2013.

The carrying amount of items of property, plant and equipment, which are temporarily not used, amounted to EUR 2,911 thousand at 31 December 2013 (2012: EUR 2,836 thousand).

53% of total property, plant and equipment, which were used as at 31 December 2013, were fully depreciated (2012: 51%).

13. Intangible assets

EUR thousand	31 Dec 2013	31 Dec 2012
Concessions, patents, licences and similar rights	23,334	25,671
Intangible assets being acquired	4,969	4,237
Total intangible assets	**28,303**	**29,908**

Intangible assets refer to software and registration documentation for new pharmaceuticals.

Movement of intangible assets (IA)

EUR thousand	Concessions, patents, licences and similar rights	IA being acquired	Total
Cost			
Balance at 1 Jan 2012	**65,806**	**3,472**	**69,278**
Additions	0	6,340	6,340
Transfer from IA being acquired	5,575	-5,575	0
Disposals	-200	0	-200
Balance at 31 Dec 2012	**71,181**	**4,237**	**75,418**
Balance at 1 Jan 2013	**71,181**	**4,237**	**75,418**
Additions	0	4,661	4,661
Transfer from IA being acquired	3,929	-3,929	0
Disposals	-737	0	-737
Transfers, reclassification	-39	0	-39
Balance at 31 Dec 2013	**74,334**	**4,969**	**79,303**
Accumulated amortisation			
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**
Balance at 1 Jan 2013	**-45,510**	**0**	**-45,510**
Amortisation	-6,210	0	-6,210
Disposals	681	0	681
Transfers, reclassification	39	0	39
Balance at 31 Dec 2013	**-51,000**	**0**	**-51,000**
Carrying amount			
Balance at 1 Jan 2012	**26,182**	**3,472**	**29,654**
Balance at 31 Dec 2012	**25,671**	**4,237**	**29,908**
Balance at 1 Jan 2013	**25,671**	**4,237**	**29,908**
Balance at 31 Dec 2013	**23,334**	**4,969**	**28,303**

29% of total intangible assets in use as at 31 December 2013 were fully amortised (2012: 26%).

14. Investments in subsidiaries

Movement of investments in subsidiaries 2013

EUR thousand	Investments in subsidiaries
Cost at 1 Jan 2013	**259,455**
Establishment of new companies	10
Subsequent payments	1,642
Share capital increase	29,301
Refund of subsequent payments	-2,085
Balance at 31 Dec 2013	**288,323**
Net value at 1 Jan 2013	**259,455**
Net value at 31 Dec 2013	**288,323**

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**
Net value at 1 Jan 2012	**225,444**
Net value at 31 Dec 2012	**259,455**

The Company checks at least once a year whether there are any indicators of impairment of investments in subsidiaries. The fair value of investments that may be impaired determined as the present value of future cash flows is based on an estimate of expected cash flows from the cash-generating unit and on determination of the appropriate discount rate. The Company has found no need for impairment of non-financial assets as at 31 December 2013.

Investments in subsidiaries

EUR thousand	Share in equity	Share capital	Value of share	
	31 Dec 2013	31 Dec 2013	31 Dec 2013	31 Dec2012
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650	97,000	97,000
KRKA-RUS LLC Istra, Russian Federation	100%	73,059	93,416	64,116
TERME KRKA, d. o. o., Novo mesto, Slovenia	100%	14,753	45,407	45,407
KRKA-FARMA d. o. o., Zagreb, Croatia	100%	18,754	19,738	19,738
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	100%	4,210	18,697	18,697
KRKA France Eurl, Paris, France	100%	10	2,599	1,162
KRKA Pharma GmbH, Vienna, Austria	100%	37	2,344	2,344
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10	2,266	2,266
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	1	1,279	1,279
KRKA FARMACÉUTICA, S.L., Madrid, Spain	100%	10	1,260	1,260
KRKA Farmaceutici Milano, S.r.l., Milan, Italy	100%	10	1,010	805
Farma GRS, d. o. o., Novo mesto, Slovenia	99.7%	1,003	1,000	1,000
KRKA-FARMA DOOEL, Skopje, Macedonia	100%	792	802	802
KRKA Magyarország Kft, Budapest, Hungary	100%	151	733	918
KRKA FARMA LLC, Sergiev Posad, Russian Federation	100%	85	492	492
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10	110	610
KRKA Belgium, SA, Brussels, Belgium	95%	71	71	71
KRKA Sverige AB, Stockholm, Sweden	100%	17	16	16
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	100%	10	11	11
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	8	10	10
KRKA Bulgaria EOOD, Sofia, Bulgaria	100%	10	10	0
KRKA FARMA d.o.o., Sarajevo, Bosnia and Herzegovina	100%	10	10	10
UAB KRKA Lietuva, Vilnius, Lithuania	100%	10	10	10
SIA KRKA Latvija, Riga, Latvia	100%	10	10	10
KRKA UKRAINE LLC, Kiev, Ukraine	100%	9	9	9
KRKA USA LLC, Wilmington, USA	100%	7	8	8
KRKA ČR, s. r. o., Prague, Czech Republic	100%	4	4	1,403
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1	1	1
Total			**288,323**	**259,455**

The subsidiary Terme Krka held 63.10-percent interest in Golf Grad Otočec, d. o. o., at 31 December 2013; Farma GRS held 100%-percent interest in its subsidiaries GRS Vizfarma, d. o. o., and GRS Tehfarma, d. o. o.; and subsidiary KRKA France Eurl held a 5-percent interest in subsidiary KRKA Belgium, SA.

15. Loans

EUR thousand	31 Dec 2013	31 Dec 2012
Non-current loans	**31,009**	**32,837**
– loans to subsidiaries	25,533	27,744
– loans to others	5,476	5,093
Current loans	**72,492**	**65,305**
– portion of non-current borrowings maturing next year	2,290	1,307
– loans to subsidiaries	50,744	53,550
– loans to others	19,011	10,043
– current interest receivable	447	405
Total loans	**103,501**	**98,142**

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 Krka. 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 2013, the interest rate ranged between 1.220% and 1.432%. The maximum repayment period is 15 years.

Loans granted to subsidiaries including related current interest receivable

EUR thousand	31 Dec 2013	31 Dec 2012
Non-current loans to subsidiaries	**25,767**	**27,931**
KRKA-RUS LLC Istra, Russian Federation	20,071	0
KRKA UKRAINE LLC, Kiev, Ukraine	1,509	1,509
KRKA ROMANIA S.R.L., Bucharest, Romania	1,488	1,968
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	1,013	846
KRKA Farmaceutici Milano, S.r.l., Milan, Italy	877	0
KRKA Bulgaria EOOD, Sofia, Bulgaria	500	0
SIA KRKA Latvija, Riga, Latvia	300	300
UAB KRKA Lietuva, Vilnius, Lithuania	9	829
KRKA FARMA LLC, Sergiev Posad, Russian Federation	0	22,479
Current loans to subsidiaries	**52,237**	**54,209**
TERME KRKA, d. o. o., Novo mesto, Slovenia	39,285	41,924
Farma GRS, d. o. o., Novo mesto, Slovenia	11,621	11,803
UAB KRKA Lietuva, Vilnius, Lithuania	820	0
KRKA ROMANIA S.R.L., Bucharest, Romania	480	480
KRKA Bulgaria EOOD, Sofija, Bulgaria	31	0
GRS TEHFARMA, d. o. o., Novo mesto, Slovenia	0	2
Total loans to subsidiaries	**78,004**	**82,140**

16. Investments

EUR thousand	31 Dec 2013	31 Dec 2012
Non-current investments	**5,022**	**4,891**
– available-for-sale financial assets	5,022	4,891
Current investments including derivatives	**792**	**679**
– shares and interests held for trading	131	103
– other current investments	661	576
Total investments	**5,814**	**5,570**

EUR 640 thousand of available-for-sale financial assets refer to investments in shares and interests in companies in Slovenia (2012: EUR 654 thousand), and EUR 4,382 thousand to investments in shares of companies abroad (2012: EUR 4,237 thousand).

