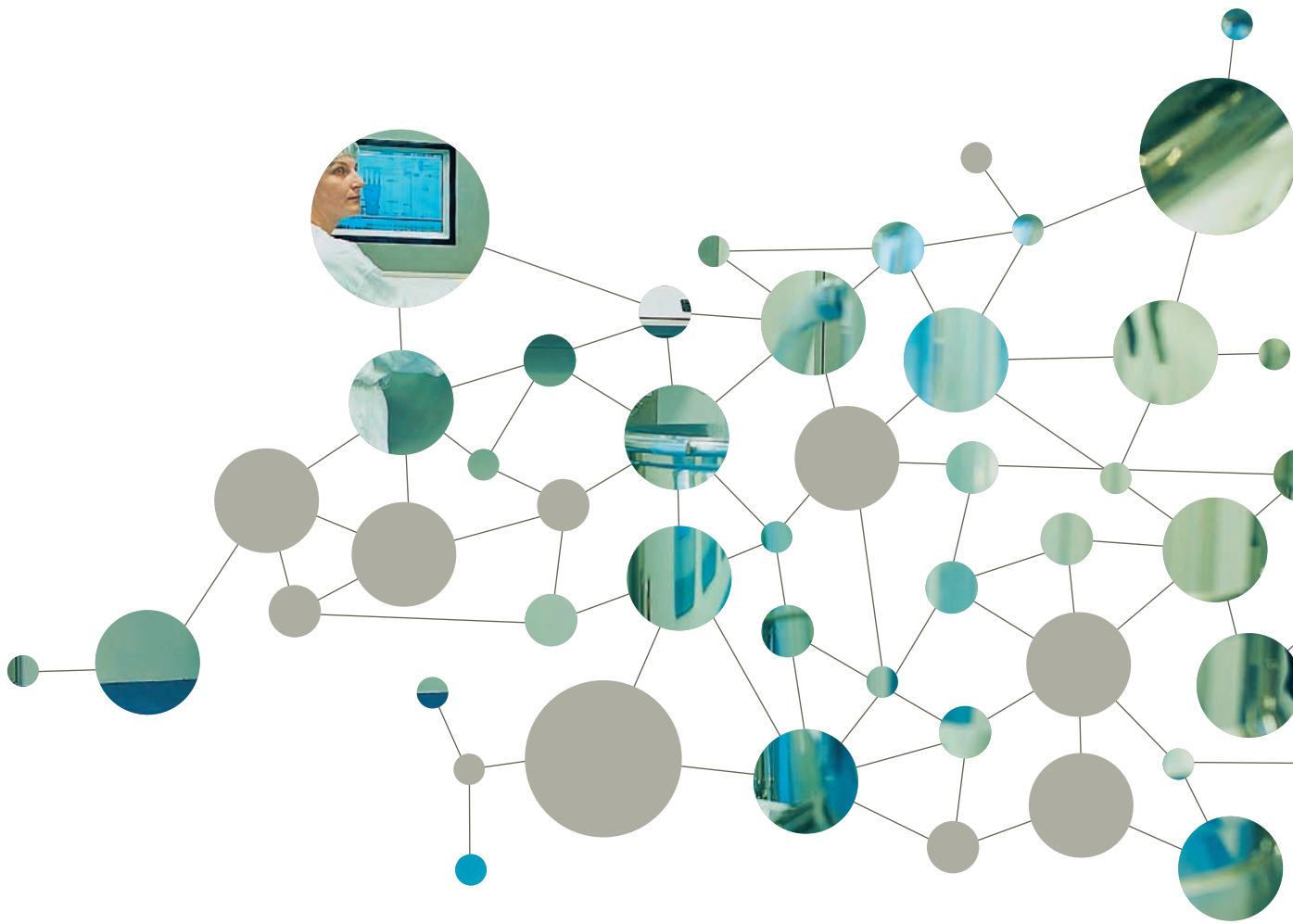


Co-creating change

2014 Annual Report

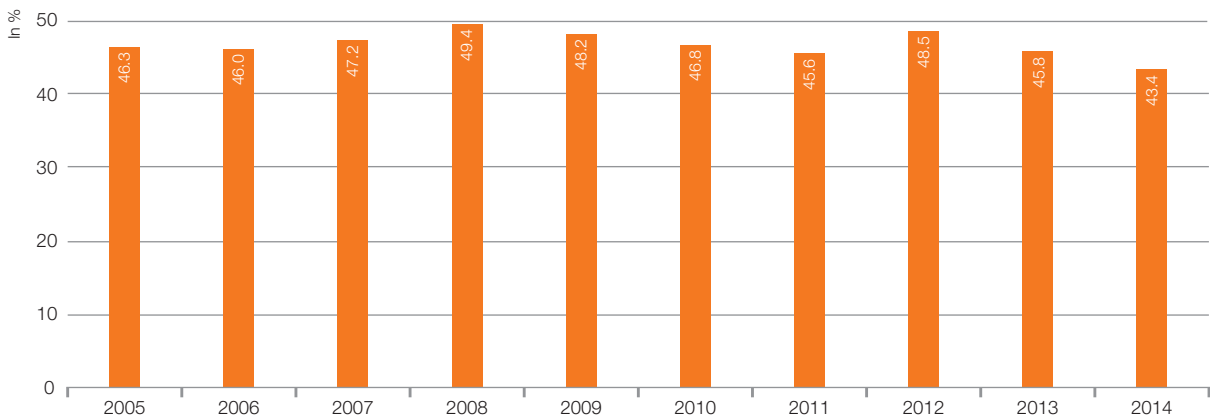


Krka Group highlights

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

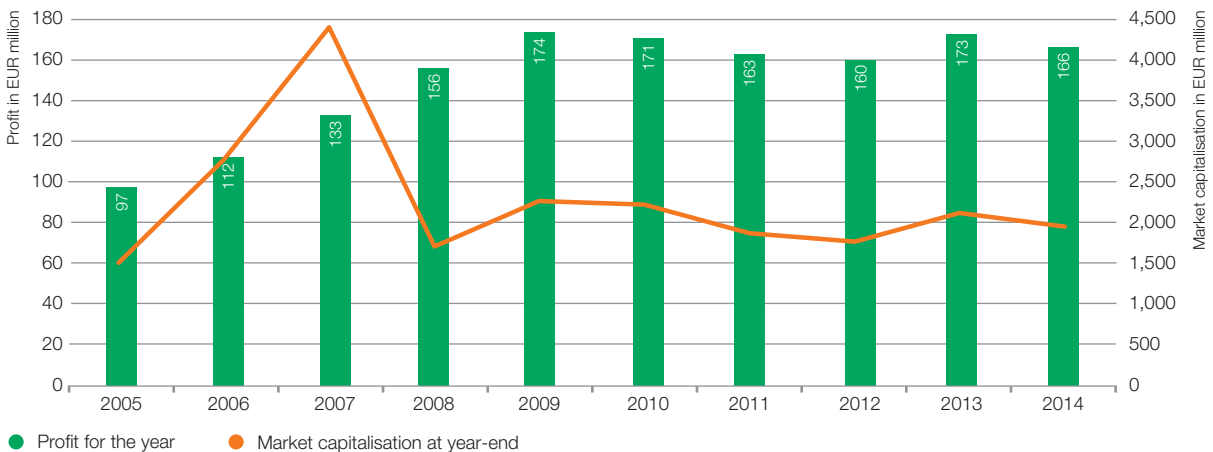


Share of new products* in Krka Group sales



* New products accounted for almost 50% of total sales in 2014. New products are products launched in a particular market in the past five years.

Profit for the year and market capitalisation



When comparing operating results, please take into account that in 2014 the Krka Group reversed EUR 38,950 thousand of provisions, which increased other operating revenues. It also allocated new provisions for lawsuits in the amount of EUR 20,031 thousand, which increased the costs of sales. Please find further information under Provisions in the Financial Report.

Financial highlights of the Krka Group's performance

In EUR thousand	2014	2013	2012	2011	2010
Revenues	1,191,614	1,200,827	1,143,301	1,075,627	1,010,021
EBIT ¹	276,953	227,588	192,308	211,561	208,134
EBITDA	374,535	321,732	282,276	298,747	289,855
Profit for the year	166,161	172,766	159,839	162,735	170,918
Non-current assets (year-end)	1,008,830	973,954	926,000	863,865	848,847
Current assets (year-end)	786,915	785,930	700,748	670,162	639,357
Equity (year-end)	1,351,899	1,332,611	1,240,521	1,139,754	1,053,327
Non-current liabilities (year-end)	125,421	128,833	145,362	155,092	202,709
Current liabilities (year-end)	318,425	298,440	240,865	239,181	232,168
R&D expenses	108,370	97,235	101,102	92,932	90,924
Investments	173,721	157,268	153,288	109,713	115,449
RATIOS	2014	2013	2012	2011	2010
EBIT margin	23.2%	19.0%	16.8%	19.7%	20.6%
EBITDA margin	31.4%	26.8%	24.7%	27.8%	28.7%
Profit margin (ROS)	13.9%	14.4%	14.0%	15.1%	16.9%
ROE ²	12.4%	13.4%	13.4%	14.8%	17.3%
ROA ³	9.3%	10.2%	10.1%	10.8%	12.1%
Liabilities/Equity	0.328	0.321	0.311	0.346	0.413
R&D expenses/Revenues	9.1%	8.1%	8.8%	8.6%	9.0%
Number of employees	2014	2013	2012	2011	2010
Year-end	10,499	10,048	9,461	8,948	8,569
Average	10,284	9,783	9,197	8,789	8,328
SHARE INFORMATION	2014	2013	2012	2011	2010
Total number of shares issued	32,793,448	35,426,120	35,426,120	35,426,120	35,426,120
Earnings per share in EUR ⁴	5.07	5.24	4.80	4.85	5.06
Dividend per share in EUR	2.10	1.61	1.50	1.40	1.10
Closing price on LJSE at end of period in EUR	59.60	60.00	50.00	52.90	62.95
Price/Earnings ratio (P/E)	11.75	11.46	10.41	10.91	12.44
Book value in EUR ⁵	41.22	37.62	35.02	32.17	29.73
Price/Book value (P/B)	1.45	1.60	1.43	1.64	2.12
Market capitalisation in EUR thousand (31 December)	1,954,490	2,125,567	1,771,306	1,874,042	2,230,074
EXCHANGE RATES	2014	2013	2012	2011	2010
USD (average)	1.329	1.328	1.285	1.392	1.326
USD (31 December)	1.214	1.379	1.319	1.294	1.328

¹ The difference between operating income and expense

² Profit for the year/Average shareholders' equity in the year

³ Profit for the year/Average total assets in the year

⁴ Profit for the year attributable to equity holders of the parent/Average number of shares issued in the year exclusive of treasury shares

⁵ Equity as at 31 Dec./Total number of shares issued

When comparing operating results, please take into account that in 2014 the Krka Group reversed EUR 38,995 thousand of provisions, which increased other operating revenues. It also allocated new provisions for lawsuits in the amount of EUR 20,031 thousand, which increased the costs of sales. Please find further information under Provisions in the Financial Report.

We are well prepared to face business challenges.

During the last decade, we have scaled many heights. In the Krka Group, we increased sales and EBITDA almost threefold, investments into research and development more than threefold, while the number of employees has more than doubled. We have invested almost EUR 1.3 billion in production capacities, while paying dividends every year and maintaining financial stability.

The responsiveness with which we overcome less predictable business conditions originates from our business model.

The results of many research and development projects give us new business opportunities. With our own production of active pharmaceutical ingredients and finished products, and our own marketing and sales network, we ensure that we can adapt quickly to changes.

Our success is the result of clear strategies and development guidelines, and our commitment to Krka's values: speed and flexibility, partnership and trust, and creativity and efficiency.



Krka Group highlights

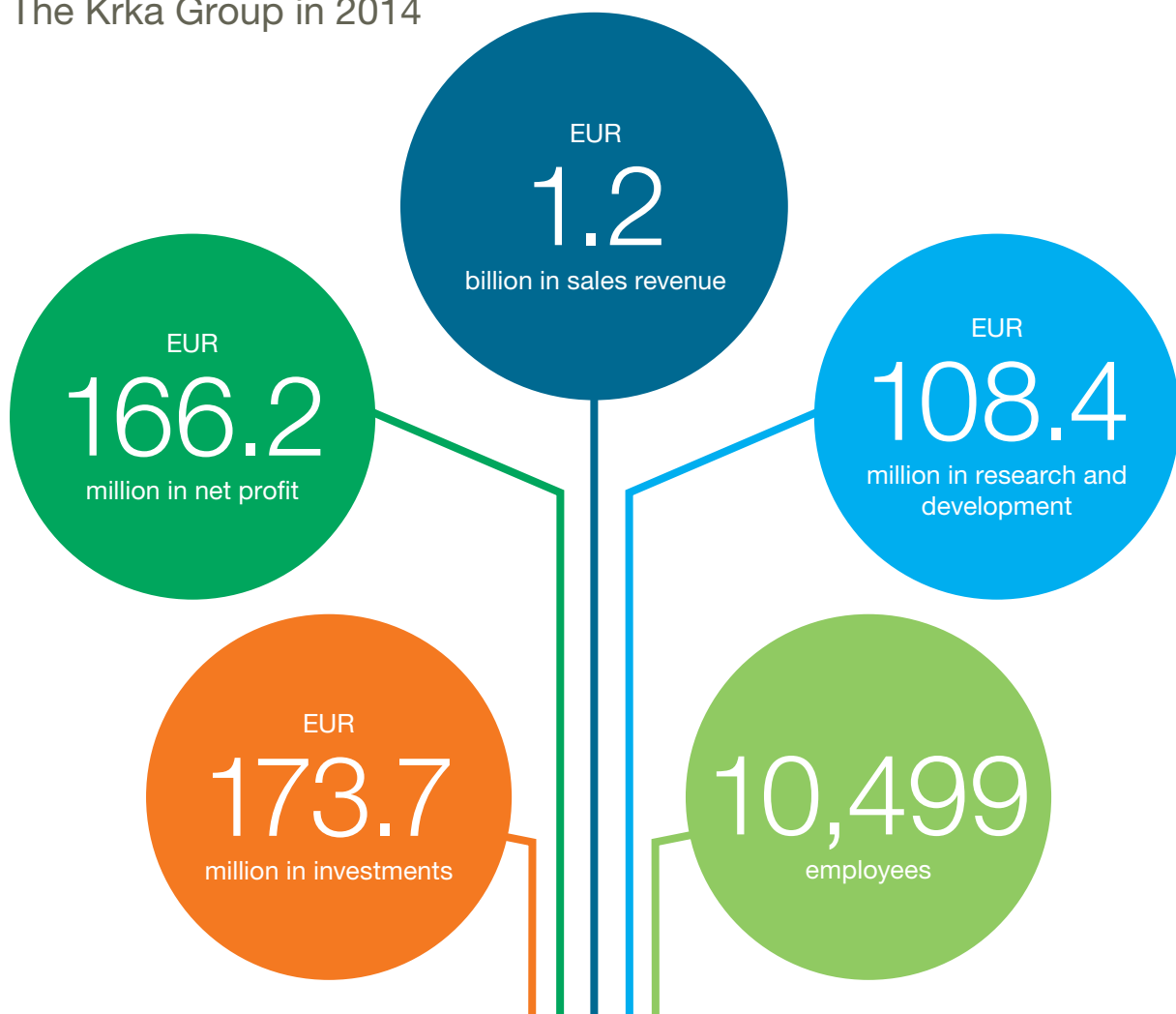
Financial highlights of the Krka Group's performance



Co-creating change

With propulsive development and major adjustments in our business operations, we keep up with market demands for high-quality, safe and effective generic medicines. Research and development is supported by smart investment in knowledge, state-of-the-art equipment and new laboratories. A qualified team allows us to develop the most technically challenging projects.

The Krka Group in 2014



The entire Krka company is characterised by a drive for development and efficiency. With our own production capacities, we manage costs, and ensure the quality, safety and efficacy of raw materials and finished products.

In addition to products, we also develop raw ingredients, a process which, in addition to development specialists and sales and marketing professionals, also involves purchasing, the production of raw ingredients and final products and quality management.

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From a local
pharmaceutical company
to one of the leading global
pharmaceutical companies



Krka's business model: an innovative and vertically integrated generic pharmaceutical company

Management of the entire process and
production from active pharmaceutical
ingredients to finished products

Effective marketing and sales network

Flexible production system

Focused research and development

At Krka, we develop medicines from raw pharmaceutical ingredients to finished products and obtain marketing authorisations in several markets. The results of our development projects are protected by patents. We manufacture medicines according to our own procedures in nearly all pharmaceutical forms for the treatment of various illnesses. We use the latest technologies to manufacture solid, semi-solid and liquid pharmaceutical products. Quality, safety and efficacy are proven by means of various analyses and studies.

Statement by the President of the Management Board



Jože Colarič, President of the Management Board and Chief Executive

Dear Shareholders, Business Partners and Employees,

The last business year was quite demanding and presented many challenges for all areas of our operations. In addition to economic instability, price reductions of pharmaceutical products continued and thus also the race between competitors, which has become more intense as a result of these pressures. By adjusting to the market situation and using all resources rationally, we ended the business year successfully.

The year 2014 was also Krka's 60th anniversary. During the anniversary year, we completed Notol 2, the largest investment in Krka's history, which considerably increased our production capacity for solid dosage forms. We invested in new products, made several other investments, recruited new employees and maintained the financial stability of the Krka Group. Operating profit amounted to EUR 277 million, an increase of 22%, while the profit for the year of EUR 166 million was 4% lower than the year before due to exchange rate losses. Financial stability also enables a stable dividend policy. In 2014, shareholders received a dividend of EUR 2.10 gross per share, which is a 30% increase compared to 2013.

Sales exceeded one billion euros for the fifth consecutive year. We attempted to compensate for the negative effects of the fluctuating exchange rate of the Russian rouble, which was most pronounced in the last quarter, when sales are generally highest, with increased sales in terms of quantity and more

affordable products. In 2014, we sold EUR 1.192 billion worth of products and services, which was almost the same as in 2013. Sales in terms of quantity of sold products increased by 10%. Our key product group is prescription pharmaceuticals, which accounts for over 80% of total sales, followed by non-prescription and animal health products, and to a smaller extent health resort and tourist services.

The largest sales region was Region East Europe, with sales amounting to EUR 408.7 million. Krka's largest individual market in this region and in general is the Russian Federation. In mid-December 2014, we informed the interested public that the considerable fall in the value of the Russian rouble might have a negative effect on the Krka Group's business operations. Translated into euros, sales in the Russian market decreased by 5% in 2014 compared to 2013, but sales growth in roubles and growth in terms of volume continued. In the Russian Federation, where we have our own production capacities, we will further strengthen our presence given the sales potential of this market.

In Region Central Europe, where sales reached EUR 273 million, we recorded better results than in 2013 in all except two markets. The most successful sales region in terms of absolute and relative growth was Region West Europe, which recorded sales of EUR 251.1 million. In the last quarter, we

launched several products in this region for the treatment of diseases of the central nervous system. These products will also have a significant effect on future sales growth. In South-East Europe, the total value of sales was EUR 155.3 million, which was better than the year before. Growth was especially the result of double-digit sales growth in the Romanian market, Krka's leading market in this region. Sales in our new sales region, Overseas Markets, amounted to EUR 25.5 million. In the Slovenian market, we retained the highest market share among all suppliers despite the drop in the sales value of pharmaceuticals. Sales amounted to EUR 78 million, of which EUR 30 million was from health resort and spa services.

We mitigate severe price pressures by launching new products and increasing the volume of production and sales. In our own production capacities in Slovenia, the Russian Federation, Poland, Croatia and Germany, we manufacture around 12 billion tablets, capsules, injections, and other products annually. The new solid dosage production plant, Notol 2, will increase annual production capacities in the next two years by 4.5 billion tablets and capsules. We completed the Sinteza 1 plant in Krško last year, which enables more production of active pharmaceutical ingredients and the consolidation of the Krka vertical integration model. We opened a new production and distribution centre in the Russian Federation in 2013, where in 2014 we manufactured over one billion tablets for the first time. In 2014 we allocated EUR 174 million to investments.

For long-term growth, it is vital that our range of products is continuously supplemented with new products that have market potential. The products that we have launched in the last five years in individual markets amount to over 40% of the Krka Group's sales. Our experts currently have 175 new products in the pipeline. In 2014, Krka obtained marketing authorisations for 19 new products in 47 dosage forms and strengths. We introduced new technologies and approaches, and submitted patent applications for four inventions and ten international patent applications. In 2014, Krka registered 70 trademarks in Slovenia and submitted 33 international and 68 national trademark applications.

Krka's competitive advantage lies in our own well-organised and broad marketing and sales network, which includes 28 subsidiaries and 19 representative offices. Every day, we are connected to buyers and users in six sales regions in over 70 markets. At the beginning of 2014, a new region, Overseas Markets, was added to Krka's five existing regions. It comprises the Middle and Far East, Africa and the Americas. The network of our own companies in Western Europe has been extended by establishing companies in Great Britain and Finland.

Krka's success is primarily the result of knowledge and professional skills, and the energy and enthusiasm that employees are ready to put into achieving our common goals every day. This is why we invest in their personal and professional development, encourage good interpersonal relations and pay special attention to knowledge. A decisive element in the company's successful performance and development will be to respond quickly to change.

At Krka, we care for the quality of life of our employees and people in the broader community. By being a part of the community and supporting various forms of social activity, we have been implementing a strategy based on sustainable development and the company's social responsibility. We also care for the protection of the natural environment where we live and work.

The results of the last ten years point to stability and growth in business operations. During this period, we more than doubled the sales and operating profit of the Krka Group, increased research and development expenditure 2.7-fold and invested nearly EUR 1.3 billion in production capacities. We have paid out dividends every year, which have increased 3.6-fold, while maintaining financial stability. These are the foundations on which we grow and develop.

And how do we at the Krka Group see business operations in 2015? Our plans are ambitious, but at the same time we know that the unfavourable exchange rates of the Russian rouble will continue to affect operations. We are planning for sales in the Krka Group of EUR 1.26 billion. New products, especially those containing combinations of active substances, will significantly contribute to sales growth. We will allocate EUR 165 million to state-of-the-art production capacities, which will enable us to place sufficient product quantities on markets. We will continue the installation of equipment in Notol 2, in the new plant in the Russian Federation and in the plant for the production of active substances in the town of Krško, as well as building capacities in order to extend the manufacture of new products in the department in Ljutomer and in the subsidiary in Croatia. In May 2015, we will start building the fourth development and control centre. At the end of 2015, Krka is planning to have just over 11,000 employees, 55% of whom will work in our companies and representative offices abroad.

We are aware that in ever fiercer competition, our goals can only be achieved by those with a clear development strategy. People around the world whom we help to maintain and strengthen their health trust in Krka. I believe that with dedicated and efficient work we will continue to satisfy the interests of Krka's stakeholders: employees, customers, business partners, shareholders, and the social environment.



Jože Colarič
*President of the Management Board
and Chief Executive*

2014 report of the Supervisory Board



Jože Lenič MSc, President of the Supervisory Board

Dear Shareholders and Stakeholders,

Despite several economic challenges in an increasing number of markets, Krka performed well also in 2014. This was also due to the activities of the Supervisory Board.

At the five Supervisory Board meetings and nine Supervisory Board Committee meetings held in 2014, the Supervisory 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, took part in preparing for the Annual General Meeting, 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 operations and activities conducted by the Supervisory Board are described below.

The work of the Supervisory Board

In 2014, the Krka Supervisory Board had nine members, four women and five men aged 44 to 72 who are experts in pharmacy, chemistry, economics, mechanical engineering, organisational sciences and management. 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.

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 2014, board members had all the necessary data, reports and information available to them. They received the materials promptly, approximately one week before a meeting. Krka's services helped organise the meetings, while promptly implementing improvements and support.

The members attended meetings regularly. Apart from one member who was absent twice, both times on justifiable grounds, and three members who were absent once each, again both on justifiable grounds, all members attended all board meetings in 2014. The Board was three times 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 2014 the Supervisory Board discussed Krka's past operations, plans for 2015, was promptly informed about human resources, investments,

products and implementation of the current strategy, discussed regulatory and related quality assurance risks, 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 2014.

The areas most discussed by the Supervisory Board members in 2014 were:

The Annual Report Within the statutory time frame, the Supervisory Board thoroughly examined the 2013 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 Supervisory Board gave an unqualified opinion about the auditor's work and the report. The Board also compiled and adopted a report on its work in 2013 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's 2013 Annual Report won the award for best annual report in the category of large companies in a competition organised by the Slovenian business daily *Finance*. The committee members also pointed out that all data in the annual report were presented clearly.

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 Like every year, the Supervisory Board was informed of the business model and operations of all large subsidiaries in 2013. The members were also informed about the updated number of employees in the subsidiaries and the book value of Krka's investments in them, control and supervision bodies, 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 plans of the Krka Group The Supervisory Board considered the operating plan of the Krka Company and Group for 2015, which includes sales plans by markets and product groups, investments, investment in research and development, recruitment plans, projected consolidated income statements and relevant explanations. After considering the operating plan, the Supervisory Board gave their opinion and recommendations, which the Management Board took into consideration at their own discretion.

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 2013, and that Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana be appointed the auditors for 2014.

Investments The Supervisory Board was regularly informed about all of the Group's major investments from the first quarter, half-year, nine-months and annual operating reports. Once in the year it reviewed all major investments; Notol 2, which is the main Krka's investment for the production of solid pharmaceutical dosage forms, a new plant for chemical production Sinteza 1 in Krško, a new plant for the production of solid pharmaceutical dosage forms in the Russian Federation Krka-Rus 2 and smaller investments such as a water purification system Vodarna 2 and the European project Farma GRS. The Management Board reported to the Supervisory Board on the progress of investment projects and submitted relevant photographs.

Risks The Supervisory 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 legal proceedings that involve Krka as a party. After each update of Krka Group's development strategy, the Management Board also updated the Risk Register, which is a complete list of risks and corrective measures to lower risks at the Group level. As always, this was also discussed by the Supervisory Board. The Supervisory Board also reviewed the Audit Committee report on managing financial risks in the Krka Group.

Business trends in the pharmaceutical industry In 2014, Krka was followed by 12 financial analysts, of whom eight were foreign. The Supervisory Board was informed of their findings, which in addition to assessments of the fair value of Krka shares also included costs and benefits with respect to Krka's operations. The Board also discussed the current, relevant information from the pharmaceutical industry.

Benchmarking Krka's performance with comparable companies Twice in 2014 the Supervisory Board compared the Krka Group's performance with other leading generic pharmaceutical companies. Depending on the availability of data the Board compared Krka's business operations with four of five best comparable competitors by sales regions and product groups. The Board compared the sales data, sales structure by regions and product groups, profitability information, cost structure, structure of the statement of financial position, ratios, ratios related to Krka's share and other frequently used measures of success.

Quality The pharmaceutical industry is highly regulated and quality assurance is of the utmost importance. In a separate item of the agenda the Supervisory Board was also informed about the report on quality assurance in the Krka Group and on the integrated management system. It reviewed legal and

other regulatory requirements, control of quality, organisation of quality assurance and the principle guidelines of future development of quality assurance in Krka.

The Works Council report on worker participation in management It was informed about the report on worker participation in management prepared by the President of the Works Council. It contained above all, a description of the conditions for the operation of the Works Council, fulfilment of employer's participation duties, description of the cooperation of workers' representatives in the Company's bodies and assessment of the situation in the field of employees' salaries and their personal satisfaction.

Areas of current interest In 2014, the Supervisory Board considered current detailed information from the areas of human resources, investments, products and implementation of the strategy. The Supervisory Board discussed this with all interim reports and once a year in more detail.

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 February 2014, the Supervisory Board adopted the proposal for updated reference values for measuring performance from the Rules Defining the Bonus Element of Management Board Remuneration, which were the basis for setting the variable amount of the Management Board members' salaries in 2014. It is calculated according to the model 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 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 2014, the Supervisory Board performed a periodic self-assessment according to the methodology of the Slovenian Directors' Association for the fourth consecutive time. The Board adopted an action plan until the next self-assessment in 2015 and carried out the activities from the previous action plan. In December 2014 the members of the Supervisory Board undertook training in corporate management organised by the Slovenian Directors' Association. 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 Resource 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 2014, the Committee met five times and discussed 29 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. One meeting was attended by the Krka Finance Director. The Secretary to the Supervisory Board attended all of the meetings while four meetings were also attended by representatives of the audit firm Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana. The President and a member of the Committee met with the auditors from Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana once.

The areas most discussed by the Audit Committee in 2014 were:

Annual Report The Committee considered the Annual Report of the Krka Company and the Krka Group for 2013, the auditor's report and the Supervisory Board report for 2013 and proposed that the Supervisory Board adopt them.

Interim results Whenever considering the interim reports, the Audit Committee primarily discussed these with regard to accounting and finance and reported about them to the Supervisory Board. In 2014, no accounting or financial particularities or changes to past practice were established.

Accounting policies and co-operation with the external auditor An important task of the Audit Committee is co-operation with the external auditor. In relation to the performed audit, the external auditor reports its findings to the

Audit Committee. The Committee regularly followed external auditing and gave recommendations, if necessary. It proposed an auditing company for auditing business performance to the Supervisory Board. This proposal was approved at the General Meeting. Consistent with good practice, the President and usually a member of the Audit Committee met with the auditing company once a year without the Board's presence. Together with the auditing company they defined the areas that had to be carefully reviewed during the regular audit. The Committee was informed about the composition of the auditing team and their planned activities and schedule before the audit. In November 2014 the certified auditor reported to the Committee about the pre-audit for 2014.

Internal auditing The Audit Committee closely co-operates with the external auditor and with Krka's Internal Audit. In 2014, the Committee considered and approved the reports on the work of Internal Audit in 2013, from January to June 2014, their plan for 2015 and their updated medium-term plan for 2014 to 2018. The Committee also reviewed the self-evaluation report by Internal Audit for 2013. As the Internal Audit is also subject to an independent audit, the Committee also reviewed the offers and proposals for the selection of an independent external auditor who reviewed compliance of the Internal Audit with the International Standards for the Professional Practice of Internal Auditing. The Committee was also informed about the report on the implementation of recommendations from the previous audit. The President of the Audit Committee and the President of the Supervisory Board were informed about the results.

Inspection and related regulatory risks The Committee discussed the report on inspections in Krka. They included the verification of the GMP compliance, HACCP, Good Clinical Practice, Good Laboratory Practice and the area of animal health products. To a smaller extent, it also considered environmental protection, safety and health at work, fire safety and standard certification procedures. Since regulatory risks are becoming increasingly important in the pharmaceutical industry, the Audit Committee will review them twice a year.

Financial risks The Committee discussed financial risks twice. One time it discussed foreign exchange risk, credit risk and liquidity risk. The other time it considered foreign exchange risks only, with the emphasis on the Russian rouble. As the crisis in the Russian Federation and Ukraine escalated, the Audit Committee demanded a report on foreign exchange risk management and on measures adopted to mitigate foreign exchange losses. The Committee also expected the Management Board to undertake measures for optimal management of any such risks.

Annual General Meeting The Committee discussed the appointment of the auditor for the 2014 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.

Current issues The Audit Committee regularly reviewed other information relevant from the accounting and financial aspect

and risks. It specified current issues with regard to current events or proposals by Committee members.

Human Resource Committee

The Human Resource Committee is presided over by Mateja Vrečer. In 2014, the Human Resource Committee met three times and discussed 11 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.

Management Board's remuneration In 2014, the Committee prepared a proposal for updated reference values or measures of success based on the Rules Defining the Bonus Element of Management Board Remuneration. The Committee also proposed to the Supervisory Board the amount of the performance bonus of the President of the Management Board and its members for 2013 and the first half of 2014 based on quantitative and qualitative measures of success.

Evaluation of the work of the Management and Supervisory Boards

In line with the 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 2014.

The Management Board attended all meetings of the Supervisory Board, except once when one of the members of the Management Board could not attend the meeting because of a business engagement. In the name of the Company the President answered the questions posed by the members of the Supervisory Board and ensured that relevant reports were prepared. Other members of the Management Board participated mostly by giving explanations regarding their professional area. The President of the Management Board and the President of the Supervisory Board communicated and consulted each other even when there were no meetings.

Krka's professional services organised meetings, made prompt technical improvements and provided administrative and organisational support to the Supervisory Board. 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.

The Supervisory Board considered the work of the Management Board twice a year as a separate agenda item when setting the performance bonus based on eight

performance measures. The Supervisory Board promptly assessed the work of the Management Board by discussing interim results, comparing Krka's operations with competitors and considering external analysts' opinions about Krka. 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 also in 2014.

The Supervisory Board also paid considerable attention to the continuous improvement of its work. In July 2014 it engaged in self-assessment for the fourth consecutive time according to the methodology of the Slovenian Directors' Association and conducted activities defined by an action plan. The Supervisory Board's performance was in line with the highest standards in nearly all areas. Compared with the Board's previous self-assessment, the average mark in 2014 was higher by 2%. The Supervisory Board regularly monitored conflicts of interests. In line with the *Corporate Governance Code*, members completed statements on independence that Krka published to reveal that all the members of the Board are independent. Should a conflict of interests 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.

According to the budget, EUR 233,260 was allocated for the work of the Supervisory Board and its committees, whereas EUR 232,834 was spent. In addition, EUR 7,000 was spent on membership in the Slovenian Directors' Association in 2014, while other costs such as for external advisors were not accrued.

Approval of the Annual Report and proposal for the allocation of the 2014 accumulated profit

The Supervisory Board discussed the 2014 Annual Report at two Supervisory Board meetings and three Audit Committee meetings.

At the meeting of 21 January 2015, the certified auditor Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana reported to the Audit Committee **on the 2014 audit procedures**.

The Draft Annual Report of Krka and the Krka Group for 2014 was considered by the Supervisory Board and the Audit Committee at their meetings of 25 February 2015.

The members of the Supervisory Board and the Audit Committee received the proposed clean copy of the 2014 Annual Report on 19 March 2015 and reviewed it at their meetings of 25 March 2015. 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 is a true and fair account of the events and presents a comprehensive view of the operations of the Krka Company and the Krka Group in 2014 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 25 March 2015. **The Annual Report was thereby formally adopted in line with Article 282 of the Companies Act and Krka's Articles of Association.**

Together with the Annual Report, the Supervisory Board also approved the **proposal for the allocation of accumulated profit**. In 2014, the Krka Company achieved net profit of EUR 144,385,467.03, of which EUR 15,140,152.46 was appropriated to reserves for treasury shares, and EUR 3,000,000.00 to other revenue reserves. The remaining net profit of EUR 126,245,314.57 and the retained net profit of EUR 55,243,090.29 comprise the accumulated profit, which on 31 December 2014 stood at EUR 181,488,404.86.

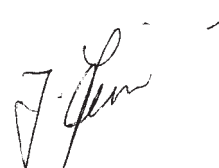
The Management Board and the Supervisory Board propose that the General Meeting distribute the accumulated profit as follows:

- dividends: EUR 71,674,028.80 net, or EUR 2.20 gross per share;
- other revenue reserves: EUR 54,907,188.03; and
- retained earnings: EUR 54,907,188.03.

The proposal was drawn up by considering the number of treasury shares on 25 March 2015, when the Supervisory Board confirmed the 2014 Annual Report and together with the Management Board prepared a proposal for the allocation of accumulated profit. As the number of treasury shares changes, the number of shares entitled to dividends will be revealed on the day of the AGM and the total amount to be allocated to dividends, other revenue reserves and retained earnings will be altered accordingly.

Conclusion

Companies in all industries have been facing several challenges in sales markets. Krka strives at continuously improving its operations, looks for new business opportunities and conducts reviews of its operations. Partnership and trust are two of Krka's most important values which it pursues with good management. The Supervisory Board members assess Krka's operations in 2014 as stable, 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.biz
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 54,732,264.71
Total number of shares issued	32,793,448 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 28 subsidiaries outside Slovenia. Farma GRS is the sole owner of six 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, these

subsidiaries, apart from Krka-Rus in the Russian Federation, deal with marketing and sales. Other subsidiaries outside Slovenia deal with the marketing and/or sales of Krka products and do not have production capacities.

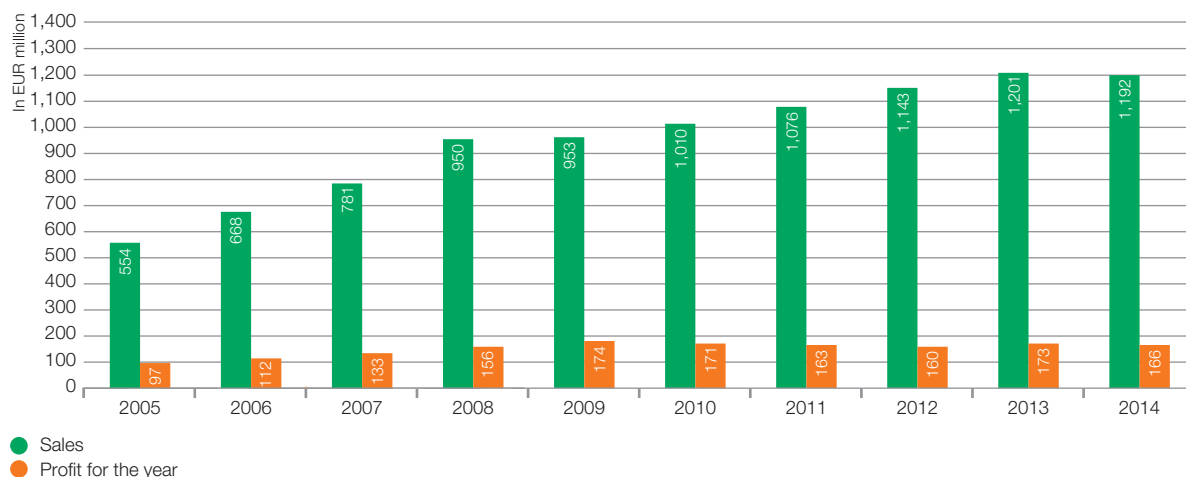
Terme Krka, d. o. o., Novo mesto deals with health resort and tourist services. It operates through the following branches: Terme Dolenjske Toplice, Terme Šmarješke Toplice, Hoteli Otočec, Hotel Krka in Novo mesto, and Talasso Strunjan. Terme Krka is also the majority owner of Golf Grad Otočec, d. o.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

In 2014, Krka established subsidiaries in Great Britain and Finland. Krka is their controlling company and sole owner.

Krka Group business model

Krka is one of the world's leading generic pharmaceutical companies. Its registered office is in Slovenia. Krka has a 60-year tradition.

Revenues and profit for the last ten years



Krka is the leader in the Slovenian market and significantly present in the generic pharmaceutical markets of Eastern, Central and South-Eastern Europe, and in the past few years also in the markets of Western Europe. We have been strengthening our presence in overseas markets, as we wish to exploit further the sales potential in the Middle East, Far East, Africa and the Americas. Please see "Marketing and sales" for further information about Krka's markets.

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

Business orientation

Our modern pharmaceutical production and the vertically integrated business model permit 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. Krka's portfolio primarily contains solid dosage pharmaceutical forms. The Company's range is supplemented by the health-resort and tourist services of Terme Krka. For further information about Krka's products and services, please refer to section "Marketing and sales".

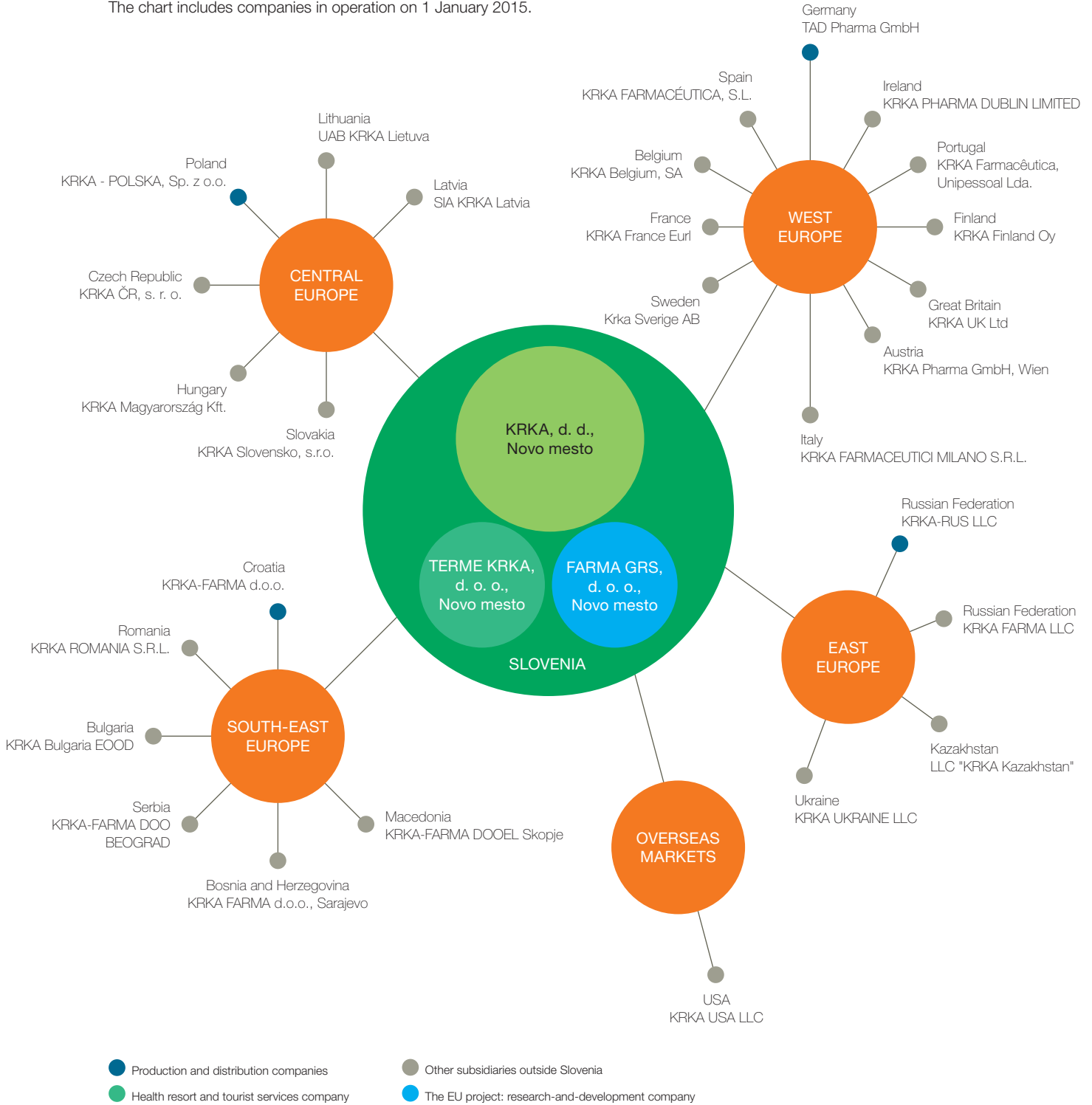
We focus on generic prescription pharmaceuticals marketed under Krka's own brands. Our main therapeutic groups include pharmaceuticals for cardiovascular diseases, pharmaceuticals for alimentary and metabolic diseases, pharmaceuticals for diseases of the central nervous system and medicines from other therapeutic groups. We recently entered the oncology therapeutic area.

Also in the future, we will develop our own marketing-and-sales network by establishing our own and joint companies or by mergers in selected 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. We focus on the organic growth so we are developing our own R&D, production, and marketing and sales capabilities to meet the growing demand for generic products on traditional and new markets.

In order to increase the competitive advantage of our product portfolio, Krka allocates 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 in different markets in the past five years.

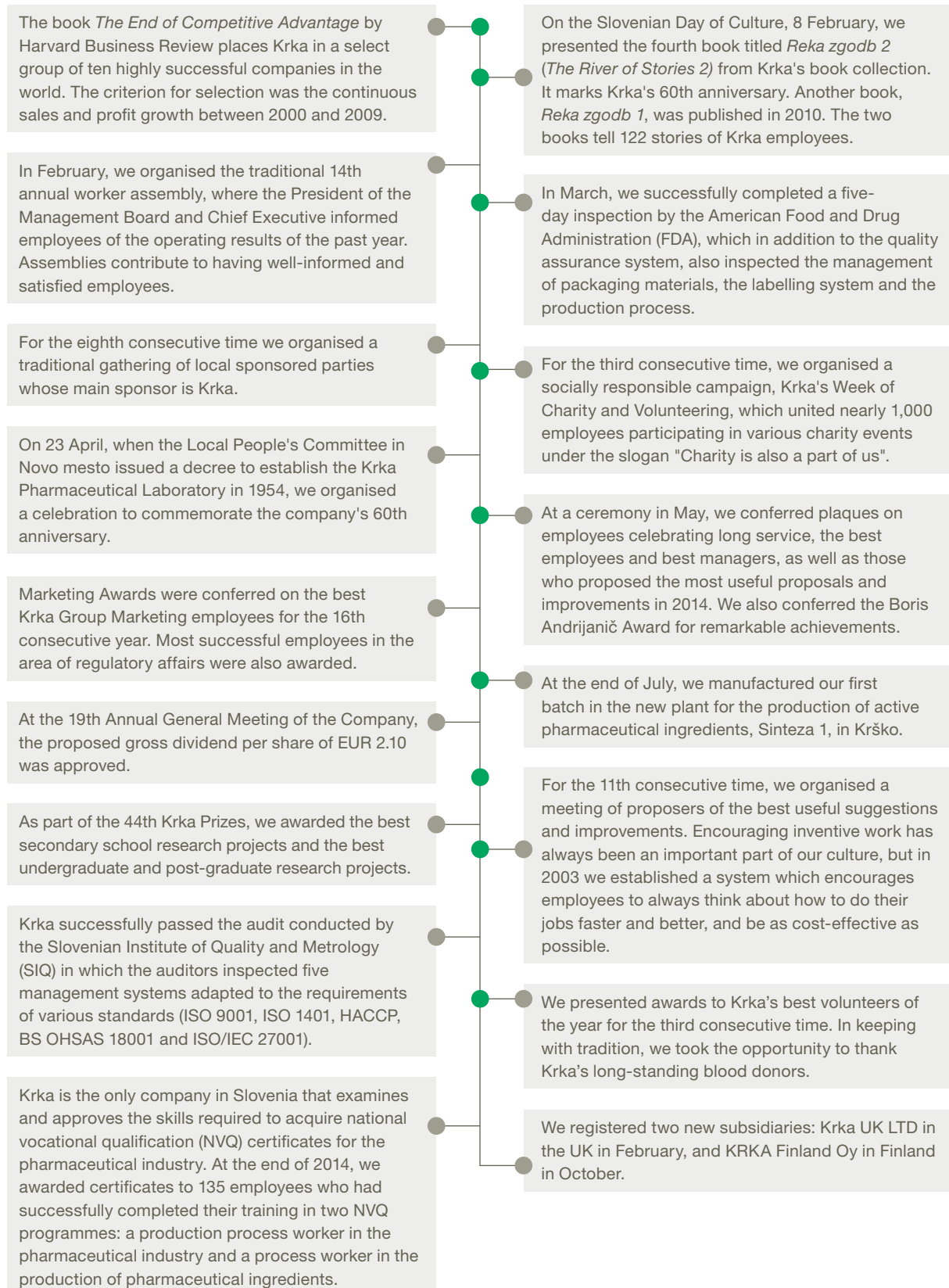
Profile of the Krka Group

The chart includes companies in operation on 1 January 2015.



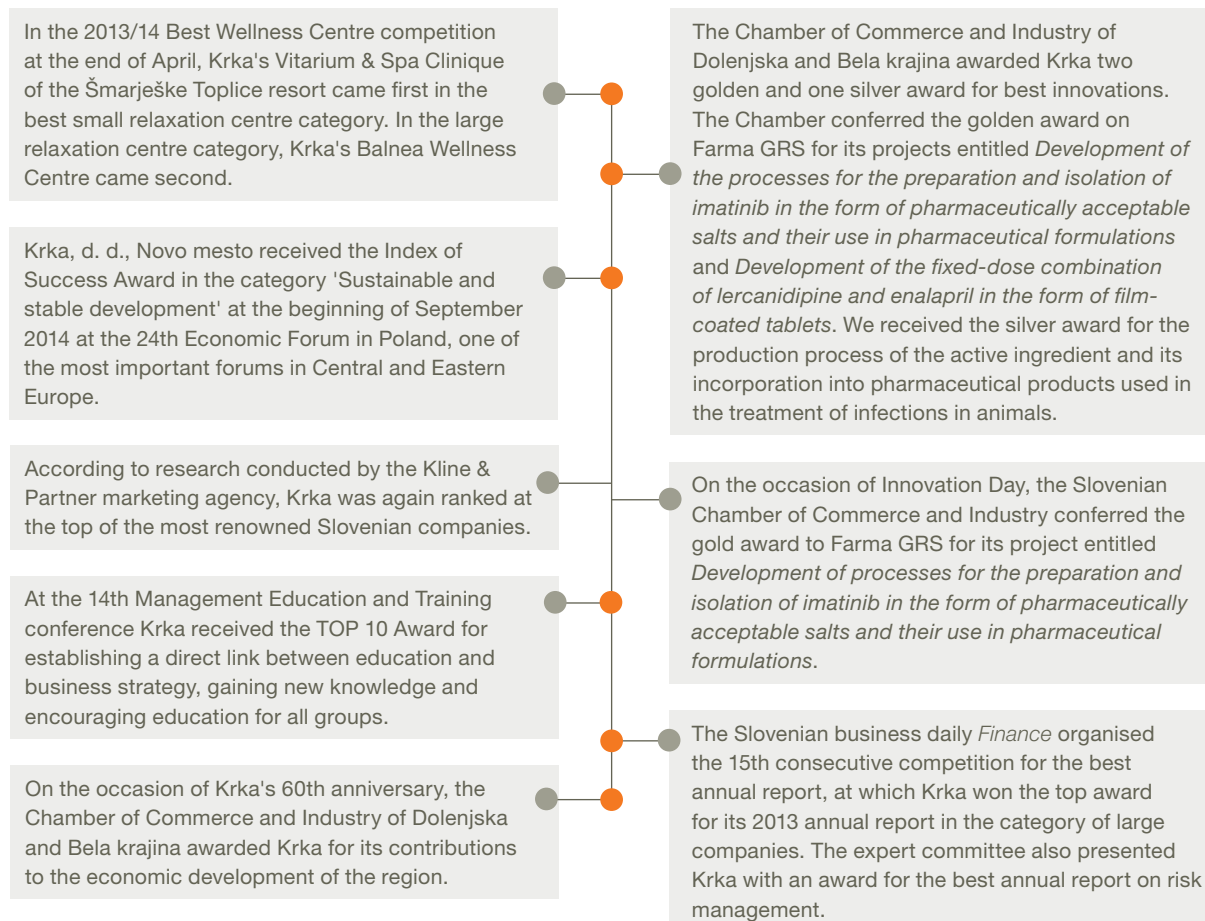
Overview of significant events

Events



Prizes and awards in 2014

Prizes and awards



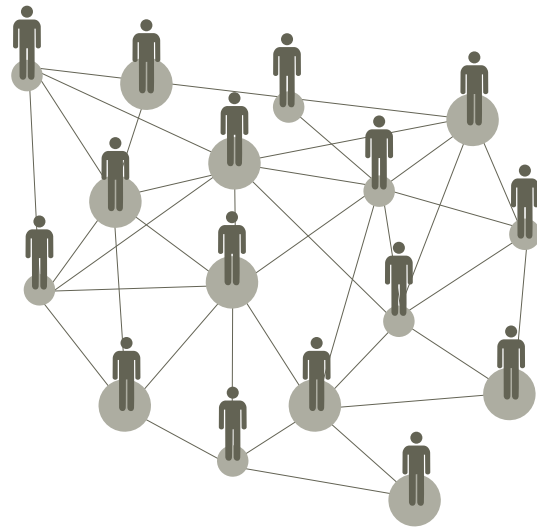
Events after the accounting period

- At its meeting on Wednesday 21 January, Krka's Supervisory Board appointed the current President of the Management Board and Chief Executive, Jože Colarič, for a new six-year term of office. His latest term of office commences on 1 January 2016 and ends at the end of 2021.
- In the period from 1 January to 10 March 2015, after the certified auditors concluded the audit of 2014 operations, the Krka Group recorded more than EUR 15 million of foreign exchange gains related to the Russian rouble.
- From the beginning of 2015 to the end of January 2015 (followed by the closed period until the annual report is published), we acquired 41,065 treasury shares worth EUR 2,378,981. The balance of treasury shares totals 214,344 (i.e. 0.654% of total shares).



From Lisbon to
Vladivostok. And
beyond. We are at
home everywhere.





We are present in more than 70 markets with our own recognisable brands, which customers and users trust.

We have been developing a global business network, which in addition to our production facilities in Slovenia, also includes production and distribution centres in the Russian Federation, Poland, Croatia and Germany. Krka has 28 subsidiaries and 19 representative offices in 41 countries.