Other current investments refer to Slovenian mutual funds in the amount of EUR 351 thousand (2012: EUR 302 thousand) and assets under management in the amount of EUR 310 thousand (2012: EUR 274 thousand).

Movement in available-for-sale financial assets

EUR thousand	Available-for-sale financial assets
Balance at 1 Jan 2012	**4,735**
Purchase	50
Disposal	0
Adjustment to market value	106
Balance at 31 Dec 2012	**4,891**
Balance at 1 Jan 2013	**4,891**
Purchase	0
Disposal	0
Adjustment to market value	131
Balance at 31 Dec 2013	**5,022**

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 131 thousand in 2013 (2012: EUR 106 thousand). Adjustments are not recognised in the profit or loss.

17. Deferred tax assets and liabilities

EUR thousand	Assets		Liabilities		Assets - liabilities	
	2013	2012	2013	2012	2013	2012
Available-for-sale financial assets	17	187	368	367	-351	-180
Receivables	1,863	1,679	0	0	1,863	1,679
Provisions for lawsuits	8,330	8,820	0	0	8,330	8,820
Provisions for post-employment and other non-current employee benefits	5,325	6,301	0	0	5,325	6,301
Total	**15,535**	**16,987**	**368**	**367**	**15,167**	**16,620**
Offset	**-368**	**0**	**-368**	**0**	**0**	**0**
Net	**15,167**	**16,987**	**0**	**367**	**15,167**	**16,620**

EUR thousand	Balance at 1 Jan 2012	Recognised in profit or loss	Recognised in compre-hensive income	Balance at 31 Dec 2012	Recognised in profit or loss	Recognised in compre-hensive income	Balance at 31 Dec 2013
Available-for-sale financial assets	**-366**	167	19	**-180**	**-169**	-2	**-351**
Receivables	**1,230**	449	0	**1,679**	**184**	0	**1,863**
Provisions for lawsuits	**9,800**	-980	0	**8,820**	**-490**	0	**8,330**
Provisions for post-employment and other non-current benefits	**7,527**	-1,226	0	**6,301**	**-549**	-427	**5,325**
Total	**18,191**	**-1,590**	**19**	**16,620**	**-1,024**	**-429**	**15,167**

18. Inventories

EUR thousand	31 Dec 2013	31 Dec 2012
Material	85,272	88,138
Work in progress	55,192	45,085
Products	45,450	50,650
Merchandise	5,021	6,399
Inventory advances	33	283
Total inventories	**190,968**	**190,555**

The write-down of inventories to net realisable value amounted to EUR 4,984 thousand (2012: EUR 234 thousand), whereas write-offs of inventory totalled EUR 5,952 thousand (2012: EUR 6,470 thousand).

19. Trade and other receivables

EUR thousand	31 Dec 2013	31 Dec 2012
Current receivables due from subsidiaries	225,363	226,858
Current trade receivables due from customers other than subsidiaries	200,832	185,998
Current receivables relating to dividends of subsidiaries	0	1,008
Other current receivables	15,424	19,071
Total receivables	**441,619**	**432,935**

Current receivables due from subsidiaries

EUR thousand	31 Dec 2013	31 Dec 2012
KRKA-RUS LLC Istra, Russian Federation	80,064	95,502
KRKA FARMA LLC, Sergiev Posad, Russian Federation	67,902	53,780
KRKA-FARMA d. o. o., Zagreb, Croatia	24,330	24,966
TAD Pharma Gmbh, Cuxhaven, Germany	8,436	11,662
KRKA-FARMA DOOEL, Skopje, Macedonia	7,832	6,584
KRKA Sverige AB, Stockholm, Sweden	7,761	6,154
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	6,665	11,412
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	6,606	9,787
KRKA FARMACÉUTICA, S.L., Madrid, Spain	5,015	867
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	3,321	1,064
KRKA France Eurl, Paris, France	2,381	700
KRKA Pharma GmbH, Vienna, Austria	1,484	1,415
KRKA Farmaceutici Milano, S.r.l., Milan, Italy	1,437	931
KRKA UKRAINE LLC, Kiev, Ukraine	1,411	1,483
Receivables due from other subsidiaries	718	551
Total current receivables due from subsidiaries	**225,363**	**226,858**

Current trade receivables due from customers other than subsidiaries

EUR thousand	Gross value	Allowances for doubtful and disputed receivables	Net value at 31 Dec 2013	Net value at 31 Dec 2012
Domestic customers	9,274	62	9,212	10,942
Foreign customers	207,083	15,463	191,620	175,056
Total trade receivables	**216,357**	**15,525**	**200,832**	**185,998**

The receivable write-offs and allowances for receivables that are disclosed among financial expenses amounted to EUR 2,566 thousand in 2013 (2012: EUR 4,353 thousand).

71% of trade receivables due from customers (other than subsidiaries) were secured with the SID - Prva kreditna zavarovalnica, d. d. (2012: 41%).

Other current receivables

Other current receivables in the total amount of EUR 15,424 thousand refer mostly to receivables due by the state arising from VAT credits in the amount of EUR 12,137 thousand.

The Company recorded EUR 334 thousand of advances for services (2012: EUR 870 thousand).

20. Cash and cash equivalents

EUR thousand	31 Dec 2013	31 Dec 2012
Cash in hand and cheques	4	7
Bank balances	49,413	13,362
Total cash and cash equivalents	**49,417**	**13,369**

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 2012.

No negative balances were recorded on these bank accounts as at 31 December 2013, hence no overdraft limits were used.

21. Equity

Share capital

Share capital of the Company consists of 35,426,120 ordinary registered no-par value shares. There is solely one class of shares, whereas the first and only issue of shares was carried out in 1995. The share capital was fully paid.

Treasury shares

As at 31 December 2013, the Company recorded 2,561,005 treasury shares, which accounts for 7.23% 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, under the condition that the combined share of all treasury shares acquired and already held, did 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. 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.

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 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; and
- to be used for listing of Krka shares on stock exchange markets outside the Republic of Slovenia.