We operate successfully in traditional markets in Slovenia, South-Eastern, Central and Eastern Europe, where we hold leading market positions among pharmaceutical producers and product brand names in key therapeutic groups.

We have been growing in the markets of Western Europe, where we increase sales through our own companies with our own marketing and sales network.

In our efforts to reach customers, our products are supported by a strong marketing and sales network.

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, 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 of the call.

All shareholders entered in the shareholder register on the record date published in the notice, have the right to attend the AGM and vote. The same applies to their representatives and proxies.

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

The 19th Annual General Meeting of the Krka Company was held on 3 July 2014, where shareholders:

- received information about the 2013 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 2013 Annual Report;
- adopted the resolution on the appropriation of accumulated profit for 2013;
- discharged the Management and Supervisory Boards from liability in 2013;
- appointed the auditor for 2014;
- decreased share capital by withdrawal of treasury shares, so that total share capital in the amount of EUR 59,126,194.28 was reduced by EUR 4,393,929.57 and after the reduction totals EUR 54,732,264.71;

- authorised the Management Board to acquire treasury shares, but the total treasury shares must not exceed 10% of share capital; the authorisation will remain in force for 36 months from the date of its adoption by the Annual General Meeting.
- were informed about the newly elected members of the Supervisory Board – employee representatives.

According to the financial calendar for 2015, this year's Annual General Meeting is due on 18 June. 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 five-year term of office 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 elected in 2010 for a five-year term.

The remuneration, reimbursement and other benefits of Supervisory Board members do not directly depend on the Company's performance and are disclosed in the Financial Report under the Note entitled Related Party Transactions. In addition to attendance fees, members of the Supervisory Board receive fixed amounts for exercising their functions according to the resolutions of the 16th AGM.

Members of the Supervisory Board report to the Company and competent institutions on any acquisitions or disposals of Company shares. Krka makes the information public.



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

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 questionnaire on conflicts of interests, which is available on the Krka website. The Supervisory Board members' conduct in cases of **conflicts of interests** 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 2014 are presented in the Supervisory Board report.

SHAREHOLDER REPRESENTATIVES

Jože Lenič MSc

President of the Supervisory Board

Jože Lenič, born in 1965, is from Domžale. He holds a master's degree in international economics. He graduated in geography, and is a teacher 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 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 Kapitalaska 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. In January 2011 he was appointed President of the Management Board of Abanka Vipava, d. d.

He has been a member of the supervisory boards of Lek, Sava, NLB bank, Intereuropa, Delo, the Slovenian Insurance Association, and several Zavarovalnica Triglav subsidiaries. He is also a member of the Supervisory Board of Združenje bank Slovenije (The Bank Association of Slovenia).

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 acted as President of the Management Board of Zavarovalnica Triglav.

In 2012 he obtained the Slovenian Directors' Association Certificate.

He is also a member of several sports associations 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 department of the Dekop company 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 at 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. 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. In April 2014, she assumed the function of a member of the Management Board of Gorenjska banka, d. d., Kranj.

She holds a certificate of the Slovenian Directors' Association. Since 2008 she has acted as Deputy President of the Management Committee of the Slovenian Directors' Association. She was a member of the supervisory board of Kapitalska družba, d. d., Ljubljana for one term, and is a Supervisory Board member of Krka, d. d., Novo mesto. She is a member of the Supervisory Board and the President of the auditing committee at Skupna pokojninska družba, d. d. (a supplemental pension insurance provider) and a member of the Supervisory Board at Bankart d. o. o., Ljubljana.

Assoc. Prof. Sergeja Slapničar PhD

Born in 1971, from Lesce. She holds a doctorate in management and organisation, and started her career as an intern at Deloitte & Touche Ljubljana in 1994. In 1995 she 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 of several subjects. She is the author of a number of scientific and professional works, and a member of the European Accounting Association, the American Accounting Association (EAA and AAA) and the Slovenian Directors' Association.

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 gives lectures at the training courses at Slovenian Directors' Association, the Bank Association of Slovenia, SIQ, and Centre for Business Excellence at the Faculty of Economics, University of Ljubljana. In the period from 2008 to 2010 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 in 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 underwent 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 sciences. 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 conducts research, gives lectures on all three cycles of university education, heads several commissions and committees and participates in them. Her research work focuses on modern active substance delivery systems, nanotechnology, biomaterials and biomedical evaluation. She is the author of more than 150 articles in renowned international journals and three patents. She has been a guest lecturer at the universities in Lyon, Berlin, Bonn, Pisa, Cagliari and elsewhere.

She has held a range of leadership and organisational positions including Vice-Dean (1991–1995), the Head of the Chair of Pharmaceutical Technology, for two terms as the Dean of the Faculty of Pharmacy, University of Ljubljana (1999–2003), two terms as the Vice-Rector at the University of Ljubljana (2005–2013) and since June 2014 the President of the Management Committee of the Faculty of Pharmacy. She is a member of the American Chemical Society, USA, Controlled Release Society, USA, Association de pharmacie galenique industrielle, France and other associations and editorial boards of the *Journal of Drug Delivery Science and Technology*, *Journal of Biomedical*

Nanotechnology and European Journal of Pharmaceutics and Biopharmaceutics. She is a peer reviewer for more than 30 international scientific journals with an impact factor ranking. Due to her wide recognition and renown in the scientific community, she frequently assesses doctoral dissertations and research projects at Slovenian and foreign universities and agencies. Her expertise covers planning, development and assessment of medicinal products, and she also has experience in obtaining marketing authorisations of medical products.

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. Before 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 while 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 for his second term on 21 June 2014.

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 a 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 and 2009–2014 terms. In June 2014 she was re-elected as an employee representative of the Supervisory Board for her third 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 a sales representative for information systems, and later led information system installation projects.

He was a member of the Krka Supervisory Board as an employee representative already in the 2005–2009 term, was re-elected for another five-year term of office in 2009 and started his third term of office as an employee representative to the Supervisory Board in June 2014.

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 Company's business secrets.

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.



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

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

- Board of Directors;
- Sales Committee;
- Development Committee;
- Quality Committee;
- Investment Committee;
- Human Resource Committee;
- Information Technology Committee;
- Economics and Finance Committee; and
- Corporate Identity Committee.

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

Emoluments, reimbursements and other benefits for Management Board members are defined in work contracts concluded between the Supervisory Board and individual Management Board members. The Supervisory Board adopts the Rules Defining the Bonus Element of Management Board Remuneration, and also determines the remuneration for Management Board members. In line with the *Corporate Governance 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 any **conflict of interests** to the Supervisory Board and 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 in office for Krka.

MEMBERS OF THE MANAGEMENT BOARD

Jože Colarič

President of the Management Board and Chief Executive

Jože Colarič was born in 1955 in Brežice. After completing secondary school in Novo mesto, he studied at the Faculty of Economics in Ljubljana, 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.

His term of office began on 1 January 2005. At its meeting on 21 January 2009, the Supervisory Board appointed him for a further six-year term of office, starting on 1 January 2010. Under his management Krka has developed into one of the leading generic pharmaceutical companies and built solid foundations for future growth. On 21 January 2015, members of the Supervisory Board therefore unanimously appointed Mr Colarič to the post of the President of the Management Board for another six-year term of office, starting on 1 January 2016.

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 working at Krka in the Stability Department in 1984. In 1991 he became Head of Pharmaceutical Technology, 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. He began his second term on 31 July 2002, and was reappointed for the period from 31 July 2007 to 31 December 2009. He has been 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 six-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 at Krka in 1977 in the Economics sector. In 1979 she transferred to Investment Services. At the end of 1980, she temporarily left Krka for six years to teach 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 six-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 Warehousing and Transport 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 Supply Chain. 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 Supply Chain. 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 six-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 Pharmaceuticals 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 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.

Krka applies the principles of functional leadership. This means the business function in the controlling company manages the business function in a subsidiary. In this way Krka ensures that the objectives are met in practice. Supervision of every day operations in subsidiaries is carried out by means of regular reports, while the 'function covers function' principle means that specialist staff members from Krka are in daily contact with their 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 was certified again by an independent external audit in 2014.

In compliance with the 2014 annual plan, seventeen 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.

Unqualified opinion about the compliance of the internal auditing with the Standards

The above mentioned methods are globally recognised and serve as the basis for comprehensive risk management. Internal auditors apply them 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 pharmacokinetics and preclinical research, analytics development, supply chain, marketing, sales, information technology and certain other supporting processes. Regular internal audits were also conducted in three subsidiaries and several representative offices abroad. Internal auditors provided consultations in line with the Standards.

Internal auditors gave assurances that the audited fields and processes had a functioning and effective internal control system in place to achieve the objectives in those fields. However, as there was room for improvement, they made recommendations, categorised them by individual risk levels and 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 it implements at every level of operation to manage risk related to financial reporting. The purpose of internal controls is to ensure the reliability of financial reporting, and compliance with the applicable legislation and other internal and external regulations. The implementation of standard information systems in subsidiaries and the development of business information systems improve 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 Audit 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 2014 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,

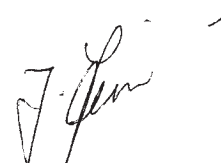
the Slovenian Directors' Association, the Managers' Association of Slovenia and are published on the website of the Ljubljana Stock Exchange.

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, 2 April 2015



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, Krka's Management Board adopted the Krka Group development strategy for the period from 2014 to 2018, and presented it to the Supervisory Board. The strategy will be revised for the strategic period from 2016 to 2020 by autumn 2015.

The achievement of strategic objectives is measured at three levels: the 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 individual companies within the Group.

Key strategic objectives until 2018

- To attain at least 5% average 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 that are of interest and available to us.
- To ensure that new products account for at least one-third of total sales.
- To launch the selected product portfolio in our target markets as the first generic pharmaceutical company.
- To strengthen the competitive advantage of the product portfolio.
- To maintain the largest possible share of vertically integrated products.
- To improve the cost-effective use of all assets.
- To increase product cost efficiency.
- To improve all business functions in innovative ways.
- 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 the sales potential in these areas.
- To strengthen our presence in key markets (Slovenia, Croatia, Romania, Ukraine, Russian Federation, Poland, Hungary, Czech Republic, Western Europe), focus on key customers and key products.
- To establish our presence in Western European markets by operating through our own marketing-and-sales companies and by marketing products under our own brands.
- To strengthen the pharmaceutical and chemical industries and increase the range of prescription products in three key therapeutic areas (medicines for the treatment of cardiovascular diseases, the alimentary tract and metabolism, and the central nervous system) while entering new therapeutic areas and expanding the range of non-prescription products in the selected therapeutic areas.
- To enhance vertical integration from development through to product manufacture.
- To ensure a permanent supply of incoming materials and optimise supply by aiming to continuously reduce 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 and research-and-development capacities and infrastructure.
- 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 consolidated profit of major shareholders generated in the year before is allocated to dividends in consideration of 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 maintaining English and Russian as the key languages of communication throughout the Group.
- To meet our economic, social and environmental responsibilities to the surroundings in which we operate.
- To operate according to principles of business excellence and strengthen the recognition of Krka and its positive public image.

Fulfilment of objectives in 2014

In mid-December 2014, Krka informed its interested public that it had recorded a significant drop in the value of the Russian rouble in the last quarter. This was expected to impact 2014 business operations. The decrease in the Russian rouble affected the Krka Group's sales revenues in the Russian Federation expressed in euros, and through negative net foreign exchange differences, the Krka Group profit as well.

Last year, sales of products and services reached EUR 1.192 billion, which was less than the initially planned EUR 1.245 billion. Price reductions of medicinal products in all markets and the devaluation of eastern European currencies, especially the Russian rouble and Ukrainian hryvnia, essentially affected sales revenues. The negative effects were partially mitigated by sales growth in terms of quantity and intensive marketing and sales activities carried out through our subsidiaries in Region West Europe and in other sales regions.

The largest sales region was Region East Europe. The Russian Federation remained the most important individual market.

Sales in markets outside Slovenia amounted to 93.5% (according to the plan: over 93%).

Prescription pharmaceuticals remained the most important product group, accounting for more than 83.1% of total sales (we planned over 80%).

Profit for the year totalled EUR 166 million, slightly below the projection, according to which it should have retained the 2013 level, i.e. EUR 173 million.

We achieved the planned increase in the number of employees in Slovenia and abroad, a total of 4.5% (the planned increase was slightly over 4%).

We spent EUR 174 million (instead of the planned EUR 164 million) on investments to increase and modernise production and research-and-development capacities and infrastructure. The increase was primarily the result of fast-paced investments.

Krka Group business objectives for 2015

Sales of products and services are estimated at EUR 1,260 million.

Sales outside Slovenia are expected to account for 94% of total sales.

Prescription pharmaceuticals remain the most important product group, comprising 81% of overall sales.

Profit is planned at the level attained in 2014.

The number of employees is projected to grow in Slovenia and abroad by 4%.

According to the plan, EUR 165 million will be allocated to investments, primarily to expand and modernise production, research-and-development capacities and infrastructure.

The operating plan for 2015 was prepared on the basis of certain assumptions, e.g. price variations, foreign currency variations and individual market conditions. In the event of

significant deviations, the Management Board will audit the annual plan and adjust it to the current situation.

Macroeconomic forecast for 2015

We expect the macro-economic situation in Krka's key markets to remain challenging in 2015. International

operations and the vertically integrated business model will support stable performance of Krka also in the future.

Macroeconomic forecasts for 2015 in figures

Country	Growth in pharmaceutical market (%)	Projected value of pharmaceutical market in EUR million at wholesale prices	FX rate (currency/EUR)
Slovenia	0	520	euro area
Croatia	-3	788	7.6
Romania	4	2,750	4.5
Russian Federation	-15	14,000	70
Ukraine	-10	2,400	28
Poland	2	5,150	4.2
Hungary	1	2,010	310
Czech Republic	4	1,850	27
Western Europe	4	190,000	euro area

Sources for pharmaceutical market forecasts: internal forecasts; Sources for foreign exchange rates: bank reports, internal forecasts.

The macroeconomic projections below were summarised primarily according to the external analysts.

SLOVENIA

In 2014, economic growth began strengthening in Slovenia in the second half of the year and exceeded 2% at the annual level. It was driven by exports. Domestic consumption and investments, however, did not recover enough. The bank rehabilitation was officially finished, but the financing of companies by banks remained modest. Analysts forecast a slight slow-down in economic growth in 2015. At the same time, exporting companies will be exposed to greater risks due to circumstances in key export markets.

In 2015, we expect the sales value of pharmaceuticals to remain the same as the year before. Sales are estimated at approximately EUR 520 million.

CROATIA

In 2014, Croatia recorded negative economic growth for the sixth subsequent year. The export trade and tourism recorded positive growth, but government and household spending remained on a downward trend. Also in 2014, Croatia failed to implement certain key structural reforms, so forecasts for an economic recovery in the coming year remain poor. Zero economic growth, a further increase in public debt and rising unemployment are expected in 2015.

The Croatian pharmaceutical market in 2015 is estimated at approximately EUR 788 million, or 3% less than the year before.

ROMANIA

Romania recorded very unbalanced economic growth rates in all quarters of 2014. The country nonetheless saw favourable economic growth of 2.5% at the annual level. Inflation gradually dropped during the year and reached lower levels than forecast by analysts. As a result, the central bank reduced interest rate several times last year and further reductions are expected in 2015. At the end of the year, the Romanian government reached an agreement with the European Commission and the International Monetary Fund on fiscal terms for the maintenance of financing also in 2015, which provides added stability for the domestic currency. In 2015, favourable macroeconomic trends are expected to continue.

In 2015, the value of the Romanian pharmaceutical market is expected to grow by 3 to 4% and reach approximately EUR 2.75 billion.

THE RUSSIAN FEDERATION

In the first three quarters of 2014, the Russian Federation recorded positive economic growth, but in the last quarter, the growth rate was negative. Last year, the Russian economy was under pressure from a combination of various negative external factors. The closing of international financial markets as part of the sanctions introduced by certain countries triggered lively foreign currency demand in the Russian market, and consequently severe devaluation of the Russian rouble followed, especially in the last quarter of the year. At the same time, oil prices, which are a vital source

of the state revenue, slumped. This additionally damaged confidence in the stability of the Russian financial system. In mid-December, one euro was trading at more than 90 roubles. After the substantial devaluation of the rouble, the central bank took strict measures to reduce liquidity in the domestic currency and thus steadied its uncontrolled devaluation. The economic sanctions and the decreasing value of the domestic currency also caused rising inflation, which is expected to exceed 10% this year. The forecasts for 2015 remain uncertain. Negative economic growth is expected, and its rate will primarily depend on two factors vital for Russia, i.e. changes in oil prices in the global market and the outcome of the Ukrainian crisis.

We expect the value of the Russian pharmaceutical market to grow by up to 10% in the local currency. The market in euros is estimated at approximately EUR 13 to 14 billion, a 15% drop compared to 2014.

UKRAINE

The conflict with Russia has put the Ukrainian economy under great pressure, because Russia used to be the Ukrainian key market, its vital supplier of energy resources and raw materials and an important financial partner. Due to the geopolitical instability, the interest of investors dwindled and economic activities decreased, resulting in negative economic growth, a high inflation rate of over 20% and consequently severe depreciation of the hryvnia. Forecasts for 2015 remain poor. The Ukrainian economy is expected to contract further. This will depend on further developments in the situation in the eastern part of the state and on the progress of the European Union integration process.

Given the economic conditions in the country and forecasts by independent analysts, we expect the Ukrainian pharmaceutical market, which already shrank significantly last year, to continue to contract at a negative (-10%) growth rate and to reach an annual market value of approximately EUR 2.4 billion.

POLAND

Last year, Poland again recorded economic growth, which was significantly higher than the European Union average. In the past few years, high economic growth rates have been the result of above-average growth of domestic consumption and investments. Inflation in Poland declined because of falling fuel prices and diminishing prices in its export markets. The inflation rate fell below the target value set by the central bank, so in the second half of 2014 the central bank decreased the key interest rate by 0.5 of a percentage point. Similar measures are expected in 2015 (i.e. further economic growth and steady exchange rate of the zloty).

Given the expected 2% growth, the value of the Polish pharmaceutical market will reach approximately EUR 5.15 billion.

HUNGARY

In 2014, Hungary recorded positive economic growth. The economy is expected to record somewhat lower, but still positive growth in 2015. Inflation declined significantly, so the central bank lowered interest rates several times and further reductions are expected in 2015. Unemployment was on a favourable downward trend. It peaked at 12% at the beginning of 2013, and decreased to a mere 7% at the end of 2014. According to forecasts, the instability of the exchange rate will gradually lessen in the future. Analysts also expect the slow currency depreciation trend recorded over the past few years to continue.

We estimated that in 2014 the Hungarian pharmaceutical market would grow by 1% and its value would amount to EUR 2.01 billion.

THE CZECH REPUBLIC

Similarly to Poland and Hungary, the Czech Republic also recorded favourable economic growth, which reached 3%. The inflation rate in the Czech Republic was on a downward trend and dropped to 0.5% at the end of the year. At the end of 2013, the value of the domestic currency saw a single drop, and since then the central bank has been intervening to prevent its value from rising. Analysts expect the central bank to keep intervening in the foreign currency market at least until mid-2016. They believe that the Czech economy will continue to grow by approximately 2.5% in 2015.

The Czech pharmaceutical market is expected to grow by 4% and its value to reach approximately EUR 1.85 billion.

WESTERN EUROPE

In 2014, economic growth strengthened in Western Europe compared to recent years. Even so, growth remains slow and uncertain. Austerity measures have halted the erosion of fiscal stability in individual member states, but these measures alone are not sufficient for economic recovery. The role of the European Central Bank is important for the stimulation of economic growth, and the bank has taken monetary measures following the model of the US Central Bank to stimulate lending to companies. These measures have a positive effect on deflationary pressures, which escalated last year, and according to analysts represent a risk to the long-term growth of the European economy. In 2015, analysts expect a slight increase in economic growth for the first time in a few years, exceeding 1%.

We expect the value of the Western European generic market to reach EUR 35 billion in 2015, which is a 4% increase compared to last year. The total value of the Western European pharmaceutical market is projected to exceed EUR 190 billion.

Risk management

The Krka Group regularly monitors its exposure to various forms of risk and adopts measures to manage those risks.

Risk management requires various approaches adjusted to specific types of risk. The Krka Group manages risks by applying the principle of functional leadership, meaning that the business function in the controlling company manages and supervises the same business function in all subsidiaries and thus ensures uniform risk management. Organisational units of the controlling company manage risks in the Krka Group. The types of risk they manage are related to their work, so they are familiar with them and employ suitably qualified personnel.

Risk management is based on the *Risk Register*, which is updated at least every two years. It includes a complete list of risks and corrective measures in the Group, and the business continuity management system with descriptions of unexpected circumstances and potential incidents along with solutions for maintaining our key processes operational and uninterrupted.

Please find below a summary of individual risks, their management and exposure.

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	Potential financial losses due to unfavourable exchange rate movements	Tracking financial markets, cooperating with the leading global financial institutions, following the latest practices in hedging against foreign exchange risks, defining maximum exposure to foreign currencies, and if necessary eliminating excessive risks by hedging with financial instruments or natural hedging	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 and of the related write-offs of receivables	Calculating credit ratings, restricting maximum exposure to individual customers, active management of receivables, utilising payment insurance instruments and 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 of 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 these by introducing contemporary approaches and methods, and by exploiting in-house and 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 legislation and their interpretation, begins in the early stages of developing a new product and continues throughout its life cycle. Together with regulatory bodies, Krka assesses its development solutions for each product and the planned content of marketing authorisation documentation through official consultative 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 in order to participate actively in drafting legislative amendments in this field.

SALES AND MARKETING RISK

The Krka Group has a broad marketing and sales network as it sells its products in over 70 countries around the world. It operates in a variety of geopolitical and macro-economic conditions, as well as in 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 monitor the risks that come with entering new markets, lowering prices of medicines in terms of local regulations of this area, as well as risks resulting from changing the prescribing practises. 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 and our own market research and analyses to monitor global, regional and local trends and based on them design a product portfolio which we will market. We monitor the efficiency of our marketing strategies and tactics with performance indicators, and exert systematic control over marketing activities, which we plan and analyse in cycles. 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 instructions for work. 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 our employees.

INTELLECTUAL PROPERTY RISK

Respect for the intellectual property rights of third parties, especially patent-related rights, is the 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 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 Krka, 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 the aspects of 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. When the product is already in the market, the pharmacovigilance system is used to establish, evaluate and respond to new findings on adverse effects and other safety aspects of medicines.

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, and 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 of the local legislation EU GMP and 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 minimise the possibility of receiving their resignation.

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 provides us with the human resources we require to meet our strategic, development and sales plans. 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 the Group's 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 therefore, 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 events 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 2014, 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.

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 continually monitor events on the electricity 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 the 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 our own maintenance trained employees and 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.

Identifying key employees and their potential in all work processes enables us to ensure the replacement of employees in key job 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

The Krka Group is exposed to currency risks due to its extensive international operations. The emphasis is 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.

In 2014, the currency exchange rates had negative effect on the business performance of the Krka Group.

Exchange rate losses resulted almost exclusively from the slump of the Russian rouble.

The largest portion of negative foreign exchange differences presented in the income statement was accrued due to the exposure of the Group to the Russian rouble. The exchange rate of the Russian rouble fluctuated widely in 2014. At the end of the first quarter, a 7% depreciation in the exchange rate was recorded in comparison to the beginning of the year. At the end of the second quarter, the exchange rate increased and almost completely neutralised the drop recorded in the first quarter. In the third quarter and at its end, the value of the rouble was 9% lower than at the beginning of the year. The fall was most notable in November and December. Only in the last quarter, its value dropped by 31%. Since the last quarter of the year is the most important in terms of the Group sales, the drop affected the Group's performance even more notably.

From the beginning to the end of 2014, the Russian rouble lost 37% of its value against the euro. The rouble-related exchange rate losses were affected by extended payment terms for customers and investment in additional production and distribution capacities of Krka-Rus. These were financed by loans of the controlling company to the subsidiary in the Russian rouble.

The gradual depreciation of the Russian rouble in 2014 was caused by the Ukrainian crisis and tightening of the sanctions that followed. In the second half of the year, the impact of sanctions was followed by the pronounced negative effect of falling oil prices, which resulted in destabilisation and loss of confidence in the Russian economy. The measures applied by the Russian Central Bank and government managed to slow the uncontrolled drop in the value of the Russian rouble, but its exchange rate remained unsteady.

Substantial exchange rate losses resulting from the depreciation of the Russian rouble were accrued in part due to the received payments, the majority of these being due to the revaluation of receivables due by buyers in the Russian rouble and business relations between the controlling company and its subsidiaries.

The instability of the exchange rate, increasing interest rate differences of the rouble against the euro and insufficient supply of financial instruments caused a sharp increase in the cost of hedging by derivatives. At the end of the year, hedging costs were additionally increased as a result of measures taken by the Central Bank to regulate exchange rates, in particular the increase in key interest rate.

Due to all this, the Krka Group did not hedge its financial position in the Russian rouble by derivatives, but tried to mitigate the depreciation effect by adjusting sales prices and purchases made in the rouble.

The value of the Ukrainian hryvnia fell by 41% against the euro in 2014. The Krka Group invoices Ukrainian buyers in the euro, so the depreciation of the hryvnia had no obvious negative effect on the performance of the Group. However, the crisis caused a decline in the purchasing power in Ukraine as well, which affected our performance.

The Krka Group generated foreign exchange losses due to the decrease in the Hungarian forint (6%), Serbian dinar (5%) and Polish zloty (3%), but they represent a small proportion in total foreign exchange differences recognised in the income statement. Other foreign currencies had no effect on our performance.

Value and volatility and key exchange rates

	31 Dec 2013	31 Dec 2014	Lowest value	Highest value	Average value	Standard deviation	Coefficient of variation* (%)
RUB	45.32	72.34	45.00	91.52	50.95	6.80	13.3
HRK	7.63	7.66	7.57	7.68	7.63	0.03	0.4
RON	4.47	4.48	4.38	4.55	4.44	0.04	0.9
PLN	4.15	4.27	4.10	4.31	4.18	0.03	0.8
CZK	27.43	27.74	27.33	28.00	27.54	0.14	0.5
HUF	297.04	315.54	298.63	316.84	308.71	3.96	1.3
UAH	11.30	19.23	10.79	19.78	15.73	2.41	15.3
RSD	114.64	120.96	114.64	122.63	117.25	2.04	1.7

* Standard deviation to mean value ratio

INTEREST RATE RISK

In 2014, the Krka Group was not exposed to changes in the reference interest rates, because all non-current loans were settled in the past, and the Group did not obtain any new non-current loans last year.

CREDIT RISK

The credit control process involves obtaining credit ratings for clients to which the controlling company and subsidiaries make product sales worth an annual EUR 100,000 or more, and regular, dynamic monitoring of customer payment discipline.

At the end of last year, more than 95% of trade receivables due by the Krka Group's buyers were included in the process of credit control.

In comparison to the beginning of 2014, total trade receivables increased at the end of the year, but the value of mature and outstanding receivables remained within the normal range acceptable for Krka. Krka believes that the payment discipline of buyers did not change.

Our policy of hedging trade receivables remained unchanged in the reported period.

At the end of the year, 75% of trade receivables due by buyers from the Russian Federation were secured with credit insurance. The value of trade receivables due by buyers from the Russian Federation in the local currency increased during the year because of extended terms of payment and rising sales prices in the rouble due to the falling exchange rate.

One half of our trade receivables due by Ukrainian buyers are hedged by bank guarantees or have credit insurance coverage. We noticed that terms of payment extended slightly because companies have difficulty accessing foreign currencies.

Approximately one half of all trade receivables of the Krka Group have credit insurance coverage or are hedged by financial instruments. Our policy of hedging receivables remained unchanged in 2014.

In 2014, Krka recorded no significant write-offs of trade receivables due by buyers, and no increase in problematic trade receivables.

LIQUIDITY RISK

Krka has earned a good reputation among business partners due to its financial discipline, investments in growth, operations financed primarily by its own financial assets and stable cash flows. The exposure of the Krka Group to liquidity risks was low, and other than some insubstantial current borrowings the Group accrued no debts.

The exposure of the Krka Group to liquidity risks in 2014 was low.

The controlling company manages the liquidity risks of the Krka Group centrally at the group level, and also prepares financial budget plans for subsidiaries and provides funds under convenient terms. Due to growing competitiveness among banking service providers, in 2014 Krka also managed

to reduce costs related to payment transactions and documentary operations with banks in several subsidiaries.

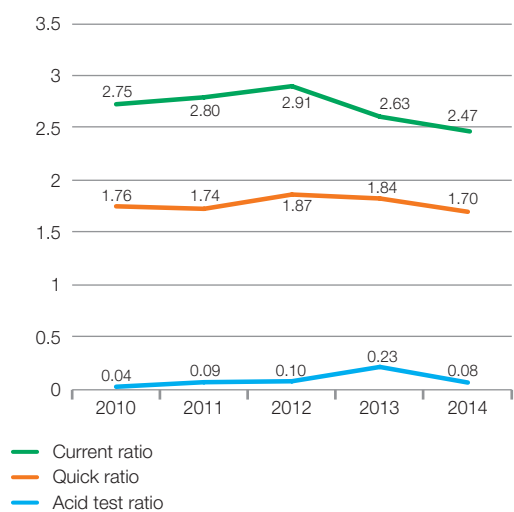
Please see liquidity ratios in the table below. Liquidity ratios were stable and presented good values.

Liquidity ratios of the Krka Group

Liquidity ratios	2014	2013	2012	2011	2010	5-year average
Current ratio	2.47	2.63	2.91	2.8	2.75	2.80
Quick ratio	1.70	1.84	1.87	1.74	1.76	1.82
Acid test ratio	0.08	0.23	0.1	0.09	0.04	0.11
Receivables turnover ratio	2.31	2.74	2.83	2.71	2.77	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

Changes in liquidity ratios of the Krka Group



insurance coverage and insurance cancellation, or an increase in damage deductibles 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.

The applied measures substantially contributed to the reduction in insurance premiums.

Krka carried out certain preventive measures in connection with cargo insurance to mitigate risks and thus increased cargo insurance effectiveness. Krka adopted measures to further increase the cost-effectiveness and availability of cars. Insurance is important to Krka also for managing risks related to new investment planning and implementation, as the projects may be carried out without disruptions and objectives met within the set deadlines.

PROPERTY, LIABILITY AND BUSINESS INTERRUPTION INSURANCE

Property, liability and business interruption insurance provide for optimal financial and legal protection at the Krka Group level and ensure long-term stable product supply, growth and financial power. We adjust the scope of insurance and insurance coverage to sales trends and tangible asset growth, and maintain high technical and organisational standards in the area of prevention.

Due to economy of scale, discounts are granted on insurance.

We conclude insurance policies abroad with international and local insurance companies according to the international insurance programme on behalf of our subsidiaries and representative offices. The controlling company thoroughly examined the insurance policies concluded by the Group companies for 2014, and reviewed more than 98% of the total insurance premium policies in the insurance market. Insurance costs and the coverage at the Krka Group level were optimised, so certain insurance items were cancelled and the Group's deductibles increased. Any change in

Investor and share information

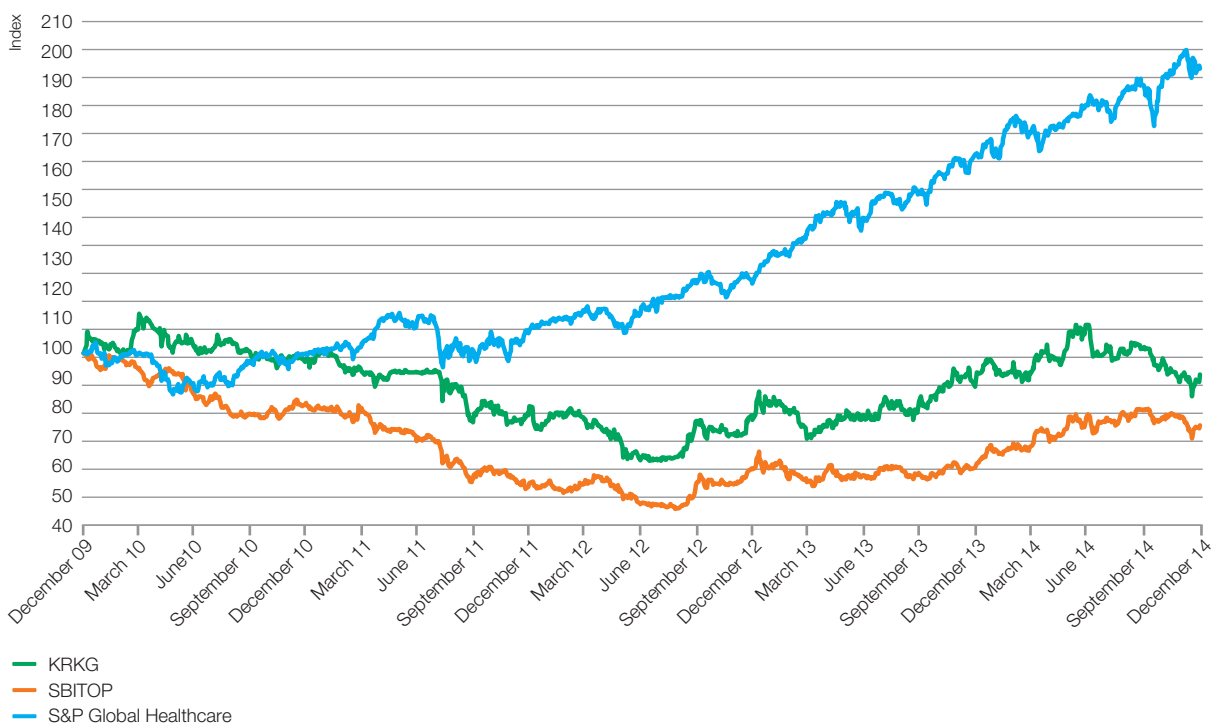
Shareholder return

KRKA SHARE PRICE

EUR	2014	2013	2012	2011	2010
Year high	70.00	61.00	52.70	64.48	72.69
Year low	55.00	46.05	41.40	49.00	60.94
31 December	59.60	60.00	50.00	52.90	62.95
Annual increase (%)	-1	20	-5	-16	-2

In 2014, the Krka share price decreased by 1%. In the same period, the value of the blue-chip index of the Ljubljana Stock Exchange (SBITOP) increased by 20%.

Krka share price performance in comparison with selected share indices (beginning of 2010 = 100)



In the past five years, the Krka share price has outperformed the SBITOP blue-chip index, while in the same period the

S&P Global Healthcare index has outperformed the Krka share price.

DIVIDEND POLICY

The Annual General Meeting decides on the proposed dividend amount. The pay-out commences 60 days after the Annual General Meeting. In 2014, we allocated 40% of the profit generated in 2013 for dividends; gross dividend per share increased by more than 30%.

The dividend increased by over 30%.

In compliance with the five-year strategy adopted at the end of 2013, in the said period we will allocate up to 50% of the consolidated profit of major shareholders generated in the year before for dividends. When determining the dividend pay-out in a particular year, Krka's financial requirements for investments and take-overs in that year are also taken into consideration.

	2014	2013	2012	2011	2010
Earnings per share ¹ (in EUR)	5.07	5.24	4.80	4.85	5.06
Gross dividend per share ² (in EUR)	2.10	1.61	1.50	1.40	1.10
Dividend pay-out ratio ³ (%)	40.1	33.5	31	28	21
Dividend yield ⁴ (%)	3.5	2.7	3.0	2.6	1.7

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

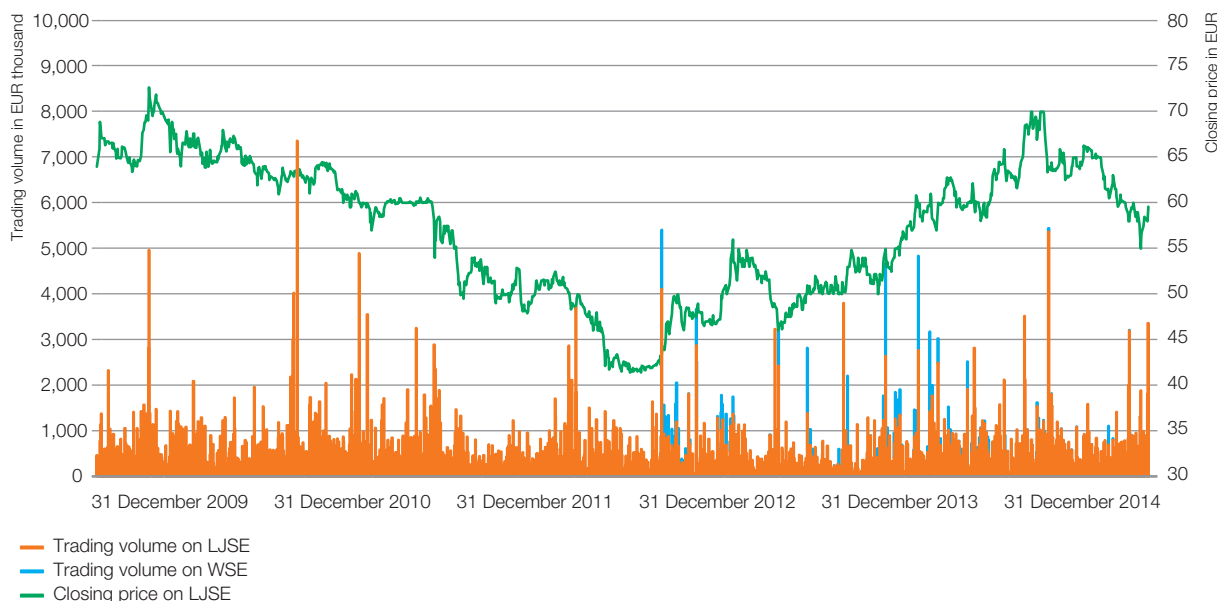
⁴ Gross dividend per share/Share price as at 31 December

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 2009 to 2014



Source: The Ljubljana and Warsaw Stock Exchanges

Krka shares are the most traded security on the Ljubljana Stock Exchange. In 2014, the average daily trading volume of Krka shares on the Ljubljana Stock Exchange reached EUR 0.7 million. The trading volume on the Warsaw Stock

Exchange increased in the first half of the year, but on average did not reach the trading volume seen on the Ljubljana Stock Exchange.

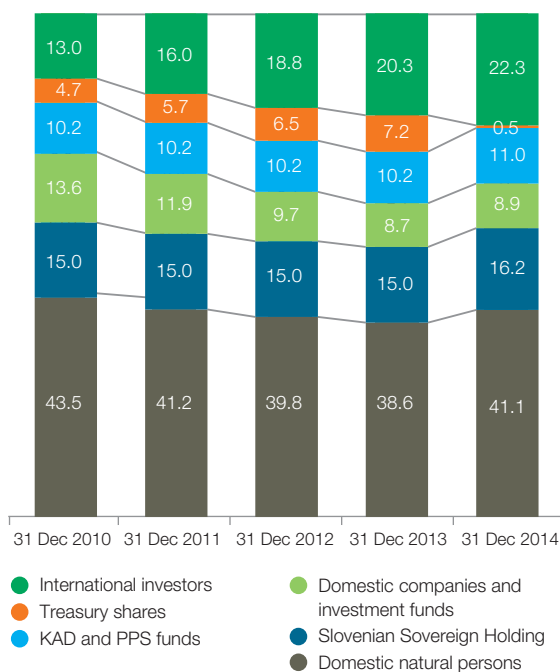
The ten largest shareholders on 31 December 2014

	Shareholder	Number of shares	Proportion of shares in the number of total issued shares (%)
1	SDH, D. D.	5,312,070	16.20
2	KAPITALSKA DRUŽBA, D. D.	3,493,030	10.65
3	SOCIETE GENERALE-SPLITSKA BANKA D. D.	1,494,892	4.56
4	HYPO ALPE-ADRIA-BANK D. D.	1,079,254	3.29
5	KDPW	512,807	1.56
6	LUKA KOPER, D. D.	433,970	1.32
7	NEW WORLD FUND INC.	400,000	1.22
8	ZAVAROVALNICA TRIGLAV, D. D.	388,300	1.18
9	THE BANK OF NEW YORK MELLON	334,239	1.02
10	UNICREDIT BANK HUNGARY ZRT	242,866	0.74
		13,691,428	41.75

Krka had 61,449 shareholders at the end of 2014, which was 4% less than at the end of 2013.

Krka cancelled 2,632,672 treasury shares or 7.431% of share capital.

In compliance with the Resolution adopted at the 19th Annual General Meeting of 3 July 2014, Krka decreased its share capital by cancelling 2,632,672 treasury shares, or 7.431% of all issued shares. After the cancellation, share capital was divided among 32,793,448 shares. The 19th Annual General Meeting authorised the Management Board for a period of thirty-six months to acquire treasury shares in total of 10% of share capital. After the authorisation was issued, Krka acquired 173,279 treasury shares totalling EUR 10,659,136. On 31 December 2014, Krka held 173,279 treasury shares, which is 0.528% of the Company's share capital.

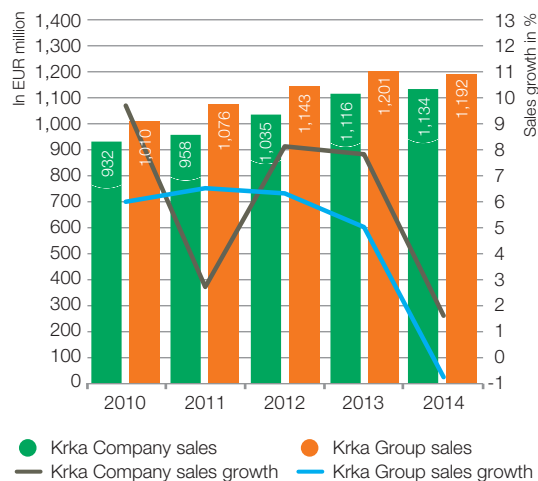
Shareholder structure (%)

Due to the cancellation of treasury shares in 2014, the ownership structure and ownership stakes at the end of 2014 cannot be directly compared to previous periods.

Business operations analysis

Operating revenues

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



The Krka Group sold products and services worth EUR 1,191.6 million, which is EUR 9.2 million, or 0.8% less than in 2013. Average annual sales growth over the past five years has been 4.6%.

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

Other operating income amounted to EUR 70.7 million, an increase of EUR 64.9 million compared to 2013, mostly due to the reversal of provisions and receipt of damages.

On 31 December 2013, the Krka Group's provisions amounted to EUR 47.5 million. The item was formed for potential liabilities arising from a procedure of the European Commission related to an alleged violation of the law on competition in the sale of perindopril to EU markets. In July 2014, Krka received a decision of the European Commission according to which it was liable to pay a penalty in the amount of EUR 10.0 million. Krka reversed the remaining provisions in the amount of EUR 37.5 million, and in September 2014 filed an action against the European Commission at the Court of Justice in Luxembourg.

The alleged clopidogrel patent infringement case brought against Krka by Sanofi Aventis of France Krka ended in settlement. Krka reversed the unused provisions in the amount of EUR 1.4 million, which is the difference between the formed provisions of EUR 1.5 million and the amount paid to the plaintiff. Krka reversed provisions totalling EUR 39.0 million.

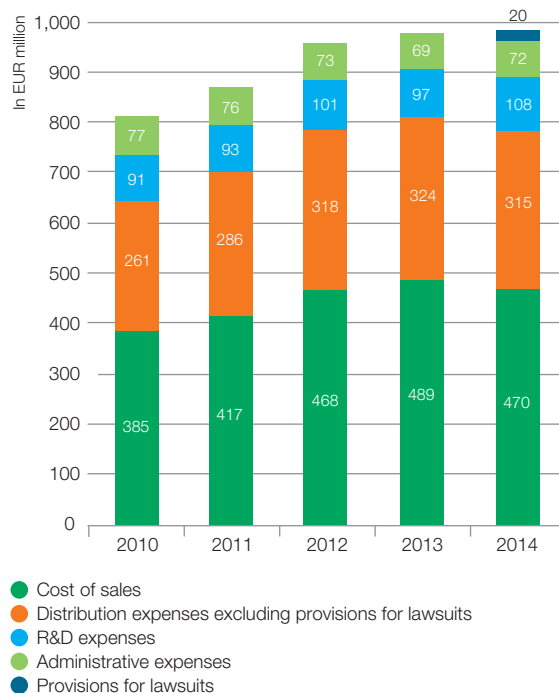
In 2014, Krka received EUR 20.8 million as compensation for damages and court costs relating to the dispute between Krka and AstraZeneca in the matter of the unjustified temporary ban on sales of Krka's medicine Esomeprazole in Great Britain, in force from mid-2010 until 2011.

Operating expenses

The Krka Group incurred EUR 985.4 million in operating expenses, up EUR 6.3 million or 0.6% compared to 2013.

The Krka Group's operating expenses include cost of sales, totalling EUR 470.1 million, distribution expenses of EUR 334.8 million, R&D expenses totalling EUR 108.4 million and administrative expenses of EUR 72.1 million. Operating expenses to sales ratio in the past five years ranged between 81% in 2010 and 84% in 2012. In 2014, the operating expenses to sales ratio totalled 83%.

Structure of the Group's operating expenses by function



The largest operating expense item is the cost of sales, which declined by 4% compared to 2013. The cost of sales to sales ratio was 39%. The cost of sales item is also influenced by changes in the inventories of finished products. Distribution expenses, which include EUR 20.0 million of newly formed provisions for lawsuits, amounted to 28% of total sales in 2014, an increase of 4% compared to the previous year. The newly formed provision was formed for the dispute between Krka and AstraZeneca in which AstraZeneca appealed against the ruling of the court (see "Operating revenues" for

more details). Exclusive of provisions, distribution expenses decreased slightly less than by 3% and the distribution expenses to sales ratio was 26%. R&D expenses amounted

to 9% of total sales, an increase of 11% compared to 2013. Administrative expenses amounted to 6% of total sales, an increase of 4% compared to 2013.

Financial income and expenses

In EUR thousand	Krka Group					Krka Company				
	2014	2013	2012	2011	2010	2014	2013	2012	2011	2010
Financial income	1,486	2,114	5,418	493	7,150	9,178	5,316	22,431	14,046	10,637
Financial expenses	-103,126	-28,361	-7,227	-12,079	-3,912	-112,313	-28,967	-7,690	-11,822	-3,637
Net financial expenses	-101,640	-26,247	-1,809	-11,586	3,238	-103,135	-23,651	14,741	2,224	7,000

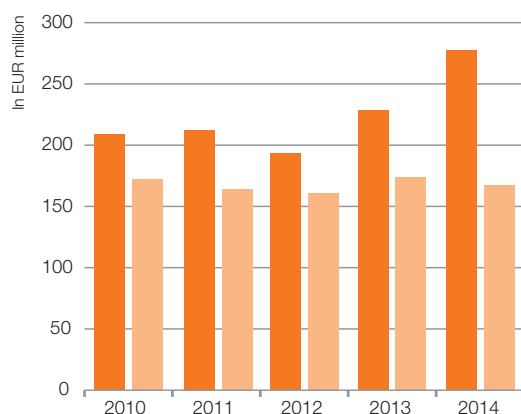
In 2014, the Group's net financial balance decreased compared to 2013. This was caused by negative foreign exchange differences totalling EUR 100.1 million in 2014, or EUR 72.5 million more than in 2013, when the Krka Group recorded negative foreign exchange differences of EUR 27.6 million. The majority of negative foreign exchange differences (of which one third arose from payments, while two thirds were related to the revaluation of receivables and loans) resulted from the devaluation of the Russian rouble. Detailed information on foreign exchange differences is under "Risk management".

Interest income represented EUR 1.4 million in financial income, and the change in fair value of investments through profit or loss, EUR 0.1 million, respectively.

Interest expenses for non-current and current borrowings represented EUR 0.1 million in financial expenses, and other financial expenses, EUR 2.9 million, respectively.

Profit or loss

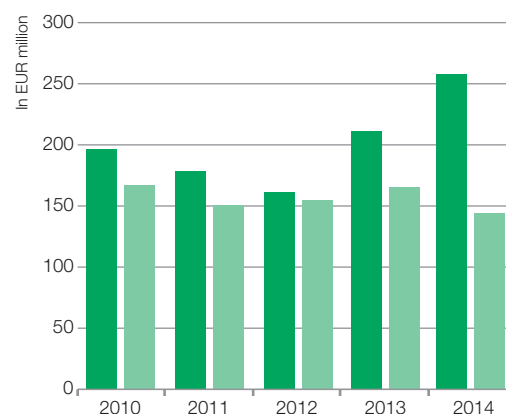
Operating profit and profit for the year



- Krka Group operating profit
- Krka Group profit for the year

The operating profit of the Krka Group totalled EUR 277.0 million, up EUR 49.4 million or 22% compared to 2013. EBITDA in the amount of EUR 374.5 million rose by EUR 52.8 million or 16%.

Profit before tax decreased by EUR 26.0 million, or 13%, and amounted to EUR 175.3 million in 2014. The Group's effective tax rate was 5.2%, down 9.0 percentage points. Reversal of provisions for lawsuits that were formed in the past resulted in a reduced effective tax rate. These namely increased profit before tax through revenues, but did not decrease the tax



- Krka Company operating profit
- Krka Company profit for the year

base, because the tax on provisions was calculated in the year when they were formed. Considering investment dynamics, investment relief and relief related to R&D increased considerably in 2014.

In 2014, the Krka Group generated profit totalling EUR 166.2 million, down EUR 6.6 million, or 4%, compared to the year before.

Assets

In EUR thousand	Krka Group					Krka Company				
	2014	Share (%)	2013	Share (%)	Index 2014/13	2014	Share (%)	2013	Share (%)	Index 2014/13
Non-current assets	1,008,830	56.2	973,954	55.3	104	1,015,850	57.4	945,947	55.6	107
Property, plant and equipment	846,478	47.1	823,704	46.8	103	623,622	35.3	563,978	33.2	111
Intangible assets	120,325	6.7	115,744	6.6	104	33,120	1.9	28,303	1.7	117
Investments and loans	14,332	0.8	11,076	0.6	129	334,093	18.9	324,354	19.1	103
Other	27,695	1.5	23,430	1.3	118	25,015	1.4	29,312	1.7	85
Current assets	786,915	43.8	785,930	44.7	100	752,637	42.6	755,288	44.4	100
Inventories	246,260	13.7	235,820	13.4	104	201,081	11.4	190,968	11.2	105
Trade receivables	467,841	26.1	430,435	24.5	109	460,652	26.0	426,195	25.1	108
Other	72,814	4.1	119,675	6.8	61	90,904	5.1	138,125	8.1	66
Total assets	1,795,745	100.0	1,759,884	100.0	102	1,768,487	100.0	1,701,235	100.0	104

At the end of 2014, Krka Group assets amounted to EUR 1,795.7 million, which was EUR 35.9 million or 2% more than at the end of 2013. Non-current assets grew primarily due to the increase in property, plant and equipment, up EUR 22.8 million, or 3%. Among current assets, inventories increased by 4% and trade receivables by 9%. The proportion of non-current to current assets in the total asset structure was slightly different from the year-end of 2013, because the non-current assets increased by 0.9 of a percentage point and amounted to 56.2%.

The total value of non-current assets amounted to EUR 1,008.8 million, an increase of 4% compared to 2013.

The largest item of non-current assets was property, plant and equipment worth EUR 846.5 million and representing 47% of the Group's total assets. Intangible assets represented 7% of total assets.

Current assets amounted to EUR 786.9 million, remaining the same as at the end of 2013. Trade receivables at EUR 467.8 million represented the largest current asset item, while inventories amounted to EUR 246.3 million. The total value of inventories and receivables compared to 2013 increased by 47.8 million or 7%. All other current asset items decreased, among them loans, by EUR 19.0 million, and cash and cash equivalents by EUR 43.7 million.

Equity and liabilities

In EUR thousand	Krka Group					Krka Company				
	2014	Share (%)	2013	Share (%)	Index 2014/13	2014	Share (%)	2013	Share (%)	Index 2014/13
Equity	1,351,899	75.3	1,332,611	75.7	101	1,381,313	78.1	1,332,246	78.3	104
Non-current liabilities	125,421	7.0	128,833	7.3	97	92,462	5.2	98,778	5.8	94
Current liabilities	318,425	17.7	298,440	17.0	107	294,712	16.7	270,211	15.9	109
Total equity and liabilities	1,795,745	100.0	1,759,884	100.0	102	1,768,487	100.0	1,701,235	100.0	104

The Group's equity increased by EUR 19.3 million compared to the end of 2013. This may be attributed to the Group profit for the year of EUR 166.2 million. Equity was reduced by dividend pay-outs of EUR 68.9 million, further purchase of treasury shares in the amount of EUR 15.1 million, and other comprehensive income after tax totalling EUR 62.9 million. Translation reserves of EUR 50.0 million represented the largest item in this total.

The Krka Group had no borrowings at the end of 2014. Provisions of EUR 97.5 million decreased by 5% in

comparison with the end of 2013, especially due to the utilisation and reversal of provisions for lawsuits in the amount of EUR 49.1 million. At the same time, the group formed provisions of EUR 20.0 million (please see more on provisions under "Operating revenues" and "Operating expenses").