Repurchase of treasury shares in 2013

EUR thousand	Number of shares	Weighted average share price (in EUR)	Value of shares (in EUR thousand)
Balance at 31 Dec 2012	**2,304,314**		**55,656**
Total purchases in 2013	256,691	53.43	13,716
Balance at 31 Dec 2013	**2,561,005**		**69,372**

The repurchases of treasury shares in 2013 refer to repurchases that were recorded in books of accounts in 2013. Due to the delay in recording, the number of shares differs from the actual repurchased number of shares in 2013, which was announced by the Company on the Ljubljana Stock Exchange website.

The 2013 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, fair value reserve.

Reserves for treasury shares amounted to EUR 69,372 thousand as at the reporting date and increased by EUR 13,716 thousand based on their formation as a result of additional repurchase of treasury shares.

The share premium is to be used under the terms and purposes defined by the applicable act. The share premium was recorded at EUR 101,503 thousand as at 31 December 2013 and consisted 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 2013.

Legal reserves are to be formed up to 30% of the share capital. They amounted to EUR 14,990 thousand as at 31 December 2013 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 and post-employment benefits. Compared to the previous period, the fair value reserve increased by EUR 2,214 thousand and amounted to EUR 3,881 thousand as at 31 December 2013. The total change results from an increase in the fair value of available-for-sale financial assets (by EUR 131 thousand) and a reduction of EUR 2 thousand referring to the related deferred tax effect; recalculation of post-employment benefits by EUR 2,512 thousand, and a decrease of EUR 427 thousand referring to the related deferred tax effect.

Retained earnings

Retained earnings grew based on the profit in the amount of EUR 164,773 thousand. The decrease, on the other hand, is a result of allocation of accumulated profit to dividend payout (EUR 53,140 thousand) in accordance with the resolution adopted by the 18th Annual Meeting held on 4 July 2013, and of an additional formation of reserves for treasury shares by the controlling company in 2013 (EUR 13,716 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 145 thousand (2012: EUR 168 thousand).

Dividends per share

In 2013, the declared gross dividend per share was EUR 1.61 (2012: EUR 1.50).

Distributable profit

EUR thousand	2013	2012
Compulsory appropriation of profit		
Profit for the year	**164,673**	**154,615**
– to cover the loss from previous periods	0	0
– allocation to legal reserves	0	0
– allocation to reserves for treasury shares	-13,716	-13,072
– allocation to statutory reserves	0	0
Profit after compulsory appropriation	**150,957**	**141,543**
Formation of other revenue reserves under the resolution of the Management and Supervisory Boards	-34,000	-25,000
Surplus of profit	**116,957**	**116,543**
Identification of distributable profit		
– surplus of profit	116,957	116,543
– retained earnings from previous periods	62,396	61,388
Distributable profit	**179,353**	**177,931**

22. Earnings per share

Basic earnings per share amounted to EUR 4.99 in 2013 and increased by 7.3% over the previous year, when it amounted to EUR 4.65. The calculation of earnings per share took account of the profit for the period in the amount of EUR 164,673 thousand (2012: EUR 154,615 thousand). The weighted average number of shares was accounted for in the calculation for both years, i.e. 33,002,621 shares for 2013 and 33,285,030 shares for 2012. 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.

23. Borrowings

EUR thousand	31 Dec 2013	31 Dec 2012
Non-current borrowings	**2,000**	**13,700**
– borrowings from subsidiaries	2,000	800
– borrowings from domestic banks	0	12,900
Current borrowings	**70,190**	**58,917**
– portion of non-current borrowings maturing next year	0	12,600
– borrowings from subsidiaries	70,097	45,463
– borrowings from other entities	0	375
– current interest payable	93	479
Total borrowings	**72,190**	**72,617**

Non-current borrowings

		Carrying amount	
EUR thousand	Currency	31 Dec 2013	31 Dec 2013
Borrowings from domestic bank	EUR	0	13,500
Borrowings from domestic bank	EUR	0	12,000
Total non-current borrowings		**0**	**25,500**

Borrowings from subsidiaries, including short-term interest payables

EUR thousand	31 Dec 2013	31 Dec 2012
Non-current borrowings from subsidiaries	**2,000**	**800**
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	2,000	800
Current borrowings from subsidiaries	**70,190**	**45,563**
TAD Pharma GmbH, Cuxhaven, Germany	70,093	45,099
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	50	361
TERME KRKA, d. o. o., Novo mesto, Slovenia	47	103
Total borrowings from subsidiaries	**72,190**	**46,363**

Current borrowings are denominated in euro and were extended for the period of one year. These borrowings were not secured.

24. Provisions

EUR thousand	Balance at 31 Dec 2012	Formation	Utilisation	Reversal	Balance at 31 Dec 2013
Obligations for post-employment and other non-current employee benefits	47,491	3,492	-2,820	-2,699	45,464
Provisions for lawsuits	49,000	0	0	0	49,000
Total provisions	**96,491**	**3,492**	**-2,820**	**-2,699**	**94,464**

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 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 aforementioned lawsuits referring to intellectual property, another 7 lawsuits are in progress against Krka totalling EUR 10,250 thousand, as well as 6 lawsuits referring to other areas (labour legislation, civil lawsuits) totalling EUR 26 thousand.

Provisions for post-employment and other non-current employee benefits are based on a calculation performed by a certified actuary and they were accounted for under following assumptions:

- discount rate of 5.00% in the reporting period referring to the 10-year government (Republic of Slovenia) bond yield as per 31 December 2013 (2012: 5.42%);
- 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; and
- increase in wages by 1.80% (2012: 2.55%).

Post-employment and other non-current employee benefits

EUR thousand	2013	2012
Balance at 1 Jan	**36,093**	**37,837**
Current service cost	1,506	1,497
Interest cost	1,985	1,792
Post-employment benefits paid	-1,927	-3,477
Actuarial changes	-2,511	-1,556
Balance at 31 Dec	**35,146**	**36,093**

Sensitivity analysis

	Discount rate		Salary increase		Staff turnover	
Change in	Percentage point		Percentage point		Percentage	
Change by	0.5	-0.5	0.5	-0.5	10 %	-10 %
Impact on obligation (EUR thousand)	-2,001	2,187	2,242	-2,067	-145	147

25. Deferred revenue

EUR thousand	Balance at 31 Dec 2012	New deferred revenue received	Deferred revenue reversal	Balance at 31 Dec 2013
Grants received for the Beta production plant in Šentjernej	37	0	-37	0
Grants by the European Regional Development Fund	17	0	-4	13
Grants by the European Fund – development of new technologies (FBD project)	731	0	-98	633
Property, plant and equipment received for free	565	1	-13	553
Emission coupons	22	0	-22	0
Other deferred revenue	1,380	310	-575	1,115
Total deferred revenue	**2,752**	**311**	**-749**	**2,314**

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 2013	31 Dec 2012
Total payables to subsidiaries	58,218	41,571
Payables to domestic suppliers	48,313	32,479
Payables to foreign suppliers	35,613	42,710
Payables from advances	3,777	1,736
Total trade payables	**145,921**	**118,496**