Among current liabilities of the Krka Group, trade payables decreased by EUR 16.2 million and income tax liabilities by EUR 5.7 million. Current borrowings rose by EUR 38.0 million and other current liabilities by EUR 3.8 million.

Cash flow

In EUR thousand	Krka Group		Krka Company	
	2014	2013	2014	2013
Net cash flow from operating activities	170,870	302,751	156,403	251,954
Net cash flow from investing activities	-166,216	-164,065	-142,063	-146,522
Net cash flow from financing activities	-46,222	-93,683	-53,417	-68,821
Net increase/decrease in cash and cash equivalents	-41,568	45,003	-39,077	36,611

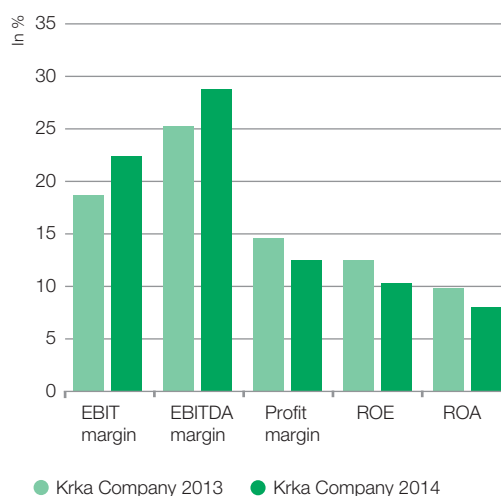
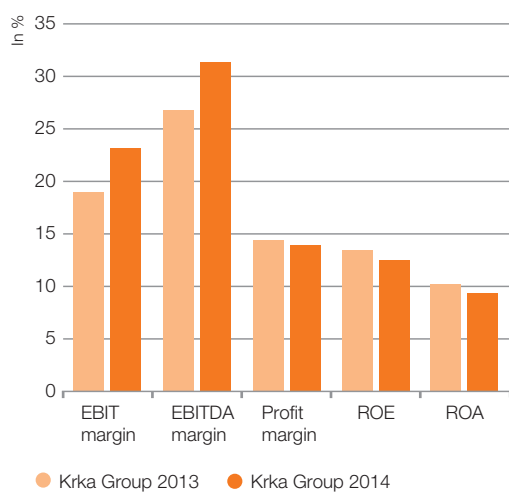
The Krka Group reduced its cash and cash equivalents by EUR 41.6 million in 2014, because positive cash flow from operating activities did not reach the negative cash flows from investment and financing activities.

The Krka Group generated profit from operations before changes in net current assets totalling EUR 275.4 million. Changes in net current asset items with a positive effect on profit included changes in deferred revenues and other current liabilities, while operating receivables, inventories, operating liabilities and provisions presented a negative effect on profit.

Negative cash flow from investing activities was accrued primarily due to acquisition of property, plant and equipment totalling EUR 174.0 million, the acquisition of intangible assets of EUR 12.9 million, and non-current loans of EUR 2.1 million. Negative cash flow from financing was accrued primarily due to payments of dividends and other distributions to owners in total of EUR 68.7 million and the repurchase of treasury shares totalling EUR 15.1 million.

Performance ratios

Profitability ratios



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

Operating figures for the past five years

In EUR thousand	Krka Group					Krka Company				
	2014	2013	2012	2011	2010	2014	2013	2012	2011	2010
Revenues	1,191,614	1,200,827	1,143,301	1,075,627	1,010,021	1,134,169	1,116,339	1,035,280	957,653	932,366
EBIT	276,953	227,588	192,308	211,561	208,134	257,167	211,527	161,382	178,150	196,397
- EBIT margin	23.2%	19.0%	16.8%	19.7%	20.6%	22.7%	18.9%	15.6%	18.6%	21.1%
EBITDA	374,535	321,732	282,276	298,747	289,855	329,217	282,993	230,994	244,564	257,132
- EBITDA margin	31.4%	26.8%	24.7%	27.8%	28.7%	29.0%	25.4%	22.3%	25.5%	27.6%
Profit for the year	166,161	172,766	159,839	162,735	170,918	144,385	164,673	154,615	150,392	165,920
- Profit margin	13.9%	14.4%	14.0%	15.1%	16.9%	12.7%	14.8%	14.9%	15.7%	17.8%
Assets	1,795,745	1,759,884	1,626,748	1,534,027	1,488,204	1,768,487	1,701,235	1,565,918	1,463,062	1,445,869
ROA	9.3%	10.2%	10.1%	10.8%	12.1%	8.3%	10.1%	10.2%	10.3%	12.0%
Equity	1,351,899	1,332,611	1,240,521	1,139,754	1,053,327	1,381,313	1,332,246	1,232,215	1,140,485	1,058,154
ROE	12.4%	13.4%	13.4%	14.8%	17.3%	10.6%	12.8%	13.0%	13.7%	16.7%

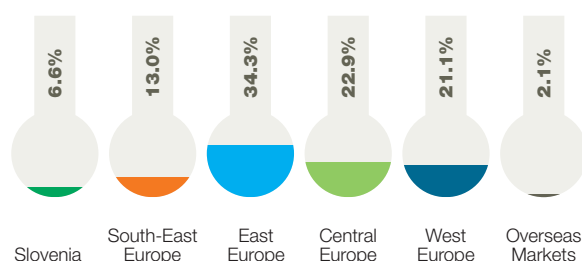
Marketing and sales

In 2014, the Krka Group generated sales worth EUR 1,191.6 million, which was almost the same as the year before. However, the Krka Company generated sales of EUR 1,134.2 million, exceeding the 2013 sales figure by 1.6%. In terms of volume, sales grew by 10% in 2014.

Sales by region

Krka's sales were highest in Region East Europe, where they totalled EUR 408.7 million or 34.3% of total Krka Group sales. Region Central Europe recorded the second highest sales, EUR 273 million, or 22.9% of total Krka Group sales. The third highest sales were recorded by Region West Europe, with a 21.1% share totalling EUR 251.1 million. Sales in Region South-East Europe totalled EUR 155.3 million (13.0%) and in Overseas Markets EUR 25.5 million (2.1%), respectively. Sales in Slovenia amounted to EUR 78 million, or 6.6% of total Krka Group sales.

Group sales by region in 2014



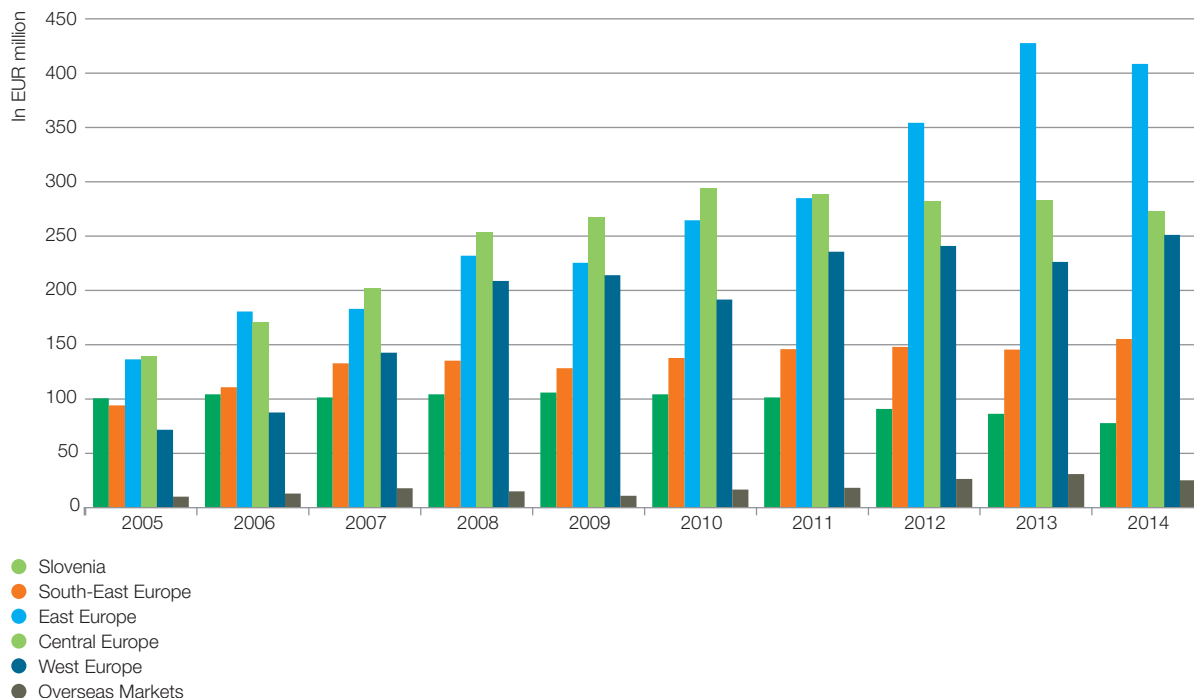
Krka Group and Krka Company sales by region

In EUR thousand	Krka Group			Krka Company		
	2014	2013	Index 2014/13	2014	2013	Index 2014/13
Slovenia	78,029	86,596	90	49,605	57,476	86
South-East Europe	155,328	145,808	107	177,954	164,139	108
East Europe	408,650	427,803	96	379,308	388,885	98
Central Europe	272,981	282,940	96	272,230	279,649	97
West Europe	251,124	226,399	111	232,648	198,673	117
Overseas Markets	25,502	31,281	82	22,424	27,517	81
Total	1,191,614	1,200,827	99	1,134,169	1,116,339	102

Krka Group quarterly sales by region

In EUR thousand	2014				2013			
	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter
Slovenia	19,286	19,134	19,599	20,010	21,086	22,167	21,862	21,481
South-East Europe	34,158	41,181	31,629	48,360	34,240	33,786	30,597	47,185
East Europe	116,206	104,557	80,879	107,008	100,518	110,679	86,136	130,470
Central Europe	62,093	68,121	66,202	76,565	63,524	71,408	68,731	79,277
West Europe	59,790	62,541	54,931	73,862	64,986	61,717	44,521	55,175
Overseas Markets	6,484	5,819	5,424	7,775	10,073	2,887	8,887	9,434
Total	298,017	301,353	258,664	333,580	294,427	302,644	260,734	343,022

Krka Group sales by region in the past ten years



Slovenia

Last year, sales in the domestic market reached EUR 78 million. Prescription pharmaceuticals comprised more than 81% of product sales, non-prescription products more than 14% and animal health products over 4%. Sales of the health spa and tourist services of Terme Krka reached EUR 30 million.

The introduction of new therapeutic groups, the pressure to reduce prices and consumption of medicines represented a challenge for us. In terms of value, sales did not reach last year's figures, but Krka nevertheless retained the leading position among the manufacturers with an almost 10 per-cent share.

In Slovenia, Krka strengthened its leading position in the production of medicines for the treatment of hypertension and hyperlipidemia.

Products from certain therapeutic groups achieved especially good sales results. In particular, we further strengthened our leading position with medicines for the treatment of hypertension, hyperlipidemia and pain. We strengthened the

leading position among manufacturers with our medicines for the reduction of gastric acid and medicines for treating the central nervous system. We substantially strengthened our market position in the group of antedementia medicines.

The most important contributors to sales of prescription pharmaceuticals included medicines for the treatment of cardiovascular diseases (almost 43%), medicines for the treatment of the central nervous system (more than 19%), and medicines for the treatment of diseases of the alimentary tract and metabolism (exceeding 11%).

We paid special attention to establishing new brands: Tolura (telmisartan), Tolucombi (telmisartan/hydrochlorothiazide) and Sobycor (bisoprolol). We also concentrated on marketing established brands like Prenessa (perindopril), Prenewel (perindopril/indapamide), Amlessa (perindopril/amlodipine), Sorvasta (rosuvastatin), Doreta (paracetamol/tramadol) and Nalgesin (naproxen). Krka's range of non-prescription products was expanded with the nasal decongestant Septanazal. Fypryst Combo (fipronil/S-methoprene) is an important addition to Krka's range of animal health products.

Krka Group market position in Slovenia

We hold a 9.8% market share, retaining the leading position among pharmaceutical companies.

Our products are market leaders in:

- the group of non-steroidal anti-inflammatory and antirheumatic products, with a market share of more than 65%;
- the proton pump inhibitor group, with more than a 45% market share;
- the group of agents acting on the renin-angiotensin system, with a market share of more than 45%;
- the statin group, with a market share of approximately 45%; and
- the group of antipsychotics, antedementia medicines and antidepressants, with a market share of approximately 20%.

We are the leading supplier of medicines with atorvastatin, diclofenac, enalapril, carvedilol, quetiapine, losartan, including the combination with hydrochlorothiazide; omeprazole, pantoprazole, perindopril, including combinations with amlodipine and indapamide; ramipril, rosuvastatin, sertraline and simvastatin and tramadol in combination with paracetamol.

The best-selling prescription pharmaceuticals include Nalgesin (naproxen), Prenessa (perindopril) and Prenewel (indapamide/perindopril) and Nolpaza (pantoprazole).

South-East Europe

Sales of our products amounted to EUR 155.3 million in the markets of South-Eastern Europe, which was 7% more than in 2013. The region's largest market, Romania, essentially contributed to the increase in sales, with 21% growth over the year before. In terms of growth, the three large markets of the region followed in this order: Macedonia, Serbia and Bulgaria. They were followed by three small markets: Kosovo, Albania and Montenegro. Especially because of the drop in prices, sales in Croatia and Bosnia and Herzegovina fell below the levels of the year before.

In **Romania**, which is one of Krka's key markets, our sales reached EUR 61.2 million, thus strengthening the country's position as the market leader in Region South-East Europe

and Krka's position as the leading generic pharmaceutical company in this market. Prescription products account for the largest share in sales, in particular Atoris (atorvastatin), Roswera (rosuvastatin), Prenessa/Co-Prenessa (perindopril, also in combination with indapamide), Karbis (candesartan), Tolura (telmisartan), Enap (enalapril) and Nolpaza (pantoprazole).

In Romania, we are the first among foreign generic pharmaceutical companies, with a 3% market share.

Krka's range of non-prescription products was expanded with two new brands, Septanazal and Septoacqua, while our animal health programme was strengthened with the launch of two products, Fypryst Combo (fipronil/S-methoprene) and Amflee (fipronil).

Krka Group market position in Romania

In Romania, we are the first among foreign generic pharmaceutical companies, with a 3% market share.

In 2014, Krka achieved double-digit market growth, exceeding overall growth in the market.

Our products are among the market leaders in:

- the statin group, with a more than 25% market share;
- the antimicrobial group (fluoroquinolones), with a market share of approximately 25%;
- the group of angiotensin II receptor antagonists and their combinations with diuretics, with a market share of approximately 25%;
- the group of analgesics and antipyretics, with a market share of approximately 15%;
- the cerebral and peripheral vasotherapeutic group, with a market share of approximately 15%;
- the ACE inhibitors group and their combinations with diuretics, with a market share of approximately 15%; and
- the proton pump inhibitor group, with more than a 10% market share.

We are the leading supplier of medicines containing the following active substances: ciprofloxacin, enalapril, ginkgo biloba, carvedilol, lansoprazole, losartan, mirtazapine, norfloxacin, telmisartan and tramadol, including the combination with paracetamol.

We are the leading supplier of generic medicines containing the following active substances: amlodipine, atorvastatin, esomeprazole, gliclazide, candesartan, pantoprazole, perindopril in combination with indapamide, pramipexole, ropinirole and rosuvastatin.

Croatia is a key market and ranks second among the regional markets. Sales reached EUR 28 million, so Krka retained fourth place among the manufacturers of generic medicines and ranked second in sales of animal health medicines.

Prescription products contributed the largest portion to sales, in particular Atoris (atorvastatin), Roswera (rosuvastatin), Nolpaza (pantoprazole), Emanera (esomeprazole), Perineva (perindopril), Co-Perineva (perindopril/indapamide), Dalneva

(perindopril/amlodipine), Valsacor (valsartan) and Helex (alprazolam). In 2014, Vizarsin ODT (sildenafil), Elicea Q-Tab (escitalopram), Gliclada 60 mg (gliclazide), Tolucombi (telmisartan/hydrochlorothiazide), Sobycor (bisoprolol) and Atordapin (atorvastatin/amlodipine); the oncology products Tolnexa (docetaxel), Cansata (capecitabine), Lortanda (letrozole) and Etadron (exemestane) were added to Krka's range of products.

Krka Group market position in Croatia

In Croatia, we ranked second among foreign generic pharmaceutical companies, with a 4.5% market share.

Our products are market leaders in:

- the group of angiotensin II receptor antagonists and their combinations with diuretics, with a market share of approximately 30%;
- the statin group, with a market share of approximately 25%;

Our products are among the market leaders in:

- the anxiolytic group, with a market share of more than 20%;
- the fluoroquinolone antimicrobial group, with a market share of more than 20%;
- the proton pump inhibitor group, with a market share of more than 20%; and
- the ACE inhibitors group and their combinations with diuretics, with a market share of more than 15%.

We are the leading supplier of medicines with the active substances alprazolam, dexamethasone, esomeprazole, perindopril in combination with indapamide, clarithromycin, lansoprazole, rosuvastatin and valsartan in combination with hydrochlorothiazide.

We are the leading supplier of generic medicines containing the following active substances: atorvastatin, gliclazide and perindopril in combination with amlodipine.

In **Bosnia and Herzegovina**, the pressure to reduce the reference prices of key products substantially impacted sales. Sales reached EUR 17.5 million, which was slightly lower than the year before. Prescription products contributed most to sales, among them Enap (enalapril), Lorista (losartan), Naklofen (diclofenac), Lexaurin (bromazepam), Valsacor (valsartan) and Atoris (atorvastatin). We recorded a sales increase in non-prescription and animal health products.

In **Macedonia**, we remain the leading foreign generic manufacturer of pharmaceuticals. Sales reached EUR 15 million, an increase of 2%. Growth in this particular market was recorded for the tenth subsequent year. Despite the constant reduction in reference prices, prescription pharmaceuticals contributed most to the increase in sales value. We plan to increase sales and maintain the high market share also in the future.

In Macedonia, we recorded sales growth for the tenth consecutive year.

Sales of products from all three product groups totalled EUR 13.4 million last year in **Serbia**, which is 19% more than a year before. The increase was recorded primarily due to figures generated by sales of prescription products. In **Bulgaria**, we launched 14 new products in 43 strengths and packages, exceeding sales generated in 2013 by EUR 10.9 million. Krka remains one of the leading suppliers of medicines in **Kosovo**, where sales reached EUR 5 million, up 10% over the year before. Sales exceeded EUR 3.2 million in **Albania**, an almost 30% rise compared to the year before. This was possible because we launched several new products and substantially increased quantities of products sold. In **Montenegro**, sales were primarily generated through public tenders. Our total sales were the most substantial so far, exceeding one million euros.

East Europe

Region East Europe presented growth in a number of markets, but not in our key target markets, the Russian Federation and Ukraine. Sales in Kazakhstan also declined compared to the year before. Although total sales value dropped in comparison to the year before, Region East Europe remained Krka's leading area.

Krka's key and largest market is the **Russian Federation**. Last year, it recorded total sales of EUR 282.1 million, or 5% less than the year before. The sales value expressed in euros fell due to the declining local currency exchange rates in the third, and in particular in the fourth, quarter of the year. The sales value expressed in the Russian rouble, however, was on an upward trend also in 2014, not only in terms of sales, but also in terms of quantity.

According to market analysts, Krka's statins and sartans ranked first by the number of patients using them in the Russian Federation.

According to the sales value achieved, our best-selling product was Lorista (losartan). Products for human use followed in this order: Atoris (atorvastatin) and Enap (enalapril), including the combination with hydrochlorothiazide; and Zyllt (clopidogrel), Herbion, Perineva (perindopril), including the combination with indapamide; Nolpaza (pantoprazole), Orsoten (orlistat), Nolicin (norfloxacin) and Neopax (imatinib). Atoris (atorvastatin) recorded especially high growth. Certain other products launched in the last two years have been successfully established: Emanera (esomeprazole), Dalneva (perindopril/amlodipine), Vamloset (valsartan/amlodipine) and Roxera (rosuvastatin).

Animal health products also recorded a 24% sales increase.

We increased the production share of Krka Rus 2 and strengthened our status as the domestic manufacturer in terms of total quantity sold.

The circumstances in the **Ukrainian** pharmaceutical market varied greatly in 2014, as sales decreased every month. Despite an annual drop of 18%, with intensive marketing and sales activities we managed to increase our market share in Ukraine, strengthen our position among the leading foreign generic pharmaceutical companies and generate sales of EUR 53.7 million.

The group of prescription pharmaceuticals is our most important group of products, and its leading products in terms of sales were Enap (enalapril), Atoris (atorvastatin) and Coryol (carvedilol). In relative terms, sales of Nolpaza (pantoprazole) saw the largest increase among other products that sold well. Our non-prescription products also recorded a drop in sales, but Herbion, Bilobil (ginkgo biloba) and Septolete were our most notable products in the group.

Krka Group market position in the Russian Federation

We ranked fourth among mostly foreign generic pharmaceutical companies, with a 1.65% market share.

Our products are among the market leaders in:

- the group of other non-mineral multivitamins, with a market share of more than 35%;
- the group of angiotensin II receptor antagonists and their combinations with diuretics, with a market share of approximately 30%;
- the statin group, with more than 20% market share;
- the platelet aggregation inhibitor group (ADP receptor antagonists), with a market share of more than 20%;
- the ACE inhibitors group and their combinations with diuretics, with a market share of approximately 20%;
- peripherally acting anti-obesity products, with a market share of more than 15%;
- the proton pump inhibitor group, with a market share of approximately 15%; and
- the atypical antipsychotic group, with a market share of approximately 10%.

We are the leading supplier of medicines with the active substances atorvastatin, dexamethasone, enalapril, including combinations with hydrochlorothiazide; naproxen, norfloxacin, pantoprazole, ramipril and simvastatin.

We are the leading supplier of generic medicines with the active substances clarithromycin, clopidogrel, olanzapine, orlistat and perindopril, including the combinations with indapamide and risperidone.

Krka Group market position in Ukraine

We are the second-ranked foreign generic pharmaceutical company, with a 2.3% market share.

Our sales surpassed the sales of the average pharmaceutical market.

Our products are market leaders in:

- the statin group, with a market share of approximately 40%;
- the group of injectable corticosteroids, with a market share of more than 35%;
- the group of antimentia medicines, with a market share of more than 30%;
- the ACE inhibitors group and their combinations with diuretics, with a market share of approximately 20%;

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 more than 20%;
- the proton pump inhibitor group, with a market share of approximately 15%; and
- the macrolide and pyranoside antibiotic group, with a market share of approximately 15%.

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 the leading supplier of generic medicines with the active substances betamethasone, enalapril, pantoprazole, ramipril and rosuvastatin.

In **Uzbekistan**, we managed to ensure further growth in sales and strengthened our position among the leading generic producers in this Central Asian country. Sales in Uzbekistan amounted to EUR 17.2 million, an increase of 23% over 2013. The largest proportions in overall sales were recorded for the products Septolete, Pikovit, Enap (enalapril) and Lorista (losartan). We successfully launched our products Amlessa (perindopril/amlodipine), Azibiot (azithromycin), Herbion Iceland moss syrup and Zulbex (rabeprazole).

In terms of sales value, Region East Europe remained Krka's leading region.

Sales in **Kazakhstan** declined by 4% compared to the year before, amounting to EUR 16.4 million. The almost 20% devaluation of the national currency in February, which reduced the purchasing power of the population and the value of the pharmaceutical market, was the main contributor to negative sales trends in the entire market. Despite the unfavourable situation, our market share increased, and we expect the trend to continue. In terms of sales, our most important prescription pharmaceuticals included Enap (enalapril), Zyllit (clopidogrel) and Prenessa (perindopril), and Herbion and Duovit among non-prescription products. The following products were successfully launched: Kventiax (quetiapine); Asentra (sertraline); Elicea (escitalopram); Telmista H (telmisartan/hydrochlorothiazide); Alventa (venlafaxine); Helex SR (alprazolam); Desradin (desloratadine) and Naklofen gel (diclofenac).

We increased our sales and market shares in most Eastern European and Central Asian markets.

In 2014, economic conditions were uncertain and domestic pharmaceutical producers were highly protected in **Belarus**, so our pharmaceutical market recorded minimal growth. In comparison with the year before, we recorded a 23% increase in sales, which totalled EUR 9.9 million. Prescription pharmaceuticals were the main contributors, especially Lorista (losartan), Fromilid (clarithromycin) and Enap (enalapril). The pharmaceutical market in **Moldova** was marked by pressure to reduce the prices of medicines and by a fall in the local currency. Despite this, we generated sales of EUR 6.1 million,

recorded a 16% increase in sales compared to the year before, retained a market share of slightly below 5% and ranked third among all producers of pharmaceutical products in the Moldovan market. The tightening of circumstances in **Mongolia** also presented a challenge, but nevertheless we were the market leader among foreign producers of pharmaceutical products there. Owing to intensive marketing, product sales amounted to EUR 5.4 million, a 6% increase over the year before. In **Turkmenistan**, we have regularly achieved double-digit growth in the past five years. We recorded a 33% increase in sales, mostly due to rising sales of prescription products, and sales reached EUR 3.8 million. In **Azerbaijan**, we intensified our marketing activities, increased our market share and achieved 29% growth in sales, which totalled EUR 3.8 million. We recorded market growth also in other markets of the region: in **Georgia**, it was 22%; in **Kyrgyzstan**, 1%, primarily due to the worsening economic situation; in **Armenia**, 7%, and in the stagnating market of **Tajikistan** 23%. In Georgia and Kyrgyzstan, our sales reached EUR 3.3 million, and EUR 1.8 million in Armenia and Tajikistan.

Central Europe

In Region Central Europe, Krka sold EUR 273 million worth of products, a slight downturn compared to 2013. Sales increased in Poland, Slovakia, Lithuania, Latvia and Estonia, but decreased in the remaining two markets of the region. Prescription pharmaceuticals contributed 92% to sales, followed by non-prescription products and animal health products.

In **Poland**, our key and largest market in the region, we generated a total of EUR 125.9 million in sales of products, or 4% more than in 2013. This was 46% of total product sales in the region. Among our products, prescription pharmaceuticals from the reimbursement list contributed most to sales. New pharmaceuticals introduced over the past few years made a significant contribution to overall sales growth.

The most important prescription pharmaceuticals in terms of sales were: Atoris (atorvastatin), Roswera (rosuvastatin), Valsacor (valsartan), including the combination with hydrochlorothiazide; and Nolpaza (pantoprazole). They were followed by Lorista (losartan), Tolura (telmisartan),

including the combination with hydrochlorothiazide; Prenessa (perindopril), including the combination with indapamide; Sulfasalazin (sulfasalazine), Doreta (paracetamol/tramadol), Karbis (candesartan), including the combination with

hydrochlorothiazide; Zalasta (olanzapine) and Emanera (esomeprazole). Sales of non-prescription products slightly outpaced the figures of the year before. Septolete and Bilobil (ginkgo biloba) remained the leading products in terms of sales.

Krka Group market position in Poland

We are the fourth-ranked foreign generic pharmaceutical company, with a 2.3% market share.

Our products are market leaders in:

- the group of angiotensin II receptor antagonists and their combinations with diuretics, with a market share of approximately 30%;
- the statin group, with a market share of approximately 25%;

Our products are among the market leaders in:

- the group of intestinal anti-inflammatory products, with a market share of approximately 20%;
- the oral fluoroquinolone antimicrobial group, with a market share of approximately 20%;
- the ACE inhibitors group and their combinations with diuretics, with a market share of more than 15%;
- the proton pump inhibitor group, with a market share of approximately 15%;
- the SSRI antidepressant group, with a market share of approximately 10%; and
- the group of antiparkinsonians, with a market share of approximately 10%.

We are the leading supplier of medicines with the active substances atorvastatin, esomeprazole, candesartan, including the combination with hydrochlorothiazide; lansoprazole; losartan, including the combination with hydrochlorothiazide; valsartan, including the combination with hydrochlorothiazide; paracetamol in combination with tramadol; ropinirole, rosuvastatin, sulfasalazine and telmisartan, including the combination with hydrochlorothiazide.

We are the leading supplier of generic medicines with the active substances gliclazide, pantoprazole and perindopril.

The **Czech Republic** is another of Krka's key markets. Last year, legislative changes that reduced the prices of pharmaceuticals were introduced in this market. Product sales totalled EUR 48.4 million, were lower than the year before, but we nevertheless ranked third among all suppliers of generic medicines in the market.

Prescription products accounted for the largest share of sales, particularly Lexaurin (bromazepam), Nolpaza (pantoprazole), Prenessa (perindopril), including the

combination with indapamide; Atoris (atorvastatin), Tanyz (tamsulosin), Tolura (telmisartan), including the combination with hydrochlorothiazide that was successfully launched in February 2014; and Lanzul (lansoprazole) and Valsacor (valsartan), including the combination with hydrochlorothiazide.

Sales of non-prescription medicines fell compared to 2013, with Nalgessin S (naproxen) and Septolete remaining best-sellers.

Krka Group market position in the Czech Republic

Holding a 2.9-percent market share, Krka ranked third among all suppliers of generic pharmaceuticals.

Our products are market leaders in:

- the group of angiotensin II receptor antagonists and their combinations with diuretics, with a market share of approximately 35%;

Our products are among the market leaders in:

- the anxiolytic group, with a market share of approximately 35%;
- the proton pump inhibitor group, with a market share of more than 25%;
- the group of alpha-adrenoreceptor antagonists, with a market share of approximately 25%;
- the macrolide and pyranoside antibiotic group, with a market share of more than 20%;
- the ACE inhibitors and their combinations with diuretics, with a market share of approximately 20%;
- the SSRI antidepressant group with a market share of more than 15%; and
- the statin group, with a market share of approximately 15%.

We are the leading supplier of medicines with the active substances esomeprazole, lansoprazole, pantoprazole and valsartan, including the combination with hydrochlorothiazide.

We are the leading supplier of generic medicines with the active substances atorvastatin, escitalopram, clarithromycin, perindopril, including the combinations with amlodipine and indapamide; sertraline, tamsulosin and telmisartan.

Hungary is the third key market in the region, and also ranked third in terms of regional sales. Sales reached EUR 40.3 million, 6% lower than the year before. Austerity measures caused a decrease in prices, causing sales to decline. Nevertheless, we retained second place among primarily foreign suppliers of medicines in the market.

In terms of sales, prescription pharmaceuticals accounted for the largest share, among them: Prenessa (perindopril), including the combination with indapamide; Atoris (atorvastatin), Roxera (rosuvastatin), Nolpaza (pantoprazole),

Zyllt (clopidogrel), Lavestra (losartan), including the combination with hydrochlorothiazide; Fromilid (clarithromycin), Emozul (esomeprazole), Tolura (telmisartan) and Valsacor (valsartan), including the combination with hydrochlorothiazide. We expanded the product portfolio with two products, Azibiot 250 mg and Moxibiot (moxifloxacin).

Sales of non-prescription products were 26% lower than in 2013. Our best-selling product remained Bilobil (ginkgo biloba). Sales of animal health products exceeded the previous year's figure by more than 21%.

Krka Group market position in Hungary

We ranked second among mostly foreign generic pharmaceutical companies, with a 2.1% market share.

Our products are market leaders in:

- the platelet aggregation inhibitor group (ADP receptor antagonists), with an approximately 25% market share;
- the group of angiotensin II receptor antagonists and their combinations with diuretics, with a market share of approximately 25%;
- the oral fluoroquinolone antimicrobial group, with a market share of approximately 25%;
- the statin group, with more than 20% market share;
- the proton pump inhibitor group, with a market share of more than 20%;

Our products are among the market leaders in:

- the macrolide and pyranoside antibiotic group, with a market share of more than 20%;
- the group of ACE inhibitors and their combinations with diuretics, with a market share of more than 20%; and
- the calcium-channel blockers group, with a market share of more than 10%.

We are the leading supplier of medicines with the active substances atorvastatin, indapamide, clarithromycin, clopidogrel and losartan, including the combination with hydrochlorothiazide.

We are the leading supplier of generic medicines with the active substances gliclazide, irbesartan in combination with hydrochlorothiazide; and pantoprazole.

In **Slovakia**, sales grew by 6% over the year before, totalling EUR 29.0 million. In terms of sales, prescription pharmaceuticals accounted for the largest share, with two leading products, Prenessa (perindopril) and Valsacor (valsartan), including the combination with hydrochlorothiazide. These were followed by Atoris (atorvastatin), Nolpaza (pantoprazole) and Amlessa (perindopril/amlodipine), which was launched last year.

Sales growth in Region Central Europe was the highest in Estonia (9%), Slovakia (6%) and Latvia (5%).

Sales of non-prescription products declined by 10% compared to 2013. In terms of sales, the leading product was Nalgesin-S (naproxen), which was followed by Septolete. We also strengthened sales of our animal health products, but their share remained relatively low.

In **Lithuania**, our sales grew by 1% compared to last year, and we also increased our market share. We generated sales of EUR 17.0 million. The most important prescription products in terms of sales were: Valsacor (valsartan), Prenessa (perindopril) and Tolura (telmisartan), including the combination with hydrochlorothiazide. Atoris (atorvastatin) and Roswera (rosuvastatin) recorded outstanding increases in sales. Sales of non-prescription products advanced by 6%, with two main contributors: Daleron COLD3 and Nalgesin S (naproxen). Sales in **Latvia** reached EUR 7.8 million and increased over last year by 5%, primarily due to prescription products: Prenessa (perindopril), including the combination with indapamide; Atoris (atorvastatin) and Enap (enalapril), including the combination with hydrochlorothiazide. The following products recorded an increase in sales: Tolura (telmisartan), including the combination with hydrochlorothiazide; and Amlessa (perindopril and amlodipine). The 14-percent growth in sales of non-prescription products was primarily due to sales of Daleron COLD3 and Nalgedol (naproxen). We reached the highest, 9%, increase in sales in **Estonia**, which at EUR 4.5 million is our smallest market. The leading prescription pharmaceuticals in terms of sales were Enap (enalapril), Valsacor (valsartan), including the combination with hydrochlorothiazide; Atoris (atorvastatin) and Roswera (rosuvastatin). Sales of non-prescription products exceeded 2013 sales by 7%, with Septolete as the leading product in sales terms.

West Europe

Overall sales in Region West Europe totalled EUR 251.1 million, 11% more than in 2013. We compensated for the decrease in sales of prescription medicines through third partners by increasing sales through our subsidiaries. Sales of products marketed under our own brands rose by over 35%, and their share rose to more than 50% of overall sales in the region.

In Western Europe, Krka remained the leading generic producer of medicines with generic esomeprazole, clopidogrel, perindopril, galantamine, gliclazide, ropinirole and pramipexole.

Prescription pharmaceuticals, in particular the generic esomeprazole, candesartan, clopidogrel, pantoprazole and gliclazide, remained the leading products in the region. Through subsidiaries, Krka successfully launched several generic medicines after product patents had expired, particularly escitalopram, moxifloxacin and celecoxib. In the last quarter of 2014, we were the first generic producer to launch generic aripiprazole in Germany and Great Britain and generic pregabalin in Germany. Sales of animal health products increased by 4% compared to 2013. Total sales of non-prescription products rose by 3% compared to 2013.

In Region West Europe, all our subsidiaries exceeded the sales generated last year.

Germany is our most important Western European market. It generated sales of EUR 67.4 million, which is almost 27% more than the year before. We generated over 80% of sales in the German market through our subsidiary TAD Pharma. We recorded the increase in sales primarily owing to healthy sales of several products for the treatment of cardiovascular diseases, medicines for the treatment of diseases of the alimentary tract, metabolism and the treatment of the central nervous system. In the last quarter of 2014, we were the first generic producer to launch generic aripiprazole and pregabalin. Both active substances have high sales potential. Krka's leading products in the German market were

Candecor (candesartan), Candecor comp (candesartan/hydrochlorothiazide), Pantoprazole TAD, Aripipran (aripiprazole) and Esomeprazole TAD. **Spain** took second place in terms of sales, which amounted to EUR 38.6 million. Similarly to the year before, we more than doubled the 2014 sales through our subsidiary Krka Farmacéutica. Sales in **France** amounted to EUR 32.7 million, a 6% fall over the year before. The decline was caused by a decrease in sales through third partners and could not be fully recovered even with the 40% growth in sales of our own brands. Our most important products in terms of 2014 sales were pharmaceuticals with the generic active substances esomeprazole and gliclazide in the prolonged-release pharmaceutical form. In **Scandinavia**, Krka generated over EUR 26 million in sales, or the same as the year before, although our subsidiary Krka Sverige exceeded its 2013 sales. Our sales were most substantial in Sweden, especially due to the sale of generic medicines with mirtazapine, atorvastatin and venlafaxine. Sales in **Great Britain** were over one third higher than in 2013, especially owing to the sales of pharmaceuticals with the generic active substances atorvastatin, pramipexole in the prolonged-release pharmaceutical form, and clopidogrel, and reached EUR 19.9 million. In **Ireland**, we sold products worth EUR 4.7 million through our subsidiary Krka Pharma Dublin, and more than doubled our 2013 sales. In **Portugal**, our sales totalled EUR 19.6 million, or 19% more than the year before. Krka Farmaceutica Estoril has been the Portuguese pharmaceutical market leader in terms of relative and absolute sales growth rates for some time now. In **Italy**, sales of products through our subsidiary Krka Farmaceutici grew by over 35%, amounting to EUR 15.8 million; nevertheless the overall sales figure was 12% lower than in 2013. Sales through third partners also declined in the **Benelux** countries, where sales reached EUR 14.2 million, and **other European countries**, where we generated EUR 7.5 million in sales, so our overall sales were lower than the year before. Sales in **Austria** rose by 8%, totalling EUR 4.4 million.

Overseas Markets

Sales of products in our new sales region, Overseas Markets, amounted to EUR 25.5 million. With 89%, prescription products represented the largest portion in overall sales.

The **Middle East** sales office accumulated sales of EUR 12.9 million. The decline in comparison to the year before resulted from the challenging circumstances in the two largest markets in the region, Iraq and Iran. In **Iran**, we encountered regulatory changes and restrictions on importers of pharmaceuticals that followed the international financial sanctions. Our most important products in the Iranian market are Asetra (sertraline), Nolpaza (pantoprazole), Letizen (cetirizine) and Zyllt (clopidogrel). Sales in **Iraq** dropped because of the war there, which prevented the distribution, sales and promotion of our products. Sales saw the most significant increases in relative terms in **Yemen** and **Lebanon**, where we also expanded our product portfolio.

In markets of the **Far East and Africa**, we recorded overall sales of EUR 12.0 million and achieved a 22% rise in comparison to the year before. The market of the **Republic of South Africa** remained the most important, where we achieved 14% sales growth with high sales of our medicines with the active substances lansoprazole, amlodipine, enalapril and carvedilol. **Malaysia** placed second, and achieved a 16% increase in sales, with the main contributors being Kamiren (doxazosin), Cordipin (nifedipine) and Novolax (bisacodyl). It was followed by **Ghana, China, Vietnam** and **Singapore**.

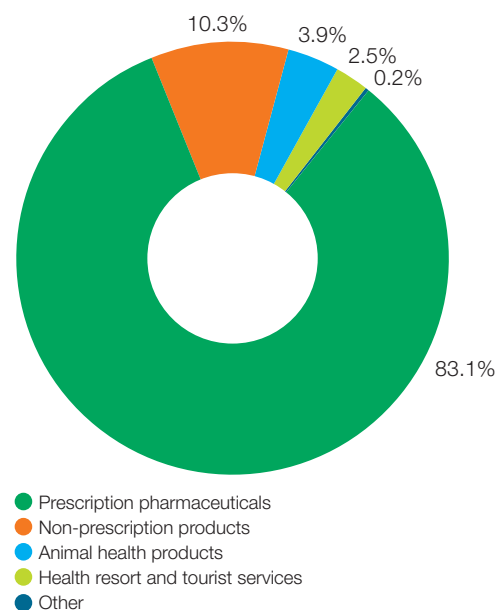
In the **Americas**, we increased sales by 11% compared to the year before, the highest growth being in the markets of **Central America**. The leading products in terms of sales included Valsacor (valsartan), Emanera (esomeprazole) and Tolura (telmisartan).

Product* and service groups

In 2014, sales of prescription pharmaceuticals accounted for 83.1% of overall sales, followed by non-prescription products with 10.3%, animal health products with 3.9%, health resort and tourist services with 2.5%, and other sales with 0.2%. Sales of prescription pharmaceuticals rose by 1% and of animal health products by 9%, while sales of non-prescription products and health resort and tourist services fell.

Prescription pharmaceuticals account for more than 83% of Krka Group sales.

Krka Group sales by product group in 2014



Krka Group and Krka Company sales by product and service group

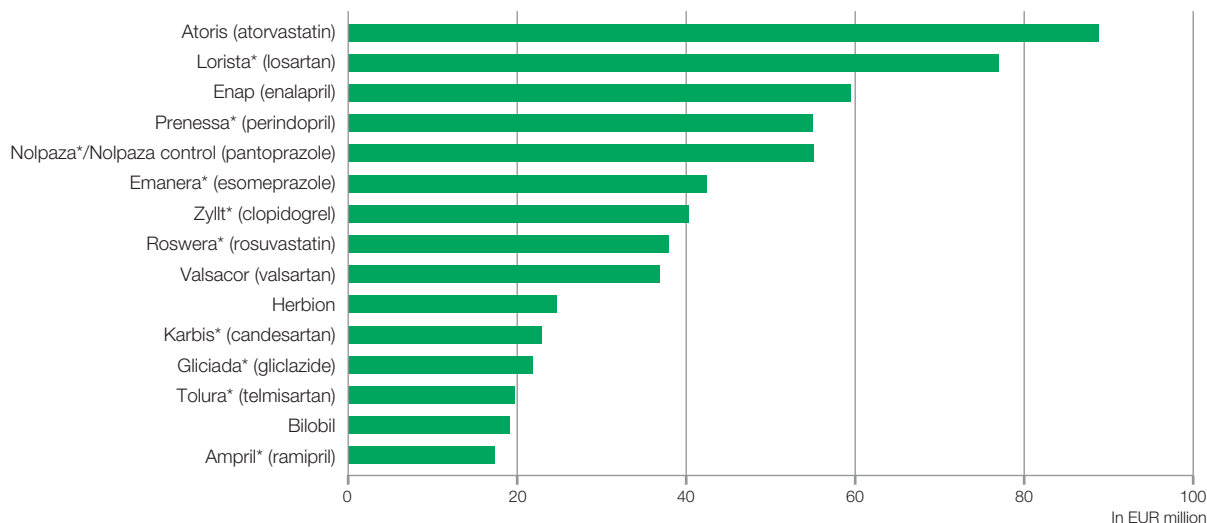
In EUR thousand	Krka Group			Krka Company		
	2014	2013	Index 2014/13	2014	2013	Index 2014/13
Human health products	1,112,588	1,126,161	99	1,083,211	1,070,561	101
– Prescription pharmaceuticals	990,627	980,903	101	977,518	943,981	104
– Non-prescription products	121,961	145,258	84	105,693	126,580	83
Animal health products	46,514	42,592	109	46,870	42,824	109
Health resort and tourist services	30,038	30,466	99			
Other	2,474	1,608	154	4,088	2,954	138
Total	1,191,614	1,200,827	99	1,134,169	1,116,339	102

Krka Group quarterly sales by product and service group

In EUR thousand	2014				2013			
	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter
Human health products	279,342	281,525	239,518	312,203	276,760	283,614	241,262	324,525
– Prescription pharmaceuticals	248,294	253,762	212,288	276,283	242,811	252,883	216,014	269,195
– Non-prescription products	31,048	27,763	27,230	35,920	33,949	30,731	25,248	55,330
Animal health products	10,894	11,792	10,495	13,333	10,937	11,091	9,708	10,856
Health resort and tourist services	6,830	7,580	8,280	7,348	6,546	7,701	8,869	7,350
Other	951	456	371	696	184	238	895	291
Total	298,017	301,353	258,664	333,580	294,427	302,644	260,734	343,022

* Products marketed under different brand names in individual markets are marked with an asterisk and listed at the end of the chapter.

Sales of leading products in 2014



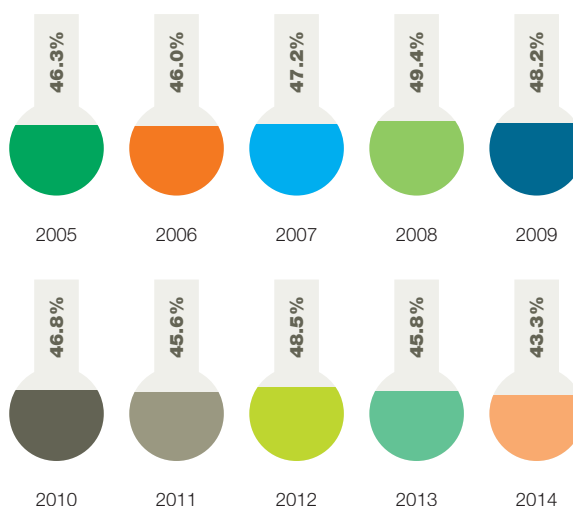
New products

In 2014, sales of new products launched in the past five years accounted for over 43.4% of total sales.

Emanera* (esomeprazole), Roswera* (rosuvastatin), Karbis* (candesartan) and Tolura* (telmisartan) were the most important new products among the 15 leading Krka products in 2014. Karbis* and Tolura* also ranked among the five leading products in terms of absolute sales growth, together with Meaxin* (imatinib), which was launched in 2013 and Aryzalera* (aripiprazole), which was launched in European Union markets in 2014.

In 2014, we launched several new products containing new generic substances and their combinations, supplemented existing products with new pharmaceutical forms 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.

New products in 2014

Prescription pharmaceuticals	
For the treatment of cardiovascular diseases	Co-Amlessa/Co-Dalnessa/Co-Dalheva/Amlewel/Dalnecombi/Tonanda (perindopril/amiodipine/indapamide) Vamloset/Valodip/Plusval (valsartan/amiodipine) Tenloris/Alortia/Lortenza/Losamlo (losartan/amiodipine) Sobycombi/Niperten Combi (bisoprolol/amiodipine)
For the treatment of diseases of the central nervous system	Pragiola/Pregabador/Pregabio (pregabalin) Aryzalera/Aripipan/Arisppa/Zylaxera (aripiprazole) Aclexa/Dilaxa (celecoxib)
For the treatment of infections	Moloxin/Moflaxa/Moxibiot (moxifloxacin)
Non-prescription products	
Products with an effect on the nasal mucosa	Septanazal (xylometazoline/dexpanthenol)
Animal health products	
Antimicrobial pharmaceuticals for companion animals	Fypryst Combo (fipronil/S-methoprene) Milprazon/Milquantel (milbemycin oxime/praziquantel)

* Products marketed under different brand names in individual markets are marked with an asterisk and listed at the end of the chapter.

Prescription pharmaceuticals

In 2014, the Krka Group sold EUR 990.6 million worth of prescription pharmaceuticals, an increase of 1% compared to 2013.

In most European markets, Krka markets its prescription pharmaceuticals under its own brand names and has its own marketing and sales network, which was also expanded to Finland in 2014. In Central, Eastern and South-Eastern Europe, we have one of the strongest marketing and sales networks among pharmaceutical companies.

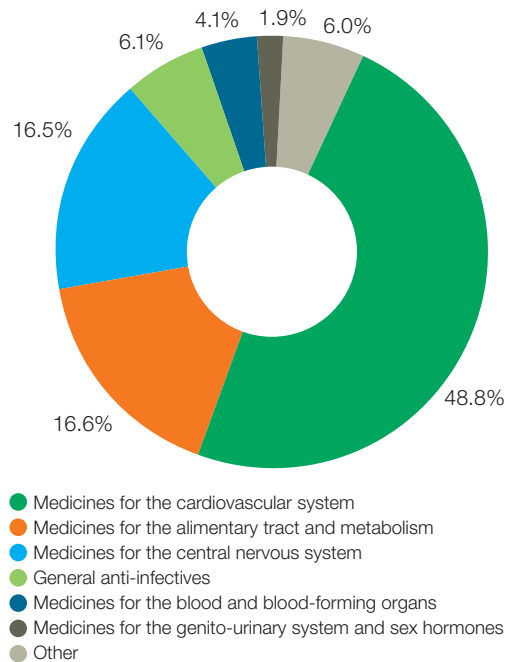
Among the ten largest individual markets, sales of prescription pharmaceuticals in absolute terms increased most in Spain, Germany and Romania. Among other markets, sales increased the most in Great Britain, Portugal and Uzbekistan. In the Russian Federation, which is Krka's largest individual market for prescription pharmaceuticals, sales decreased, especially due to the devaluation of the Russian rouble. Expressed in the local currency, however, sales increased.

Atoris, Lorista and Enap are Krka's leading medicines in terms of sales.*

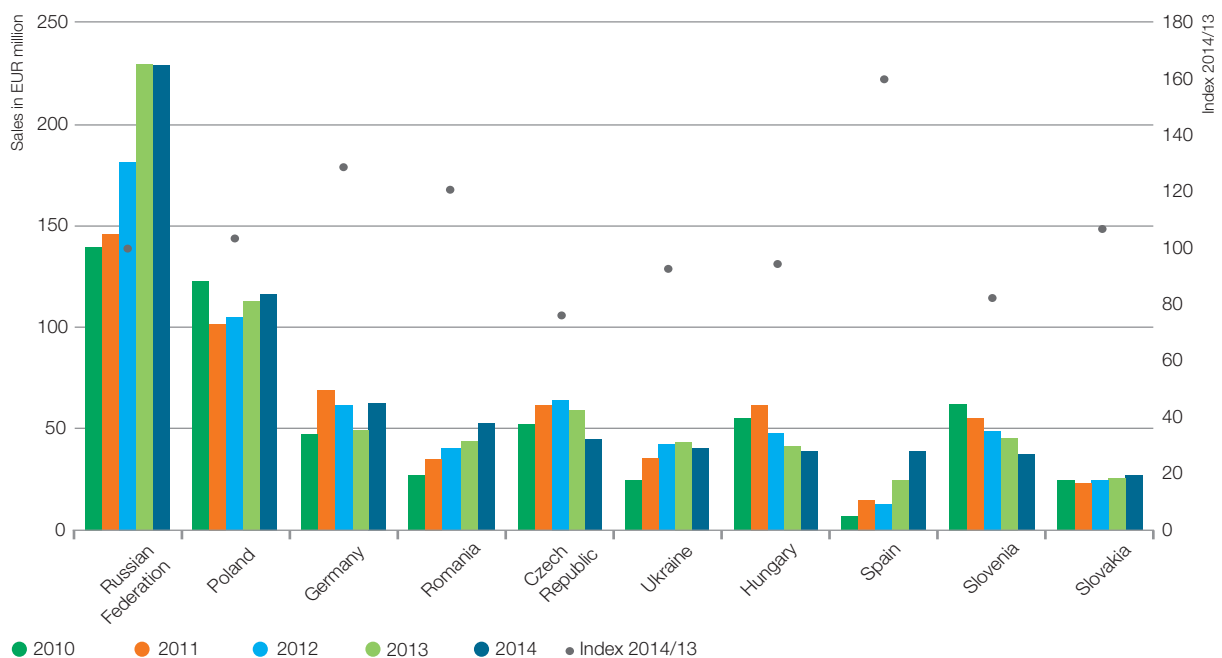
With respect to sales, medicines for the treatment of cardiovascular diseases remained the key therapeutic area of prescription pharmaceuticals in 2014, followed by pharmaceuticals for alimentary and metabolic diseases and pharmaceuticals for diseases of the central nervous system.

Atoris (atorvastatin) remained the leading prescription pharmaceutical in 2014 in terms of sales, followed by Lorista* (losartan), Enap (enalapril), Prenessa* (perindopril) and Nolpaza* (pantoprazole). Among ten leading prescription pharmaceuticals in terms of sales were Emanera* (esomeprazole), Zyllt* (clopidogrel), Roswera* (rosuvastatin), Valsacor (valsartan), and Karbis* (candesartan).

Sales of prescription pharmaceuticals by therapeutic class



Sales of prescription products in the ten largest markets



* Products marketed under different brand names in individual markets are marked with an asterisk and listed at the end of the chapter.

MEDICINES FOR THE TREATMENT OF CARDIOVASCULAR DISEASES

Statins

In 2014, Krka increased its market share and thereby further consolidated its position as the leading producer of statins in Slovenia, Central, Eastern and South-Eastern Europe. Atoris and Roswera* ranked first and second in terms of sales volume in this area. Krka is the leading manufacturer of statins in over ten markets, including two large ones, Poland and Ukraine. In the Russian Federation and Romania we are among the leading generic producers. We remain the only pharmaceutical company in Europe which markets atorvastatin and rosuvastatin in six strengths.

Krka is the leading producer of statins in the markets of Slovenia, Central, Eastern and South-Eastern Europe.