Total payables to subsidiaries

EUR thousand	31 Dec 2013	31 Dec 2012
KRKA FARMA LLC, Sergiev Posad, Russian Federation	14,102	8,960
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	11,504	9,117
KRKA-FARMA d. o. o., Zagreb, Croatia	6,860	3,174
KRKA UKRAINE LLC, Kiev, Ukraine	4,883	2,950
KRKA ROMANIA S.R.L., Bucharest, Romania	4,269	4,046
Farma GRS, d. o. o., Novo mesto, Slovenia	3,095	1,590
KRKA Magyarország Kft, Budapest, Hungary	2,645	1,939
TAD Pharma Gmbh, Cuxhaven, Germany	2,487	2,039
KRKA ČR, s. r. o., Prague, Czech Republic	2,304	3,475
KRKA Slovensko, s.r.o., Bratislava, Slovakia	1,300	1,547
UAB KRKA Lietuva, Vilnius, Lithuania	975	843
KRKA-RUS LLC Istra, Russian Federation	824	54
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	639	464
KRKA France Eurl, Paris, France	546	172
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	434	313
KRKA-FARMA DOOEL, Skopje, Macedonia	391	365
KRKA Farmaceutici Milano, S.r.l., Milan, Italy	275	33
KRKA Pharma GmbH, Vienna, Austria	249	268
KRKA Bulgaria EOOD, Sofia, Bulgaria	164	0
KRKA FARMACÉUTICA, S.L., Madrid, Spain	87	4
TERME KRKA, d. o. o., Novo mesto, Slovenia	68	78
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	34	50
GRS TEHFARMA, d. o. o, Novo mesto	22	12
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	20	39
GRS VIZFARMA, d. o. o, Novo mesto, Slovenia	16	9
KRKA FARMA d.o.o., Sarajevo, Bosnia and Herzegovina	12	18
KRKA Sverige AB, Stockholm, Sweden	11	10
KRKA USA LLC, Wilmington, USA	2	2
Total payables to subsidiaries	**58,218**	**41,571**

27. Other current liabilities

EUR thousand	31 Dec 2013	31 Dec2012
Accrued contractual discounts on products sold	17,192	12,373
Payables relating to unpaid equity of subsidiaries	258	258
Payables to employees – gross wages, other receipts and charges	24,660	25,612
Other	7,167	5,104
Total other current liabilities	**49,277**	**43,347**

28. Contingent liabilities and commitments

EUR thousand	31 Dec 2013	31 Dec 2012
Guarantees issued	21,734	19,273
Other	620	620
Total contingent liabilities	**22,354**	**19,893**

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 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 2,500 thousand. The item 'Other' includes the affected property in Serbia in the amount of EUR 620 thousand.

The Company set aside provision in the amount of EUR 47,500 thousand for potential liabilities related to proceedings by the European Commission against the Company regarding the alleged violation of the competition law. In addition, 8 lawsuits were lodged against Krka referring to intellectual property, and further 6 referring to other areas (labour law and civil lawsuits) totalling EUR 14,976 thousand. Based on in-depth knowledge of the content of these proceedings and legal opinions of external experts, the Management Board has assessed potential liabilities relating to these proceedings at EUR 1,500 thousand and made the relevant amount of provisions.

Based on contracts agreed for projects currently in progress, at the end of 2013 the balance of known future liabilities for acquisition of property, plant and equipment totalled EUR 116,385 thousand (2012: EUR 88,712 thousand).

Operating lease

EUR thousand	31 Dec 2013	31 Dec 2012
Up to 1 year	1,107	945
1–5 years	1,162	1,029
More than 5 years	111	172
Total lease payable	**2,380**	**2,146**

Lease contracts with terms in excess of 5 years refer to lease of real estate (primarily business premises), whereas lease contracts for a period of up to one year and from 1 to 5 years refer also to lease of equipment.

29. Financial instruments and financial risks

Long-term stability of the Company's performance is managed by means of active risk management policies. Due to the extensive scope of international import and export business, the Company is primarily exposed to foreign exchange rate and credit risks.

Credit risk

The credit control procedure includes the credit rating of customers who on an annual basis purchase products from the controlling company and its subsidiaries 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. In 2013, Krka generated 10.8% share of total sales revenue from sales to its subsidiary Krka Farma, Russia.

Compared to the balance at the beginning of the year, at the end of 2013, the level of total receivables slightly increased. The two key reasons for the increase in trade receivables are growth and dynamics of sales. In the last quarter, Krka achieved significant growth in sales. At the end of the year under review, maturity structure of trade receivables remained within the levels, which are acceptable to Krka.

At the end of the year, 71% of trade receivables due from customers (other than subsidiaries) 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 Krka Company in 2013.

EXPOSURE TO CREDIT RISK

The largest exposure to credit risk as at the reporting date was noted with regard to carrying values of financial assets as follows:

EUR thousand	Notes	31 Dec 2013	31 Dec 2012
Loans	15	103,501	98,142
Financial investments	16	5,814	5,570
Receivables less amounts due from the state and advances	19	428,508	416,039
– of that trade receivables		426,195	412,856
Cash and cash equivalents	20	49,417	13,369
Total		**587,240**	**533,120**

Of total financial assets exposed to credit risk, loans and receivables present the largest items.

Loans by geographical region

EUR thousand	31 Dec 2013	31 Dec 2012
Slovenia	76,235	69,547
South-East Europe	2,534	2,492
East Europe	22,725	24,973
Central Europe	1,130	1,130
West Europe and Overseas Markets	877	0
Total	**103,501**	**98,142**

Receivables less amounts due from the state and advances by geographical region

EUR thousand	31 Dec 2013	31 Dec 2012
Slovenia	10,666	12,217
South-East Europe	94,915	95,251
East Europe	205,731	194,566
Central Europe	61,815	66,217
West Europe and Overseas Markets	55,381	47,788
Total	**428,508**	**416,039**

A total 71% of trade receivables due from customers other than subsidiaries were insured with the SID – Prva kreditna zavarovalnica, d. d., in 2013 (2012: 41%).

Maturity analysis of loans as at reporting date

EUR thousand	Gross 2013	Impairment 2013	Gross 2012	Impairment 2012
Not past due	103,496	0	98,133	2
Past due up to 20 days	3	0	0	0
Past due between 21 and 50 days	2	0	11	0
Past due between 51 and 180 days	0	0	0	0
Past due in excess of 180 days	41	41	46	46
Total	**103,542**	**41**	**98,190**	**48**

Maturity analysis of receivables less amounts due from the state and advances as at reporting date

EUR thousand	Gross 2013	Impairment 2013	Gross 2012	Impairment 2012
Not past due	403,252	2,977	377,394	700
Past due up to 20 days	8,580	45	10,158	44
Past due between 21 and 50 days	6,293	38	10,727	141
Past due between 51 and 180 days	7,179	11	12,542	74
Past due in excess of 180 days	18,728	12,453	18,500	12,323
Total	**444,032**	**15,524**	**429,321**	**13,282**

The Krka Company agrees on extended terms with some customers. If the Company did not extend payment terms to some of the customers, maturity structure would be as follows as at reporting date: EUR 399,849 thousand not past due, EUR 10,709 thousand past due up to 20 days, EUR 6,458 thousand past due between 21 and 50 days, EUR 8,288 thousand past due between 51 and 180 days and EUR 18,728 thousand past due in excess of 180 days.