Our most important statin is **Atoris** (atorvastatin), which is also Krka's most important product in terms of sales. In 2014, it increased its share in the statin market to become the leading statin in Slovenia, Central, Eastern and South-Eastern Europe. Atoris has a nearly 30% market share among atorvastatins in this area. More than 200,000 new patients were treated with Atoris in 2014 compared to the year before. Western Europe makes an important contribution to overall sales. In Great Britain, Krka's atorvastatin ranks among the leading generic atorvastatins. In 2014, Krka's atorvastatin was launched in Spain. In several markets, new strengths of Atoris were launched. We were the first producer to launch strengths of 30 or 60 mg in Ukraine, Bulgaria and Turkmenistan. In 2014,

we were the only manufacturer to market these additional strengths in 18 markets.

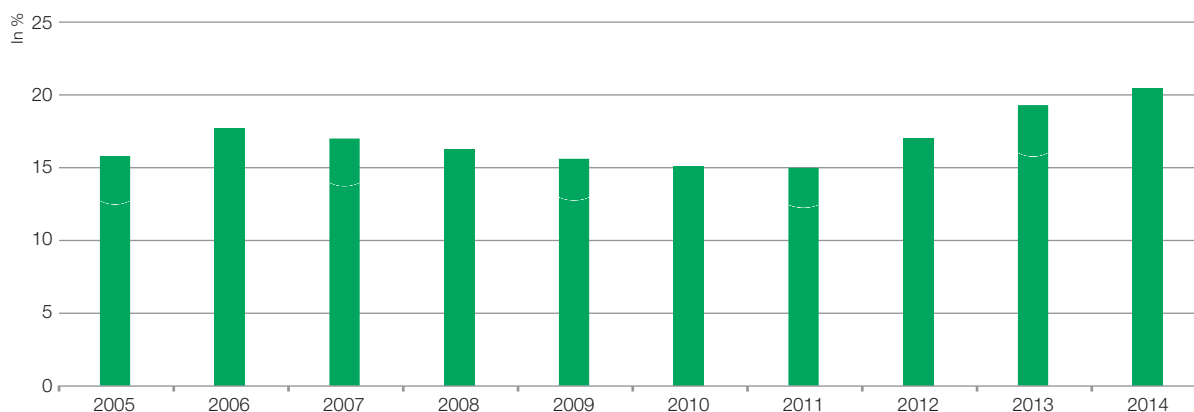
Roswera* (rosuvastatin) is Krka's newest statin. In 2014, Krka remained the leading producer of generic rosuvastatin in the markets of Slovenia, Central, Eastern and South-Eastern Europe, and further increased its market share among rosuvastatins to almost 20%. It experienced the highest absolute sales growth among statins in these areas. In several individual markets, Roswera* is the leading generic rosuvastatin, while in Croatia, Poland, Serbia and in Slovenia it is the leader among all rosuvastatins. In 2014, we launched it in new markets of Eastern and South-Eastern Europe, while in Ukraine, Kazakhstan and Kosovo we were the first producer to add to the range strengths of 15 or 30 mg rosuvastatin.

Krka is the only producer in Europe which markets atorvastatin and rosuvastatin in six strengths.

The range of statins is supplemented by **Vasilip** (simvastatin), which, in 2014 as many years before was the leading generic simvastatin in Slovenia, Central, Eastern and South-Eastern Europe.

This product group also contains **Atordapin*** (atorvastatin/amlodipine) Krka's first fixed-dose combination of two active ingredients for the treatment of hyperlipidemia and high blood pressure. In 2014, we launched it in Spain and Bulgaria, and were the first generic pharmaceutical company to do so in Macedonia and Croatia.

Market share of Krka's medicines among hypolipemics in Slovenia, Central, Eastern and South-Eastern Europe



Krka's statins and their fixed-dose combinations

rosuvastatin (Roswera/Roxera/Sorvasta)

atorvastatin (Atoris)

atorvastatin/amlodipine (Atordapin/Atorcombo/Amaloris)

simvastatin (Vasilip)

* Products marketed under different brand names in individual markets are marked with an asterisk and listed at the end of the chapter.

ACE inhibitors

ACE inhibitors comprise one of Krka's three largest groups of prescription pharmaceuticals. Krka remained the leading generic producer of medicines from this group in the markets of Slovenia, Central, Eastern and South-Eastern Europe in 2014. In terms of sales volume, we are the leader among all producers. In more than ten markets, our market share among ACE inhibitors exceeds 15%. We extended our range of 12 ACE inhibitors with a new fixed-dose combination, Co-Amlessa* (perindopril/amlodipine/indapamide).

In the ACE inhibitors group, the most important range of medicinal products is the one containing perindopril. It comprises **Prenessa*** (perindopril), **Co-Prenessa*** (perindopril/indapamide), **Amlessa*** (perindopril/amlodipine) and **Co-Amlessa*** (perindopril/amlodipine/indapamide). We were the first manufacturer in the world to launch this combination of three ingredients in Poland, Slovakia, Lithuania and in several other markets. We are the only generic pharmaceutical company that offers a complete range of products containing perindopril. In 2014, we extended the marketing of other products containing perindopril. Amlessa* was launched in Uzbekistan, Kazakhstan and some other smaller markets, Prenessa* and Co-Prenessa* in Tajikistan, Kyrgyzstan and several other markets of Eastern and South-Eastern Europe.

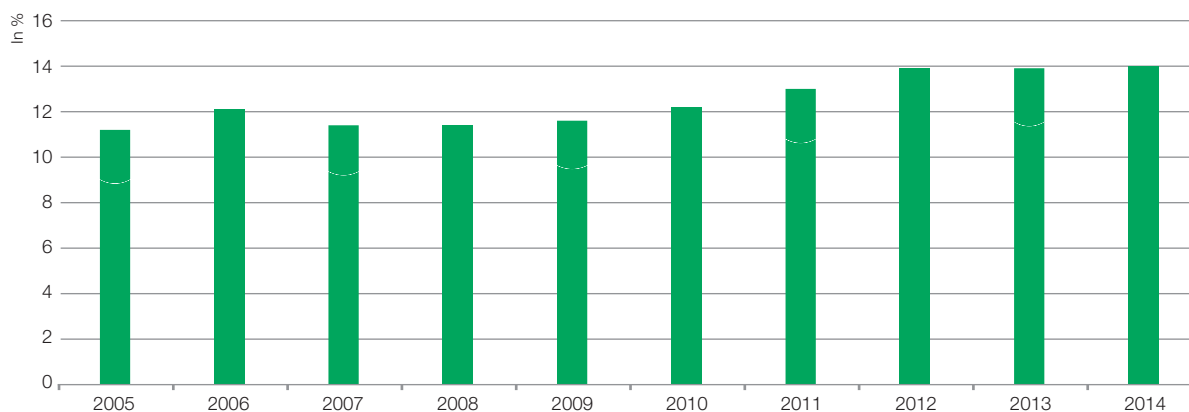
In Kazakhstan and Ukraine, we launched Prenessa* in the form of orodispersible tablets. We launched perindopril in Spain. Krka remained the leading generic producer of perindopril and its fixed-dose combinations with indapamide in Europe in 2014.

Krka was the first in the world to market the fixed-dose combination of perindopril, amlodipine and indapamide – Co-Amlessa.*

Enap (enalapril) with its fixed-dose combinations with hydrochlorothiazide was the leading enalapril in the markets of Slovenia, Central, Eastern and South-Eastern Europe in 2014. Its market share exceeded 40% in some markets. Its share among Krka's ACE inhibitors is on the decrease due to newer products; however, in 2014, Enap remained the leading product in this group in terms of sales. The product range with enalapril is supplemented by the fixed-dose combination with calcium channel blockers **Elernap*** (enalapril/lercanidipine), which in 2014 was launched in Spain, Slovenia, Latvia, Ireland and the Czech Republic. In Western Europe, we became the leading generic producer of this fixed-dose combination.

Krka's portfolio of ACE inhibitors includes other products, notably **Ampril*** (ramipril) with its fixed-dose combinations with hydrochlorothiazide. We launched ramipril in Italy and Latvia in 2014.

Market share of Krka's medicines among ACE inhibitors in Slovenia, Central, Eastern and South-Eastern Europe



Krka's ACE inhibitors and their fixed-dose combinations

perindopril (Prenessa/Perineva)
 perindopril/indapamide (Co-Prenessa/Co-Perineva/Prenewel)
 perindopril/amlodipine (Amlessa/Dalnessa/Tonarssa/Dalveva)
 perindopril/amlodipine/indapamide (Co-Amlessa/Co-Dalnessa/Co-Dalveva/Amlewel/Dalnecombi/Tonanda)

enalapril (Enap)
 enalapril/hydrochlorothiazide (Enap-H, Enap-HL, Enap-HL 20)
 enalapril/lercanidipine (Elernap/Elyrno/Enap L Combi)

ramipril (Ampril/Amprilan)
 ramipril/hydrochlorothiazide (Ampril HL/Amprilan HL, Ampril HD/Amprilan HD)

lisinopril (Laaven/Zonixem)
 lisinopril/hydrochlorothiazide (Laaven-HL/Zonixem-HL, Laaven-HL 20/Zonixem-HL 20, Laaven-HD/Zonixem-HD)

cilazapril (Cazaprol)
 cilazapril/hydrochlorothiazide (Cazacombi)

* Products marketed under different brand names in individual markets are marked with an asterisk and listed at the end of the chapter.

Sartans (angiotensin II receptor antagonists)

In 2014, Krka consolidated its position as the leading producer of sartans in Slovenia, Central, Eastern and South-Eastern Europe, because our market share expanded. In several markets, the market share is over 25%, including two large markets, the Russian Federation and Poland. Krka's sartans are used to treat more than 3.5 million patients in Europe every day. Our portfolio of six sartans and their fixed-dose combinations with hydrochlorothiazide was supplemented with two new fixed-dose combinations of losartan and valsartan with amlodipine, so there are now 14 medicinal products in this group.

We launched two new fixed-dose combinations of sartans with amlodipine: Tenloris and Vamloset*.*

Lorista* (losartan) is Krka's second most important product in terms of sales. Together with the combinations with hydrochlorothiazide it remained the leading losartan in Slovenia, Central, Eastern and South-Eastern Europe, where over two million patients are treated with it every day. Also in 2014, we launched new strengths of Lorista* in several markets as well as a new fixed-dose combination with amlodipine **Tenloris*** (losartan/amlodipine), which combines a sartan and the calcium channel blocker amlodipine. We were the first producer to launch this fixed-dose combination in Poland, Hungary, Slovakia and Latvia.

Krka's sartans are used to treat more than 2 million European patients every day.

Valsacor (valsartan) with its fixed-dose combinations with hydrochlorothiazide remains the leading valsartan in Slovenia, Central, Eastern and South-Eastern Europe with a market share of over 25%. In 2014, we launched it in Mongolia and as the first generic pharmaceutical company also in Montenegro. The range of products with valsartan was supplemented with a new fixed-dose combination **Vamloset*** (valsartan/amlodipine), which we launched in the Russian Federation as the first and only generic pharmaceutical company.

In terms of active ingredients, the leaders among generic pharmaceutical producers in Slovenia, Central, Eastern and South-Eastern Europe are also **Karbis*** (candesartan), **Tolura*** (telmisartan) and **Ifirmasta*** (irbesartan) together with its combinations with hydrochlorothiazide. Karbis* and Tolura* increased their market share to almost 20%. In Germany, we are the leading generic pharmaceutical producer of the fixed-dose combination of telmisartan/hydrochlorothiazide, and candesartan, while in Poland, the Czech Republic and Hungary, we are the leading producer of candesartan. We launched Karbis* in 2014 also in Kazakhstan and Lithuania, and telmisartan in Portugal, Ireland and as the first generic producer in Austria. We were the first generic pharmaceutical company to launch the fixed-dose combination of telmisartan with hydrochlorothiazide in Italy, Germany, the Czech Republic and several other markets.

Market share of Krka's medicines among sartans in Slovenia, Central, Eastern and South-Eastern Europe



Krka's sartans and their fixed-dose combinations

losartan (Lorista/Lavestra)
 losartan/hydrochlorothiazide (Lorista H/Lavestra H, Lorista HL/Lavestra HL, Lorista HD/Lavestra HD)
 losartan/amlodipine (Tenloris/Alortia/Lortenza/Losamlo)

valsartan (Valsacor)
 valsartan/hydrochlorothiazide (Valsacombi/Co-Valsacor/Valsacor H/Valsaden//Janartan, Valsacor HD)
 valsartan/amlodipine (Vamloset/Valodip/Plusval)

telmisartan (Tolura/Telmista)
 telmisartan/hydrochlorothiazide (Tolucombi/Telmista H)

candesartan (Karbis/Candecor/Canocord)
 candesartan/hydrochlorothiazide (Karbicombi/Cancombino)

irbesartan (Ifirmasta/Irabel)
 irbesartan/hydrochlorothiazide (Ifirmacombi/Co-Irabel)

olmesartan (Olimestra)
 olmesartan/hydrochlorothiazide (Co-Olimestra)

* Products marketed under different brand names in individual markets are marked with an asterisk and listed at the end of the chapter.

Other medicines for the treatment of high blood pressure

In addition to ACE inhibitors and sartans, the calcium channel blocker **Tenox*** (amlodipine), diuretic **Rawel SR** (indapamide) and adrenergic receptor blockers **Coryol** (carvedilol) and **Niperten*** (bisoprolol) are also among Krka's medicines for the treatment of hypertension. In 2014, we added a fixed-dose combination with amlodipine **Sobycombi*** (bisoprolol/amlodipine) to Niperten* and began to market it in Poland and Slovakia as the first generic pharmaceutical company. We began to market bisoprolol more intensively in Central and Western Europe, especially in Spain, France, Italy and other countries. In 2014, we marketed it in over 15 new markets.

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

Proton pump inhibitors

We have been increasing our market share among the manufacturers of proton pump inhibitors in Slovenia, Central, Eastern and South-Eastern Europe and were the leading producer of these medicines for the sixth consecutive year. In 2014, we recorded the largest absolute sales growth compared to 2013 among all producers. In Slovenia, Hungary and Croatia and some other markets, our market share exceeds 20%. Almost 50% of Krka's proton pump inhibitors are sold in Western Europe.

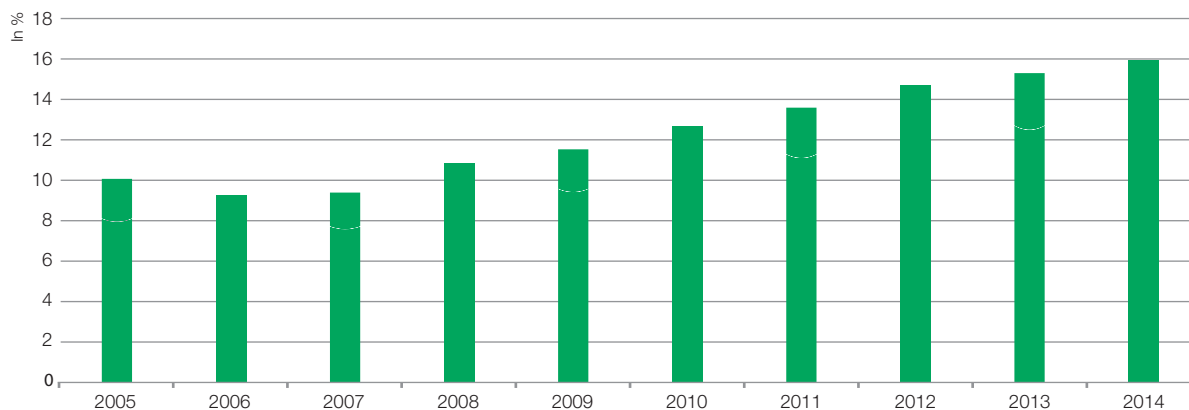
We have the highest absolute sales growth among all manufacturers of proton pump inhibitors.

Nolpaza* (pantoprazole) remained the leading generic pantoprazole in the markets of Slovenia, Central, Eastern and South-Eastern Europe. Every fourth pantoprazole prescribed in this area is Nolpaza. In the Russian Federation, Lithuania, the Czech Republic and several other markets Nolpaza is the leader among all pantoprazoles, while in Hungary, Slovakia and Slovenia, it is the most often prescribed proton pump inhibitor in terms of sales volume. In addition to Nolpaza, we also offer a product with pantoprazole available without prescription in several markets. Nolpaza is also available in the form of injection, which was launched in Bulgaria and Kyrgyzstan in 2014.

Emanera* (esomeprazole) accounts for over one third of sales of Krka's proton pump inhibitors. The majority of esomeprazole is sold in Western Europe. We maintained the position of the leading generic producer of esomeprazole in Europe, while in the Czech Republic, Poland, Croatia and Slovakia, Emanera* is the leading esomeprazole. In 2014, it was launched in Georgia.

Krka's portfolio of proton pump inhibitors also contains **Lanzul*** (lansoprazole) and **Gelbra*** (rabeprazole). In 2014, Krka was again among the leading generic producers of lansoprazole in Europe.

Market share of Krka's medicines among proton pump inhibitors in Slovenia, Central, Eastern and South-Eastern Europe



Krka's proton pump inhibitors

esomeprazole (Emanera/Emozul/Escadra)

pantoprazole (Nolpaza/Appryo)

rabeprazole (Gelbra/Zulbex)

lansoprazole (Lanzul/Lansoptol)

omeprazole (Uitop)

* Products marketed under different brand names in individual markets are marked with an asterisk and listed at the end of the chapter.

Oral antidiabetics

Our portfolio of oral antidiabetics includes **Gliclada*** (gliclazide), **Enyglid*** (repaglinide) and **Meglimid** (glimepiride). Gliclada*, gliclazide in prolonged-release tablets, which was launched in Spain and Moldova in 2014, accounts for the largest share of sales. We were the first generic pharmaceutical company to add a new strength, 60 mg gliclazide prolonged-release tablets, which we launched in the Czech Republic, Croatia, Italy and some other markets. In Great Britain, we are among the leading generic producers of prolonged-release gliclazide and in several markets of Central and Eastern Europe Gliclada* is the leading generic gliclazide. In the Czech Republic, Slovakia, Latvia and Estonia, its market share exceeded 30%. In 2014, Krka remained Europe's leading supplier of gliclazide in prolonged-release tablet form.

Medicines for the treatment of obesity

Our product for the treatment of obesity is the prescription pharmaceutical **Orsoten** (orlistat) 120 mg. It is supplemented by a non-prescription product, Orsoten Slim (orlistat) 60 mg. Most Orsoten is sold in the Russian Federation, where with the non-prescription product it is the leading generic orlistat, with a market share of over 45%. Orsoten also sells well in Kazakhstan, where it is the leading medicine for treating obesity in terms of sales volume.

Medicines for the treatment of the central nervous system

Antipsychotics

In 2014, Krka maintained its position as the leading generic producer of antipsychotics in the markets of Slovenia, Central, Eastern and South-Eastern Europe, a status it has

had for several years. Krka's range of atypical antipsychotics contains five of eight of the world's leading active substances. Germany, the Russian Federation and Poland are our most important markets in terms of sales of antipsychotics. Nearly half are sold in Western European markets.

Half of Krka's antipsychotics are sold in Western European markets.

Zalasta* (olanzapine) and **Kventiax*** (quetiapine) are our most important antipsychotics in terms of sales. Krka is among the leading generic producers of olanzapine in Europe, while in Germany, the Russian Federation, Slovenia and some other markets we are the leaders among generics. Kventiax* is also one of the leading generic quetiapines in the Russian Federation, Portugal and in Lithuania. In Slovenia, it is the leader among all quetiapines. In 2014, it was launched in Kazakhstan.

Aripiprazole is the leading active substance in the group of antipsychotics in the world and **Aryzalera*** (aripiprazole) is our newest antipsychotic, one of Krka's leading medicines in terms of absolute sales growth. In the Russian Federation, we have been marketing it for three years, and in 2014 we launched it in the European Union. We were the first generic pharmaceutical company to launch it in Germany and Great Britain.

Among our atypical antipsychotics are also **Zypsilan*** (ziprasidone) and **Torendo*** (risperidone). Zypsilan* is the leading ziprasidone in Poland, Hungary, the Czech Republic and in several other markets, while in Western Europe, Krka is one of the leading generic producers of risperidone in the form of orodispersible tablets.

Krka's atypical antipsychotics

olanzapine (Zalasta/Zolrix)

quetiapine (Kventiax/Quentiax)

aripiprazole (Aryzalera/Aripipan/Arisppa/Zylaxera)

risperidone (Torendo/Rorendo)

ziprasidone (Zypsilan/Zypsila/Ypsila)

Antidepressants

For several years, Krka has been the leading generic producer of antidepressants in the markets of Slovenia, Central, Eastern and South-Eastern Europe. We kept the position in 2014. In terms of sales volume of antidepressants, we are the leader among all producers.

Elicea* (escitalopram) remained the leading generic escitalopram in this area in 2014. In 2014, we launched our escitalopram in Germany, France, Spain, Italy and other Western European markets and became one of the leading generic producers of escitalopram in Europe. In Romania, Lithuania and Croatia we were the first generic producer to offer escitalopram in the form of orodispersible tablets.

Alventa* (venlafaxine) is the leading venlafaxine in the Czech Republic, Slovakia and in Slovenia with market shares of over 30%. It is also one of the leaders in Hungary, Croatia and Lithuania. Also in 2014, Krka remained one of the leading generic producers of venlafaxine in Europe. We launched Alventa* in Kazakhstan.

Among our antidepressants are also **Asentra** (sertraline), the leading generic sertraline in the markets of Slovenia, Central, Eastern and South-Eastern Europe and **Mirzaten** (mirtazapine), which is the leading mirtazapine in this area. In 2014, we launched sertraline in Italy and Kazakhstan.

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Krka's antidepressants

escitalopram (Elicea/Ecytara/Anxila/Escitalex)

venlafaxine (Alventa/Olwexya)

sertraline (Asentra)

mirtazapine (Mirzaten)

Medicines for the treatment of Alzheimer's disease

Krka offers a complete range of medicines for the treatment of Alzheimer's disease, as we market all four active substances used to treat this illness throughout the world. We sell the majority of these medicines in Western Europe. In Germany, we are among the leading producers of these medicines and the leading generic producer in Slovenia, Lithuania and Slovakia, with an over 20% market share. We are among the leading generic suppliers in Portugal, Ireland and some other markets.

Krka's portfolio includes all four active substances for the treatment of Alzheimer's disease.

Our newest medicine for the treatment of Alzheimer's disease is **Marixino*** (memantine). We have been marketing it since 2012, and in 2014 Krka, was among the leading European

generic producers of memantine. In Portugal, Slovenia and Lithuania Marixino* is the leading generic memantine. We are among the leading generic producers also in Germany and in Great Britain. In 2014, we launched it in Italy, Bosnia and Herzegovina and Latvia.

About one third of our sales of these medicines is comprised of **Galsya SR*** (galantamine). It is the leading galantamine in Germany and Slovakia, with more than a 50% market share. Krka is the leading generic producer of galantamine in Europe.

Our product range for treating Alzheimer's disease includes **Yasnal*** (donepezil) and **Nimvastid** (rivastigmine). In Germany, Krka is among the leading generic producers of donepezil and the leading producer of rivastigmine among all generic producers. In several markets, we are the only producer that markets rivastigmine in the form of orodispersible tablets.

Krka's medicines for the treatment of Alzheimer's disease

memantine (Memaxa/Maruxa/Marixino/Mentixa/Maryzola/Memando)

galantamine (Galsya SR/Galnora)

donepezil (Yasnal/Yasnorol)

rivastigmine (Nimvastid)

Medicines for the treatment of Parkinson's disease

In 2014, 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. We sell over two thirds of medicines in this group in Western Europe.

Rolpryna SR* (ropinirole) is the leading generic ropinirole in Germany, Romania, Hungary and several other markets. In Poland and Estonia it is the leader among all ropiniroles. Over one half of ropinirole is sold in Western European countries. Krka is the leading generic producer of ropinirole in Europe.

Our second most important medicine for treating Parkinson's disease is **Opryme** (pramipexole). In 2014, we significantly extended the number of markets where pramipexole with prolonged release is marketed. We were the first generic producer to launch it in Spain, France, Romania, the Czech Republic and several other markets. In 2014, Krka became the leading generic producer of pramipexole with prolonged release in Europe.

Analgesics

Doreta (tramadol/paracetamol) is our most important prescription analgesic. In 2014, Doreta became the leading fixed-dose combination of tramadol and paracetamol in the markets of Slovenia, Central, Eastern and South-Eastern Europe.

In Slovakia, Romania and Slovenia, it has a market share of over 40%. We have been successfully launching it in Western European markets. For example, in Great Britain, we are among the leading generic producers of this fixed-dose combination. In 2014, we launched Doreta in Bulgaria and in several smaller markets of South-Eastern Europe.

Doreta is the leading fixed-dose combination of tramadol and paracetamol in Slovenia, Central, Eastern and South-Eastern Europe.

Our non-steroidal anti-inflammatory medicines include **Naklofen duo** (diclofenac) and **Nalgesin*** (naproxen). Non-prescription naproxen is also available. In 2014, a new product was added to this portfolio, Krka's first COX-2 selective inhibitor **Aclexa** (celecoxib). We launched it in over ten markets, and as the first generic producer in Poland, the Czech Republic, Lithuania and elsewhere. We also sell it in Germany, Spain, France and other markets of Western Europe. In Germany, we were among the leading generic producers of celecoxib, while in Slovenia, Central, Eastern and South-Eastern Europe we are the leaders among all generic companies.

Other medicines for the treatment of diseases of the central nervous system

In 2014, we were the first generic producer in the European Union to launch the medicine **Pragiola*** (pregabalin).

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Pregabalin is one of the leading active substances in the world in terms of sales. We launched it in Germany, and in future we will extend our marketing activities to new markets.

Krka was the first generic company to launch pregabalin, which is among the world's leading active substances, in the European Union.

MEDICINES FOR THE TREATMENT OF INFECTIONS

In the markets of Slovenia, Central, Eastern and South-Eastern Europe, Krka is one of the leading producers of macrolides and the leading producer of fluoroquinolones. **Fromilid** (clarithromycin) has been the leading generic macrolide for a few years and the fourth best-selling brand of macrolides in this area. It is the leading generic clarithromycin in several markets, while in Ukraine, Hungary, Croatia and several other markets, it is the leader among all clarithromycins.

In 2014, we launched **Azibiot** (azithromycin), one of our macrolide antibiotics, in several new markets. In existing markets, we launched a new strength, 250 mg film-coated tablets of azithromycin. Marketing activities for our azithromycin were expanded to the large markets of Western Europe: France and Spain.