Movements in loan impairments

EUR thousand	2013	2012
Balance at 1 Jan	**48**	**50**
Impairment reversal	-2	-2
Recovery of receivables written-off	-5	0
Balance at 31 Dec	**41**	**48**

Movements in receivable impairment less amounts due from the state and advances

EUR thousand	2013	2012
Balance at 1 Jan	**13,282**	**9,687**
Impairments	2,497	3,604
Receivables written-off and charged to impairments	-76	-1
Impairment reversal	-158	0
Recovery of receivables written-off	-14	-5
Effect of exchange rate differences	-7	-3
Balance at 31 Dec	**15,524**	**13,282**

Liquidity risk

Stable performance with no major fluctuations or deviations, investment financing with own assets, organic growth and a stable cash flow from operations continued to assure Krka's strong financial structure and thus low liquidity risk in 2013. As at the year-end, the Company had current borrowings raised from its subsidiaries.

Several safety measures were implemented in the area of payment transactions in the controlling entity, thus mitigating the risk of wide-spread attempts of e-banking abuse. Furthermore, we weighted risks of commercial banks including their interest rates for deposits and borrowings and accordingly in 2013 we revised our cooperation with selected banks. Increasing competition between banks and financial institutions enabled the Company to significantly reduce payment and documentary transaction costs with banks.

Krka has for several years shown stable and good liquidity ratios and is known among business partners as a partner with consistent payment discipline.

MATURITY OF FINANCIAL LIABILITIES

Financial liabilities in terms of maturity are outlined in the tables below.

Financial liabilities maturity as at 31 December 2013

		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	0	0	0	0	0	0
Other non-current borrowings	2,000	2,026	23	-271	2,274	0
Other current borrowings	70,190	70,347	70,297	50	0	0
Payables to suppliers	142,144	142,144	142,144	0	0	0
Total non-derivative financial liabilities	**214,334**	**214,516**	**212,463**	**-221**	**2,274**	**0**
Total derivative assets/liabilities	**0**	**0**	**0**	**0**	**0**	**0**
Total	**214,334**	**214,516**	**212,463**	**-221**	**2,274**	**0**

Financial liabilities maturity 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 suppliers	116,760	116,760	116,760	0	0	0
Total non-derivative financial liabilities	**189,377**	**190,276**	**169,061**	**7,177**	**13,229**	**809**
Total derivative assets/liabilities	**0**	**0**	**0**	**0**	**0**	**0**
Total	**189,377**	**190,276**	**169,061**	**7,177**	**13,229**	**809**

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 supplier payables.

Due to positive fluctuation of the key currencies in the first quarter, the Company recorded exchange rate gains. Uncertainties with regards to mitigation of the US Central Bank's expansionary monetary policy resulted in an exceptionally negative volatility of currencies on emerging markets. In the second quarter the Polish zloty lost 3.6% against the euro, whereas the Russian rouble recorded a 7.2% drop in its value. This resulted in the Company recording major exchange rate losses at the half-year mark.

In the second half of the year the Polish zloty again gained against the euro and thus neutralised majority of exchange rate losses from the first half of the year. In contrast, the Russian rouble continued its decline in value also in the second half of the year. Whilst the pressure of global factors on the value of the rouble decreased, there were several internal macroeconomic indicators that negatively impacted the value of the rouble, particularly gradual slowdown of economic growth and sluggish fall in inflation. Over the year, the Russian rouble lost as much as 11% of its value against the euro.

In comparison, other currencies had only a minor effect on total amount of exchange rate differences recorded by the Krka Company.

In 2013, no currency positions were hedged.

CURRENCY RISK EXPOSURE

	31 Dec 2013				
EUR thousand	EUR*	PLN	HRK	RUB	RON
Trade receivables	165,140	29,927	0	167,564	51,544
Borrowings from banks	-72,190	0	0	0	0
Trade payables	-110,244	-11,506	-76	-14,952	-2,330
Financial position exposure (net)	**-17,294**	**18,421**	**-76**	**152,612**	**49,214**

** EUR is the functional currency and does not represent exposure to foreign currency risk.*

	31 Dec 2012				
EUR thousand	EUR*	PLN	HRK	RUB	RON
Trade receivables	146,362	35,324	0	170,158	49,189
Borrowings from banks	-72,617	0	0	0	0
Trade payables	-88,454	-9,122	-77	-8,965	-2,917
Financial position exposure (net)	**-14,709**	**26,203**	**-77**	**161,193**	**46,272**

** EUR is the functional currency and does not represent exposure to foreign currency risk.*

Significant foreign exchange rates

	Average exchange rate*		Final exchange rate*	
	2013	2012	2013	2012
PLN	4.20	4.18	4.15	4.07
HRK	7.58	7.52	7.63	6.56
RUB	42.33	39.93	45.32	40.33
RON	4.42	4.46	4.47	4.44

** 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 and equalled the exchange rate of the ECB effective on 31 December.

SENSITIVITY ANALYSIS

A 1% increase of the euro exchange rate in respect of currencies stated as at 31 December 2013 or 31 December 2012 would increase or decrease the pre-tax 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	2013	2012
PLN	-182	-259
HRK	1	1
RUB	-1,511	-1,596
RON	-487	-458

A 1% decrease of the euro value in respect of currencies stated as at 31 December 2013 or 31 December 2012 would have the same effect – but in reverse direction – provided that all other elements remained unchanged.

Interest rate risk

In 2013 Krka repaid all of its non-current borrowings. The reference interest rate changes no longer have a decisive impact on the Company's overall financial expenses.

EXPOSURE TO INTEREST RATE RISK

EUR thousand	2013	2012
Financial instruments at fixed interest rate	**-10,208**	**6,764**
Financial assets	61,842	53,402
Financial liabilities	-72,050	-46,638
Financial instruments at variable interest rate	**41,165**	**18,835**
Financial assets	41,212	44,335
Financial liabilities	-47	-25,500

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 2013 by EUR 412 thousand. Decrease/increase of the interest rate by 100 basis points would increase/decrease the profit or loss for 2012 by EUR 188 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 2013	31 Dec 2012
Non-current borrowings	2,000	26,300
– thereof current portion	0	12,600
Average balance of non-current borrowings	14,150	46,550
Interest paid in the financial year	440	1,475
Other expenses for non-current borrowings	0	0
Average effective cost of non-current borrowings (financial year)	3.11%	3.17%
Maturity of up to three years	100%	100%
Maturity in more than three years	0%	0%
Currency of non-current borrowings		
– EUR	100%	100%
Structure of non-current borrowings in terms of interest rates		
– variable	0%	94%
– fixed	100%	6%

Current borrowings

EUR thousand	31 Dec 2013	31 Dec 2012
Current borrowings inclusive of current portion of non-current borrowings	70,097	58,438
– from banks	0	12,600
– other	70,097	45,838
Current borrowings exclusive of current portion of non-current borrowings	70,097	45,838
Average balance of current borrowings (financial year)	57,968	32,011
Interest paid in the financial year	1,065	1,078
Other cost of raising current borrowings	15	10
Average effective cost of current borrowings (financial year)	1.86%	3.40%
Currency structure of current borrowings		
– EUR	100%	100%
Structure of current borrowings in terms of interest rates		
– variable	0%	0%
– fixed	100%	100%

Capital management

Share capital of the Company consists of 35,426,120 ordinary registered no-par value shares. There is solely one class of shares, whereas the first and only issue of shares was carried out in 1995. 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. The dividends are paid out on an annual basis. In accordance with the Krka Group Development Strategy for the Period 2014 to 2018 we will allocate for dividends up to 50% of the consolidated profit of major shareholders generated in the year before. When determining the dividend pay-out in a particular year, Company's financial requirements for investments and take-overs in that year will also be taken into consideration. The Company has no specific goals as regards the ownership share held by employees or share options plans.

There were no changes in the Company's approach to capital management in 2013 and 2012.

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 trade payables less cash and cash equivalents.

EUR thousand	31 Dec 2013	31 Dec 2012
Borrowings	72,190	72,617
Trade and other current liabilities	195,198	161,843
Cash and cash equivalents	-49,417	-13,369
Net indebtedness	**217,971**	**221,091**
Equity	1,332,246	1,232,215
Equity and net indebtedness	**1,550,217**	**1,453,306**
Gearing (debt/equity) ratio	**14.1%**	**15.2%**

Fair value

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; and
- level 3 – assets the value of which cannot be determined by using observable market data.

Fair value of assets

EUR thousand	31 Dec 2013				31 Dec 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at fair value								
Available-for-sale financial assets	3,657	0	1,365	5,022	3,526	0	1,365	4,891
Shares and interests held for trading	131	0	0	131	103	0	0	103
Other current investments (mutual funds and assets under management)	661	0	0	661	576	0	0	576
Total assets at fair value	**4,449**	**0**	**1,365**	**5,814**	**4,205**	**0**	**1,365**	**5,570**
Assets for which fair value is disclosed								
Non-current loans	0	0	31,009	31,009	0	0	32,837	32,837
Current loans	0	0	72,492	72,492	0	0	65,305	65,305
Trade and other receivables	0	0	441,619	441,619	0	0	432,935	432,935
Cash and cash equivalents	0	0	49,417	49,417	0	0	13,369	13,369
Total assets for which fair value is disclosed	**0**	**0**	**594,537**	**594,537**	**0**	**0**	**544,446**	**544,446**
Total	**4,449**	**0**	**595,902**	**600,351**	**4,205**	**0**	**545,811**	**550,016**

Fair value of liabilities

EUR thousand	31 Dec 2013				31 Dec 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities at fair value								
Total liabilities at fair value	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Liabilities for which fair value is disclosed								
Borrowings	0	0	72,190	72,190	0	0	72,617	72,617
Trade and other liabilities	0	0	200,021	200,021	0	0	161,843	161,843
Total liabilities for which fair value is disclosed	**0**	**0**	**272,211**	**272,211**	**0**	**0**	**234,460**	**234,460**
Total	**0**	**0**	**272,211**	**272,211**	**0**	**0**	**234,460**	**234,460**

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.

30. Related party transactions

Intragroup transactions

Transactions with subsidiaries in 2013 are presented below.

EUR thousand	Sales	Expenses	Borrowings	Loans
TERME KRKA, d. o. o., Novo mesto, Slovenia*	218	810	0	10,807
Farma GRS, d. o. o., Novo mesto, Slovenia**	308	12,431	0	12,868
KRKA-FARMA d. o. o., Zagreb, Croatia	56,120	37,078	0	0
KRKA ROMANIA S.R.L., Bucharest, Romania	1	18,096	0	0
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	7,179	2,329	0	0
KRKA-FARMA DOOEL, Skopje, Macedonia	13,222	1,282	0	0
KRKA FARMA d.o.o., Sarajevo, Bosnia and Herzegovina	4	212	0	0
KRKA Bulgaria EOOD, Sofia, Bulgaria	15	425	0	500
KRKA-RUS LLC Istra, Russian Federation	93,205	1,604	0	0
KRKA FARMA LLC, Sergiev Posad, Russian Federation	121,083	89,829	0	0
KRKA UKRAINE LLC, Kiev, Ukraine	132	16,129	0	0
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	1	4,495	0	171
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	26,436	37,631	0	0
KRKA ČR, s. r. o., Prague, Czech Republic	17	15,925	0	0
KRKA Magyarország Kft, Budapest, Hungary	0	12,855	0	0
KRKA Slovensko, s.r.o., Bratislava, Slovakia	0	6,939	0	0
UAB KRKA Lietuva, Vilnius, Lithuania	0	4,473	0	0
SIA KRKA Latvija, Riga, Latvia	1	2,385	0	0
TAD Pharma GmbH, Cuxhaven, Germany	26,657	11,196	240,500	0
KRKA Sverige AB, Stockholm, Sweden	21,903	76	0	0
KRKA Pharma GmbH, Vienna, Austria	1,332	1,558	0	0
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	7,405	432	1,200	0
KRKA FARMACÉUTICA, S.L., Madrid, Spain	13,082	758	0	0
KRKA Farmaceutici Milano, S.r.l., Milan, Italy	1,701	1,669	0	877
KRKA France Eurl, Paris, France	2,206	1,668	0	0
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	629	239	315	0
KRKA Belgium, SA, Brussels, Belgium	0	0	0	0
KRKA USA LLC, Wilmington, USA	0	9	0	0
Total	**392,857**	**282,533**	**242,015**	**25,223**

* *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 subsidiaries were based on sales contracts, which included the rendering of products and services at market prices.

Loans approved within the Group bear the annual interest rate that equals the contractually agreed rate set by the Minister of Finance in accordance with the Corporate Income Tax Act that defines the interest rate for related parties. In 2013, the interest rate ranged between 1.220% and 1.432%.

The balance of loans to subsidiaries is presented in Note 15, the balance of borrowings from subsidiaries is presented in Note 23, the balance of receivables due from subsidiaries is presented in Note 19 and the balance of short-term operating liabilities to subsidiaries is presented in Note 26.

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 0.113% of voting rights.

By the end of the year, present members of the Supervisory Board of the Company held 13,445 of Krka shares, i.e. 0.038% of total equity, or 0.041% 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 2013			31 Dec 2012		
	Number of shares	Equity share (in %)	Share of voting rights (in %)	Number of shares	Equity share (in %)	Share of voting rights (in %)
Members of the Management Board						
Jože Colarič	22,500	0.0635	0.0685	22,500	0.0635	0.0679
Aleš Rotar	12,770	0.0360	0.0389	12,770	0.036	0.0386
Zvezdana Bajc	1,660	0.0047	0.0051	1,660	0.0047	0.0050
Vinko Zupančič	120	0.0003	0.0004	120	0.0003	0.0004
Danica Novak Malnar	0	0	0	0	0	0
Total members of the Management Board	**37,050**	**0.1046**	**0.1127**	**37,050**	**0.1045**	**0.1119**
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	0.0351	11,543	0.0326	0.0349
Mojca Osolnik Videmšek	452	0.0013	0.0014	452	0.0013	0.0014
Matjaž Rakovec	0	0	0	400	0.0011	0.0012
Sergeja Slapničar	0	0	0	0	0	0
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	0	0	0	0
Total members of the Supervisory Board	**13,445**	**0.0380**	**0.0409**	**13,845**	**0.0391**	**0.0415**
Total	**50,495**	**0.1425**	**0.1536**	**50,895**	**0.1436**	**0.1524**

Treasury shares were eliminated from the calculation of voting rights (2,561,005 treasury shares as at 31 December 2013 and 2,307,739 as at 31 December 2012).

Gross remuneration paid to groups of persons

EUR thousand	2013	2012
Members of the Management Board	2,390	2,285
Members of the Supervisory Board	209	228
Total gross remuneration paid to groups of persons	**2,599**	**2,513**

In 2013, gross earnings paid to employees employed under individual employment contracts were recorded at EUR 14,303 thousand (2012: EUR 15,321 thousand).

Remuneration paid to members of the Management Board in 2013

EUR thousand	Salary - fixed part			Salary - variable part		Total	
	Gross	Net payout	Net bonuses and other earnings	Gross	Net	Gross	Net
Jože Colarič	362	146	8	407	159	769	313
Aleš Rotar	286	117	9	273	107	559	233
Zvezdana Bajc	262	105	10	247	97	509	212
Vinko Zupančič	211	86	12	194	76	405	174
Danica Novak Malnar	137	62	6	11	5	148	73
Total remuneration paid to members of the Management Board	**1,258**	**516**	**45**	**1,132**	**444**	**2,390**	**1,005**

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	4.15	2.82	0.10	0.04	0.58	7.69
Aleš Rotar	3.32	2.82	1.28	0.90	0.59	8.90
Zvezdana Bajc	3.32	2.82	2.22	1.00	0.59	9.95
Vinko Zupančič	3.33	2.82	4.05	0.74	0.61	11.54
Danica Novak Malnar	1.45	2.82	0.50	0.90	0.64	6.31
Total net bonuses and other earnings paid to members of the Management Board	**15.57**	**14.10**	**8.15**	**3.57**	**3.00**	**44.38**

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 paid to members of the Management Board	**18.90**	**13.78**	**13.89**	**3.41**	**3.18**	**53.16**

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 2013

	Basic pay for exercising the function		Attendance fees		Commuting allowances		Total	
EUR thousand	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Jože Lenič	23.25	18.02	3.19	2.47	0	0	26.44	20.49
Julijana Kristl	19.38	15.02	2.04	1.58	0.41	0.32	21.82	16.91
Vincenc Manček	19.38	15.02	2.31	1.79	0	0	21.69	16.81
Mojca Osolnik Videmšek	21.31	16.52	2.48	1.92	0.42	0.33	24.21	18.76
Matjaž Rakovec	20.93	16.22	1.54	1.19	0.24	0.18	22.70	17.60
Sergeja Slapničar	19.38	15.02	1.98	1.54	0.49	0.38	21.85	16.93
Franc Šašek	20.93	16.22	2.75	2.13	0	0	23.68	18.35
Tomaž Sever	19.38	15.02	2.75	2.13	0.42	0.33	22.54	17.47
Mateja Vrečer	21.31	16.52	2.31	1.79	0	0	23.62	18.31
Total remuneration paid to members of the Supervisory Board	**185.22**	**143.55**	**21.34**	**16.54**	**1.98**	**1.53**	**208.54**	**161.62**

In accordance with the resolution adopted at the 16th Annual Meeting held on 7 July 2011, members of the Supervisory Board receive an attendance fee for their participation in sessions, which for each individual Supervisory Board member 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 Chairman of the Supervisory Board is further entitled to an extra fee in the amount of 50% of the basic pay for exercising the function of a member of the Supervisory Board, whereas Vice-Chairman 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 which they are entitled to during their mandate. A monthly payment amounts to one twelfth of the aforesaid annual amounts. In every financial year, each member of the Supervisory Board Commission is entitled – regardless of the above-mentioned or the number of commissions he is a member of or presides over – to receive bonuses until the total amount of these bonuses reaches 50% of the basic pay for exercising the function for each Supervisory Board member taking into account the actual payouts on an annual level.

Loans to groups of persons

	Balance		Repayments	
EUR thousand	31 Dec 2013	31 Dec 2012	2013	2012
Members of the Management Board	4	5	1	1
Members of the Supervisory Board (employee representatives)	0	0	0	0
Total loans to groups of persons	**4**	**5**	**1**	**1**

As at 31 December 2013, loans granted to staff employed under individual employment contracts were recorded at EUR 97 thousand (2012: EUR 71 thousand). Repayments of loans to employees employed under individual employment contracts were in 2013 recorded at EUR 17 thousand (2012: EUR 25 thousand). The loans granted to the above-mentioned persons were used for housing purposes.

31. Educational structure of employees

	2013		2012	
	Headcount	Share (in %)	Headcount	Share (in %)
PhD	84	1.8	76	1.7
MSc	207	4.5	196	4.4
University education	1,316	28.6	1,273	28.6
Higher professional education	460	10.0	410	9.2
Vocational college education	207	4.5	198	4.5
Secondary school education	1,243	27.0	1,188	26.7
Skilled workers	1,037	22.5	1,043	23.4
Unskilled workers	53	1.2	64	1.4
Total (average for the period)	**4,607**	**100.0**	**4,448**	**100.0**

32. Transactions with the audit firm

The fee for the audit services performed in 2013 by the audit firm ERNST & YOUNG Revizija, poslovno svetovanje, d. o. o., amounted to EUR 129 thousand as did in 2012. In addition, the audit firm also provided translation of the 2012 Financial Report of Krka charging translation fee of EUR 3 thousand.

33. Events after the accounting period

Below is the presentation of events that took place between the end of 2013 and up to 31 March 2014:

- the uncertainty of business operations in the Ukrainian market has increased;
- in February 2014, Krka's subsidiary in Sweden, Krka Sverige AB, received the decision of the Appeal Court from Oslo on the dispute between AstraZeneca AB and Krka Sverige AB over the alleged infringement of patent right NO 307 378 protecting the special purity level of medicine containing the active substance esomeprazole. The Appeal Court from Oslo ruled that the subsidiary Krka Sverige had infringed the patent right. Krka Sverige was selling the product Esomeprazol Krka in Norway from October to December 2010, so it was ordered to compensate the company Astra Zeneca for lost profit and legal expenses in a total of approximately EUR 2 million. Krka has filed an appeal with the Supreme Court of Norway. The claimed liability is included in the consolidated accounting statements of the Krka Group for 2013;
- on 1 January 2014, Krka's five sales regions were complemented with another one. Our sixth sales region, Overseas Markets, aims to exploit the sales potential of the Middle East, Far East, Africa, and the Americas; and
- in the period from 2 January 2014 to 31 January 2014 (followed by the Close Period), we acquired 51,595 treasury shares in a total value of EUR 3,180,371.97. The holding currently totals 2,612,600 treasury shares (7.375% of all shares).

Independent Auditor's Report

Building a better working world

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the 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, 2013, and the income statement, statement of other 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.

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, 2013, 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 10, 2014

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Dunajska 111, Ljubljana

Lidija Šinkovec
Certified auditor

ENCLOSURE:

Repurchased treasury shares in 2013 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 2012	2,304,314		55,656								
Repurchases in 2013											
2 Jan 2013	3,425	50.58	173	19 April 2013	3,580	48.27	173	6 June 2013	1,779	51.67	92
4 Jan 2013	2,167	50.77	110	22 April 2013	3,700	47.59	176	7 June 2013	1,708	51.08	87
7 Jan 2013	2,052	51.97	107	23 April 2013	3,624	47.89	174	10 June 2013	998	50.71	51
8 Jan 2013	1,518	53.11	81	24 April 2013	2,025	48.29	98	11 June 2013	1,689	51.50	87
9 Jan 2013	5,148	54.26	279	25 April 2013	3,769	48.90	184	12 June 2013	763	50.81	39
10 Jan 2013	2,934	55.93	164	26 April 2013	1,123	48.55	55	13 June 2013	1,707	50.97	87
11 Jan 2013	6,123	54.87	336	29 April 2013	2,250	48.90	110	14 June 2013	1,764	50.38	89
14 Jan 2013	5,384	53.35	287	30 April 2013	2,857	48.76	139	17 June 2013	1,401	50.08	70
29 Jan 2013	3,079	53.19	164	3 May 2013	61	48.48	3	19 June 2013	1,270	51.03	65
30 Jan 2013	3,002	53.46	161	6 May 2013	2,053	49.83	102	20 June 2013	469	51.10	24
31 Jan 2013	3,096	53.09	164	22 May 2013	5	50.20	0	21 June 2013	1,605	51.50	83
1 Feb 2013	254	53.29	14	23 May 2013	1,740	50.68	88	24 June 2013	1,504	51.20	77
4 Feb 2013	774	53.44	41	24 May 2013	1,710	50.51	86	26 June 2013	1,529	51.55	79
5 Feb 2013	2,337	54.09	127	27 May 2013	204	50.09	10	30 July 2013	1,571	53.47	84
6 Feb 2013	2,867	54.56	157	28 May 2013	1,683	50.09	84	31 July 2013	1,268	53.09	67
7 Feb 2013	1,344	53.61	72	29 May 2013	424	50.32	21	1 Aug 2013	2,265	53.24	121
11 Feb 2013	1,601	53.28	85	30 May 2013	1,688	50.60	86	2 Aug 2013	2,352	54.49	128
12 Feb 2013	2,287	54.06	124	31 May 2013	1,712	50.60	87	5 Aug 2013	1,250	54.39	68
16 April 2013	3,603	47.75	172	3 June 2013	114	50.82	6	21 Aug 2013	553	53.26	30
17 April 2013	3,575	47.63	170	4 June 2013	1,511	50.96	77	22 Aug 2013	1,552	53.43	83
18 April 2013	3,587	47.63	171	5 June 2013	1,744	52.08	91	23 Aug 2013	49	53.94	3

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)
26 Aug 2013	1,405	54.09	76	1 Oct 2013	1,312	52.99	70	20 Nov 2013	1,533	57.35	88
27 Aug 2013	464	53.29	25	2 Oct 2013	2,303	53.49	123	21 Nov 2013	2,053	58.26	120
28 Aug 2013	56	53.20	3	3 Oct 2013	1,548	54.17	84	22 Nov 2013	2,157	59.03	127
29 Aug 2013	1,221	53.16	65	4 Oct 2013	2,546	53.59	136	25 Nov 2013	88	59.38	5
30 Aug 2013	1,239	53.00	66	7 Oct 2013	2,699	53.88	145	26 Nov 2013	1,430	60.10	86
2 Sept 2013	1,113	53.05	59	8 Oct 2013	2,512	53.09	133	28 Nov 2013	2,068	60.10	124
3 Sept 2013	1,194	52.10	62	9 Oct 2013	2,827	52.83	149	29 Nov 2013	888	60.05	53
4 Sept 2013	1,209	52.40	63	10 Oct 2013	2,625	52.74	138	30 Nov 2013	2,304	59.99	138
5 Sept 2013	1,436	52.58	76	11 Oct 2013	1,027	52.62	54	3 Dec 2013	2,291	59.91	137
6 Sept 2013	1,480	52.11	77	14 Oct 2013	67	52.79	4	4 Dec 2013	2,258	58.60	132
9 Sept 2013	1,328	51.65	69	15 Oct 2013	2,199	53.22	117	5 Dec 2013	2,347	58.32	137
10 Sept 2013	1,190	51.45	61	16 Oct 2013	2,687	53.59	144	6 Dec 2013	2,003	58.26	117
11 Sept 2013	1,038	51.21	53	17 Oct 2013	2,449	54.08	132	9 Dec 2013	143	59.21	8
12 Sept 2013	1,710	51.48	88	18 Oct 2013	2,728	54.60	149	10 Dec 2013	2,153	59.16	127
13 Sept 2013	343	52.10	18	21 Oct 2013	2,838	55.11	156	11 Dec 2013	2,180	59.20	129
16 Sept 2013	1,733	52.06	90	22 Oct 2013	594	55.09	33	12 Dec 2013	875	59.24	52
17 Sept 2013	1,770	51.79	92	23 Oct 2013	2,971	55.25	164	13 Dec 2013	2,173	59.08	128
18 Sept 2013	1,819	51.70	94	24 Oct 2013	1,189	55.11	66	16 Dec 2013	2,242	59.62	134
19 Sept 2013	1,897	51.07	97	25 Oct 2013	3,019	55.43	167	17 Dec 2013	2,329	59.87	139
20 Sept 2013	957	50.12	48	28 Oct 2013	3,040	54.68	167	18 Dec 2013	2,345	59.83	140
23 Sept 2013	1,219	51.19	62	29 Oct 2013	2,860	55.13	158	19 Dec 2013	297	59.59	18
24 Sept 2013	1,364	51.12	70	30 Oct 2013	2,602	55.74	145	20 Dec 2013	1,987	60.53	120
25 Sept 2013	2,054	51.66	106	4 Nov 2013	2,514	56.35	142	23 Der 2013	2,499	61.02	152
26 Sept 2013	2,143	52.96	113	5 Nov 2013	471	56.09	26	24 Dec 2013	2,715	59.05	160
27 Sept 2013	1,238	52.11	65	1 Oct 2013	1,312	52.99	70	**Total purchases in 2013**	**256,691**	**53.43**	**13,715**
30 Sept 2013	2,306	52.85	122	2 Oct 2013	2,303	53.49	123	**Balance at 31 Dec 2013**	**2,561,005**		**69,371**

Acknowledgement of the Annual Report 2013 and its Integral Parts

President and members of the Krka, d. d., Novo mesto Management Board are aware of the content of the integral parts of the Annual Report 2013 of Krka and the Krka Group, and hence of the full Annual Report of Krka and the Krka Group for the year 2013. We hereby acknowledge the Report by our signatures.

Jože Colarič, President of the Management Board and Chief Executive

Aleš Rotar PhD, Member

Z. Bajc

Zvezdana Bajc, Member

Vinko Zupančič PhD, Member

Danica Novak Malnar, Member – Worker Director

Who's who in Krka

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President of the Management Board and Chief Executive

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Member of the Management Board and Director of Product Supply

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Notes

Notes

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