We launched a new fluoroquinolone Moloxin (moxifloxacin).*

Nolicin (norfloxacin) and **Ciprinol** (ciprofloxacin), which is the leading ciprofloxacin in Romania, Ukraine and several other markets, belong to the group of fluoroquinolones. Krka's newest antibiotic, **Moloxin*** (moxifloxacin), also belongs to this group. It is intended for treating respiratory tract infections caused by bacteria that are resistant to some other antibiotics. In 2014, we began to market Moloxin* in more than 10 markets. We were among the first generic producers to do so in Germany, Spain, Poland, Hungary and elsewhere. By the end of 2014, we were one of the leading generic producers of moxifloxacin in the countries of Western Europe, while in Germany we were the leader among generic producers.

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

The antiplatelet medicine **Zyllit*** (clopidogrel) is one of Krka's leading medicinal products in terms of sales and is marketed in over 35 markets. Krka has been the leading generic producer of clopidogrel in Europe for several consecutive years. In Hungary, Kazakhstan and Bosnia and Herzegovina Zyllit* is the leading clopidogrel. In terms of sales volume, Zyllit is the leader also in the Russian Federation, with a market share of over 30%.

MEDICINES FOR THE TREATMENT OF DISEASES OF THE URINARY TRACT

Our most important medicine from this group is **Vizarsin*** (sildenafil), which is available in tablet and orodispersible tablet form. In 2014, the launch in the Russian Federation, one of the largest markets for medicines for the treatment of erectile dysfunction, was of major importance. We also offered Vizarsin in other new markets, i.e. in Portugal and Georgia. In Croatia and in Hungary, we launched sildenafil in the form of orodispersible tablets as the first generic producer. In Western Europe, Krka ranks among the five leading generic producers of sildenafil.

The product portfolio for the treatment of the urinary tract also includes **Tanyz/Tanyz ERAS** (tamsulosin) and **Finpros** (finasteride), which are used for the treatment of benign prostatic hyperplasia, and **Asolfena** (solifenacin), which is used for the treatment of urinary incontinence.

MEDICINES FOR THE TREATMENT OF DISEASES OF THE RESPIRATORY SYSTEM

Krka's newer medicines for the treatment of respiratory system diseases include **Cezera*** (levocetirizine), **Dasselta*** (desloratadine) and **Monkasta*** (montelukast). In 2014, we increased the number of markets where these products are marketed. We began to market Dasselta* in Kazakhstan, Serbia and several other smaller markets of South-Eastern Europe, Cezera* in Lithuania and Turkmenistan, and Monkasta* in Kazakhstan and Portugal. In Slovenia, Estonia and the Czech Republic, Cezera* is the leading generic levocetirizine. Dasselta* is the leading generic desloratadine in several markets as well. We are especially successful in Lithuania, where all three medicines are the leaders among the competitors. In Germany, Krka is the leading generic producer of desloratadine and levocetirizine.

ONCOLOGY MEDICINES

We launched oncology medicines in 2013, thus entering a new and important therapeutic area. In 2014, we expanded the list of countries where we market medicines from this group. We were one of the first generic pharmaceutical companies to launch **Meaxin*** (imatinib) in Poland. We expanded our marketing activities to new countries in South-Eastern Europe: Bosnia and Herzegovina, Albania and Macedonia. In Slovenia, Lithuania, Poland and Slovakia, Meaxin* has become the leading generic imatinib.

Ecansya* (capecitabine) became the leading generic capecitabine in the Czech Republic in 2014. We were among the first generic producers to launch it in Poland, Croatia, Slovenia and Lithuania.

Lortanda* (letrozole), **Escepran*** (exemestane) and **Tolnexa** (docetaxel) supplement the portfolio. We began to market these in Latvia and in Croatia, and Tolnexa also in other, smaller countries of South-Eastern Europe.

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Non-prescription products

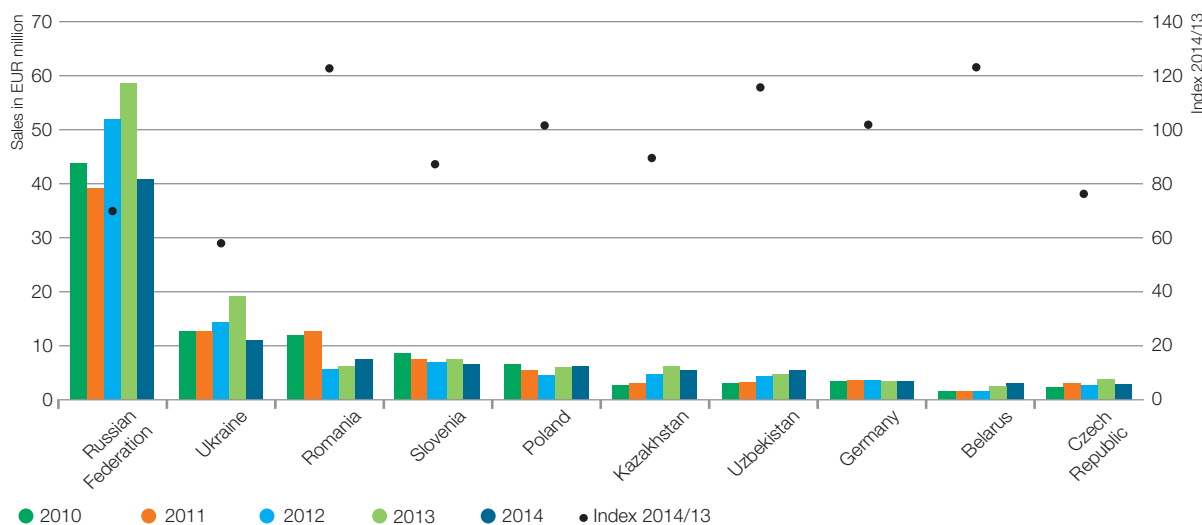
In 2014, the Krka Group sold EUR 122.0 million worth of non-prescription pharmaceuticals, a decrease of 16% compared to 2013. The decrease was primarily due to the lower incidence of common colds and flu during the cold-and-flu season, and the devaluation of the currency in the Russian Federation and Ukraine, our largest individual markets for non-prescription products. Among the ten largest markets, the highest sales growth in non-prescription products was in Romania,

Uzbekistan and Belarus, and among other markets in Serbia, Turkmenistan and Georgia.

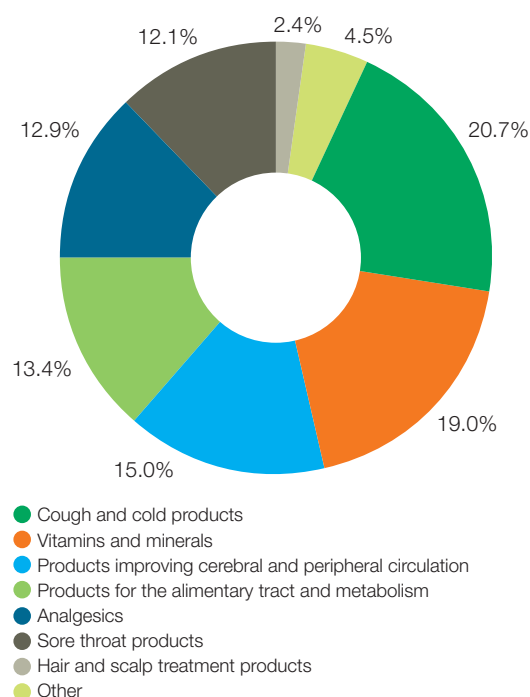
Our most important brands of non-prescription products are Herbion, Bilobil and Septotele. Herbion and Bilobil are among the 15 leading Krka products, followed by Nalgesin S*, Panzynom and the vitamin and mineral products Pikovit and Duovit.

Krka's most important non-prescription product brands are Herbion, Bilobil and Septotele.

Sales of non-prescription products in the 10 largest markets



Sales of non-prescription products by therapeutic class in 2014



The leading non-prescription product brand is **Herbion**. Herbion cough syrups are herbal medicines for different types of cough. **Herbion cowslip syrup** and **Herbion ivy syrup** facilitate expectoration, while **Herbion plantain syrup** relieves dry, irritating coughs. **Herbion Iceland moss syrup*** also relieves sore throat and hoarseness. In 2014, we launched Herbion products in new markets. There is now a total of 30 markets altogether. Herbion ivy syrup was launched in Poland, Serbia, Kazakhstan and in several other markets of Eastern Europe. Herbion Iceland moss syrup* was launched in Ukraine, Uzbekistan, Bosnia and Herzegovina, and Estonia. In 2014, Herbion became the leading brand among herbal cough products in the Russian Federation. According to data collected in an independent research project, pharmacists in Ukraine most often recommended Herbion products.

Herbion is the leading brand among herbal cough products in the Russian Federation.

Bilobil is the second most important non-prescription brand in terms of sales. It includes products with ginkgo extract, which is indicated for improving the cognitive abilities, concentration and memory. In 2014, Bilobil retained the leading position in terms of sales volume among ginkgo products in the markets of Slovenia, Central, Eastern and South-Eastern Europe. In Slovenia, Ukraine, Romania and certain other small markets, products of the Bilobil brand are the first among all ginkgo

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products in terms of sales value. In 2014, **Bilobil intense** 120 mg was launched in the Russian Federation and Mongolia, while Bilobil 40 mg and **Bilobil forte** 80 mg were launched in Lithuania as well.

In the markets of Slovenia, Central, Eastern and South-Eastern Europe, Bilobil is the leading ginkgo product in terms of sales volume.

Septotele is Krka's third most important non-prescription brand of products used to ease problems related to sore throat. Among products in the form of lozenges and spray, Septotele plus, which provides quick relief of more severe pain caused by sore throat, are the most important. Septotele is a well-established brand in several markets. In Armenia, we launched **Septotele plus spray** and in Portugal also lozenges, **Septotele plus honey and lime**.

Nalgesin* S (naproxen) ranks among the five leading non-prescription products. It is our most important non-prescription analgesic, and is supplemented by prescription products containing the same active ingredient. In 2014, we added to the brand new products in several markets. In Croatia and Poland, we launched a product containing 220 mg of naproxen.

Our most important brand names of vitamins and minerals are **Pikovit*** and **Duovit**. The Duovit brand contains products for adults adjusted to the specific needs of the male and female body. The Pikovit brand comprises eight products for children, including **Pikovit Unique**, **Pikovit Omega-3** and **Pikovit Prebiotic**, which we launched in new markets in 2014. We launched Pikovit Unique in the Russian Federation and Croatia, and in Croatia also Pikovit Omega-3 and in Belarus all three products, Pikovit Unique, Pikovit Omega-3 and Pikovit Prebiotic. Pikovit remained the leader among vitamin and mineral products for children in terms of sales volume in several markets of Eastern Europe also in 2014. Krka's vitamin and mineral products for children were launched in France for the first time.

Under the brand **Septoaqua**, we market products with an isotonic sterile solution of mineral salts intended for cleaning and moistening the nasal mucosa. Septoaqua for adults and Septoaqua for children have a special puff volume adjusted for adults and children. In 2014, we introduced both products to several new markets and started marketing them in Poland, Croatia, Romania, Moldova and in other countries.

We launched the nasal decongestant Septanazal in more than ten countries.

Septanazal (xylometazoline/dexpanthenol), a nasal decongestant, was added to products with an effect on nasal mucosa, and is also available in a form suitable for adults and children. Septanazal decongests and heals and protects damaged and inflamed nasal mucosa. We launched it in over 10 countries, including large markets like Poland, the Czech Republic and Romania.

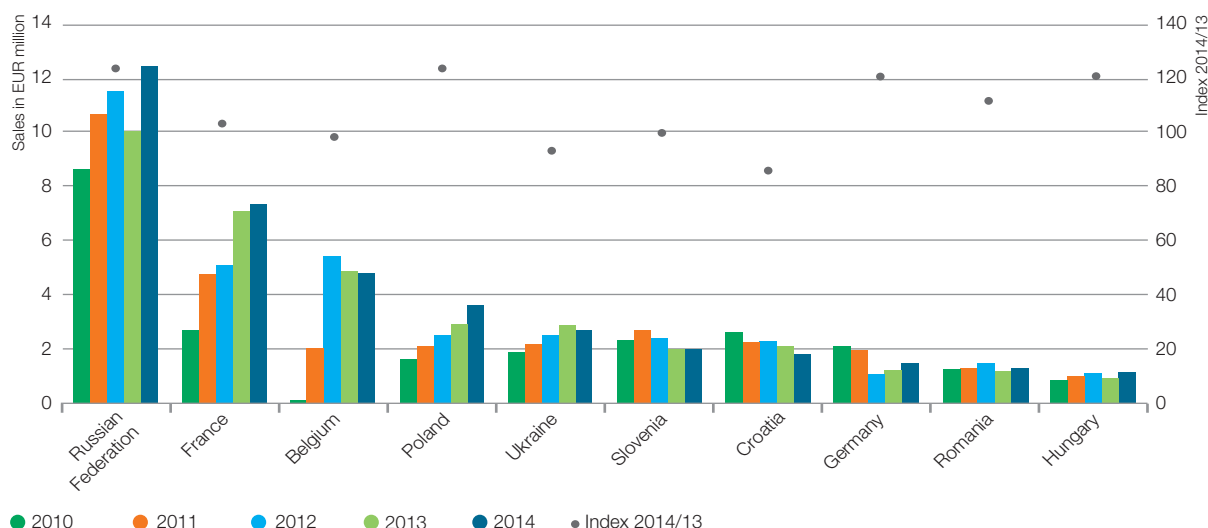
Animal health products

In 2014, the Krka Group sold animal health products worth EUR 46.5 million, an increase of 9% compared to 2013. Among the ten leading markets, sales growth was highest in the Russian Federation, Poland, Germany and France and among other markets in the Czech Republic, Portugal and in Bulgaria.

In Slovenia and Central, Eastern and South-Eastern Europe, we market our products through our own marketing and sales network. We have been expanding the network in Western Europe. Since 2013, we have had our own marketing and sales network in Germany and Belgium, and in 2014, we also began to build a network in Great Britain. In other Western European and overseas markets, animal health products are sold through our partner companies.

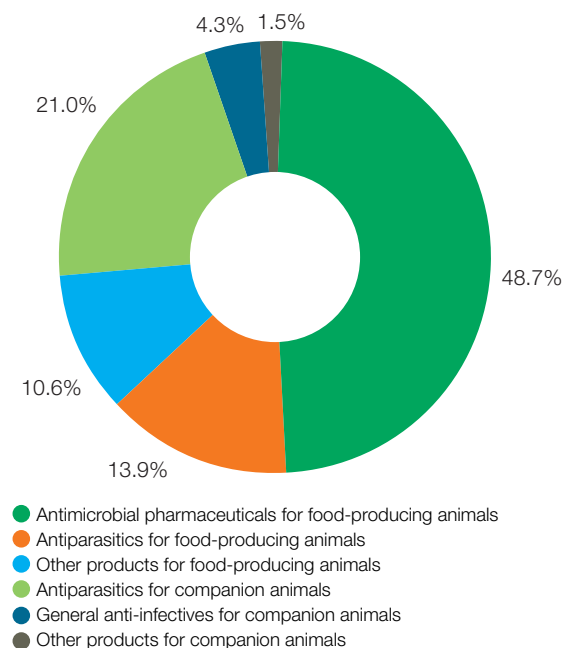
Floron (florfenicol) was the leader among animal health products in terms of sales in 2014, followed by Enroxil* (enrofloxacin), Fypryst* (fipronil), Toltarox* (toltrazuril) and Ecocid* S.

Sales of animal health products in the ten largest markets



* Products marketed under different brand names in individual markets are marked with an asterisk and listed at the end of the chapter.

Sales of animal health products by therapeutic class in 2014



Floron (florfenicol) is the most important product among our animal-health products intended for food-producing animals. In 2014, we added two new pharmaceutical forms to products marketed under this brand name. A new injection form, **Floron Minidose**, was launched in Germany. We were the first generic producer to offer **Floron 4% powder for oral suspension** in Europe, and launched it in Slovenia. Floron is the first generic florfenicol in Europe in all four pharmaceutical forms.

Enroxil* (enrofloxacin) is a product for food-producing animals which is available in several dosage forms. In 2014, the products were offered in several new markets. **Enroxil* Max** single-dose solution for injection was launched in Germany, Belgium, Poland and other markets. **Enroxil* Flavour** flavoured tablets intended for companion animals, were also launched in Portugal and Spain.

Our portfolio of fluoroquinolones was supplemented by **Marfloxin*** (marbofloxacin) in the form of tablets and injection. Over 75% of marbofloxacin is sold in Western Europe. In 2014, we launched a new, 2% solution for injection for dogs and cats.

Toltarox* (toltrazuril) belongs to a group of medicines for food-producing animals and is one of our five leading animal health products. Most of our toltrazuril is sold in Western Europe. Approved new indications in 2014 enabled the marketing of Toltarox in many countries also for the treatment of cattle and sheep.

Also for food-producing animals is **Flimabend** (flubendazole), our newest antiparasitic, which is available in an innovative dosage form of a suspension for use in drinking water. It was launched in 2013, and in 2014 we began to sell it in Germany,

Strategy by product and service group

Prescription pharmaceuticals: €990.6 million

The highest growth by regions:

Region West Europe

+12%

Region South-East Europe

+6%

Region East Europe

+1%

Non-prescription products: €122 million

Animal health products: €46.5 million

Health resort and tourist services: €30 million

Leading prescription pharmaceuticals*:

- **Atoris** (atorvastatin) for the treatment of cardiovascular diseases
- **Lorista** (losartan) for the treatment of cardiovascular diseases
- **Enap** (enalapril) for the treatment of cardiovascular diseases
- **Prenessa** (perindopril) for the treatment of cardiovascular diseases
- **Nolpaza** (pantoprazole) for the treatment of the alimentary tract
- **Emanera**** (esomeprazole) for the treatment of the alimentary tract
- **Zyllt** (clopidogrel) for the treatment of cardiovascular diseases
- **Roswera**** (rosuvastatin) for the treatment of cardiovascular diseases
- **Valsacor** (valsartan) for the treatment of cardiovascular diseases
- **Karbis**** (candesartan) for the treatment of cardiovascular diseases

* Products marked with an asterisk are marketed under different brand names in individual markets.

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

* Products marketed under different brand names in individual markets are marked with an asterisk and listed at the end of the chapter.

the Benelux countries, the Russian Federation, Serbia and the Czech Republic.

Fypryst* (fipronil) is our most important animal health product used for treating companion animals. Under this brand name, we market a cutaneous spray and a spot-on solution, and in 2014, a new product **Fypryst Combo** (fipronil/S-methoprene) was added to the portfolio. The combination of two active ingredients destroys ticks and fleas and prevents fleas from multiplying by preventing the eggs, larvae and pupae from developing. Krka was the first generic company in Europe to launch it in Slovenia, Romania, Croatia, the Baltic states and other countries. We also launched **Fypryst* cutaneous spray** in new markets, especially in Western Europe, including Germany, France, Italy, Spain and other countries.

Fypryst Combo is the first generic fixed-dose combination of fipronil and S-methoprene in Europe.

The antiparasitic **Dehinel* Plus** (febantel/praziquantel/pyrantel embonate) is intended for the treatment of companion animals. In 2014, **Dehinel* Plus XL** tablets for large dogs were launched in Slovakia and Hungary, where we also launched Dehinel* Plus Flavour flavoured tablets.

In 2014, a new antiparasitic, **Milprazon*** (milbemycin oxime/praziquantel), was added to the portfolio of veterinary products for treating companion animals. It belongs to a group of the most advanced medicines for the treatment of infestations with internal parasites in dogs and cats. Due to the broad spectrum of activity, it gives protection against the most important internal parasites, including heartworm and eye worm. It was launched in Germany and France. We were the first generic producer to launch it in Slovenia.

We began to market Milprazon, the new antiparasitic for the protection of dogs and cats against internal parasites.*

The non-steroidal anti-inflammatory medicine **Rycarfa** (carprofen) is used for the treatment of companion animals. Carprofen in tablet and injection form was launched in new Western European markets: Great Britain, Spain, the Netherlands and other countries.

The animal health product portfolio also includes the disinfectant **Ecocid* S**, which is supplemented by **Ecocid Advanced**, the first generic product containing peroxyacetic acid in powder form. In 2014, it was launched in the Russian Federation, Romania, Croatia and several other markets.

Health resorts and tourist services

In their business units in Šmarješke and Dolenjske Toplice, Strunjan, Novo Mesto and Otočec, the spa resort group Terme Krka recorded 328,101 overnight stays, down 2% compared to 2013. The fall in overnight stays was the result of the measure taken by the Health Insurance Institute of Slovenia in April, which greatly limited health resort visits of trauma patients. This measure was revoked in October on the basis of expert arguments, but it was not possible to make up for the six-month loss of income. Sales growth of services covered entirely by patients during the first six months of 2014 was followed by a considerable fall in the summer months, which was the result of unfavourable rainy weather. This caused a loss of income from outdoor pools and a decrease in the number of hotel stays. Over 20,000 overnight stays of Russian guests compensated for the loss, and total overnight stays increased by 44%. The majority of foreign guests were Italian, who contributed 9% of all overnight stays, up 2 percentage points on 2013.

Sales revenues were down one per cent in 2014 and amounted to EUR 30.0 million. The occupancy rates of Krka's hotels were as follows: 80% at Talaso Strunjan – the highest rate, 66% at Terme Šmarješke Toplice, and 63% at Terme Dolenjske Toplice.

As part of the Top Wellness Centre 2014 competition, Krka's Vitarium & Spa Clinique at the Šmarješke Toplice resort was declared the best small relaxation centre, and the Balnea Wellness Centre at the Dolenjske Toplice resort came second in the category of large relaxation centres.

The Trivago hotel search engine ranked Balnea Hotel in the Dolenjske Toplice resort as one of the seven best wellness hotels in Europe.

* Products marketed under different brand names in individual markets are marked with an asterisk and listed at the end of the chapter.

Products marketed under different brand names in individual markets

Active ingredient	Brand names
Prescription pharmaceuticals	
amlodipine	Tenox, Hipres, Amlonor, Alneta
aripiprazole	Aryzalera, Aripipan, Arisppa, Zylaxera
atorvastatin/amlodipine	Atordapin, Atorcombo, Amaloris
bisoprolol	Niperten, Sobyacor, Sobyco
bisoprolol/amlodipine	Sobycombi, Niperten Combi
candesartan	Karbis, Candecor, Canocord
capecitabine	Ecansya, Cansata
celecoxib	Aclexa, Dilaxa
clopidogrel	Zyllt, Kardogrel
desloratadine	Dasselta, Esradin
donepezil	Yansal, Yasnoro
enalapril/lercanidipine	Elnap, Lenap, Elyrno, Enap L Combi
escitalopram	Elicea, Ecytara, Escitalex, Anxila
esomeprazole	Emanera, Emozul, Escadra
exemestane	Escepran, Etadron
galantamine	Galsya SR, Galnora
gliclazide	Gliclada, Glyclada, Laaglyda
imatinib	Meaxin, Neopax, Meapax, Itivas
irbesartan	Ifirmasta, Irabel, Firmasta
lansoprazole	Lanzul, Lansoptol
letrozole	Lortanda, Likarda
levocetirizine	Cezera, Lertazin
losartan	Lorista, Lavestra
losartan/amlodipine	Tenloris, Alortia, Lortenza, Losamlo
memantine	Marixino, Memando, Maruxa, Memaxa, Mentixa, Maryzola
montelukast	Monkasta, Monalux
moxifloxacin	Moloxin, Moflaxa, Moxibiot, Moflaxya
naproxen	Nalgesin, Analgesin, Naldorex
olanzapine	Zalasta, Zolrix
pantoprazole	Nolpaza, Appryo
perindopril	Prenessa, Perineva
perindopril/amlodipine	Amlessa, Dalnessa, Tonarssa, Dalneva
perindopril/indapamide	Co-Prenessa, Co-Perineva, Prenewel
perindopril/amlodipine/indapamide	Co-Amlessa, Co-Dalnessa, Co-Dalneva, Amlewel, Dalnecombi, Tonanda
pregabalin	Pragiola, Pregabador, Pregabio
quetiapine	Kventiax, Quentiax
rabeprazole	Gelbra, Zulfex
ramipril	Ampril, Amprilan
repaglinide	Enyglid, Repodiab
risperidone	Torendo, Rorendo
ropinirole	Rolpryna SR, Ralnea SR
rosuvastatin	Roswera, Roxera, Sorvasta

Active ingredient	Brand names
telmisartan	Tolura, Telmista
telmisartan/indapamide	Tolucombi, Telmista H
valsartan/amlodipine	Vamloset, Valodip, Plusval
venlafaxine	Alventa, Olwexya
ziprasidone	Zypsilan, Zypsila, Ypsila
Non-prescription products	
Iceland moss extract	Herbion Iceland moss, Herbisland, Herbimos
naproxen	Nalgesin, Analgesin, Nalgedol, Ilgesin
vitamins for children	Pikovit, Divakid
Animal health products	
biocide	Ecocid, Oxid
enrofloxacin	Enroxil, Xacin, Enrox
fipronil	Fypryst, Fypryst Combo, Amflee
flubendazole	Flimabend, Flimabo
marbofloxacin	Marfloxin, Quiflox, Quiflor
milbemycin oxime/praziquantel	Milprazon, Milquantel
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. Innovative research and development approaches, technologies and evaluation methods are required to develop generic products with added value.

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 an 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 acquisition of marketing authorisations for prescription pharmaceuticals, non-prescription products, animal health products and food supplements.

We introduced new technologies and approaches in the field of research and development and took on expert, scientific and regulatory challenges, in particular in relation to our products that contain several active substances. We applied innovative solutions to the preparation of new active substances and the technological development of pharmaceutical forms. We have been awarded several times for innovations in the synthesis of active substances and pharmaceutical and technological solutions for our key products. The pharmacokinetic or bioequivalence studies that we conduct have become increasingly complex also due to the development of products in new therapeutic areas. This is particularly true of oncology medicines, fixed-dose combinations and medicines for treating diseases of the central nervous system. One of the key steps in product development is conducting local clinical trials and other research to ensure that our operations are in compliance with the regulatory procedures and adjusted to the additional requirements of individual markets.

Creative and innovative procedures and especially teamwork in the research and development and regulatory areas enable the successful placement on the market of a generic product with added value.

To remain competitive, we need to focus on: the efficient and innovative development of selected products in therapeutic areas of interest to us; industrial property protection; prompt marketing authorisation documentation for filing and launching new products; maintaining the competitive edge of our products in all markets; and active placement of existing products in new markets.

The number of new products and marketing authorisations of the Krka Group

In 2014, Krka obtained marketing authorisations for 19 new products in 47 new dosage forms and strengths. We acquired new marketing authorisations for several products in new markets in all our regions. We obtained 460 new marketing authorisations under various European and national authorisation procedures for prescription pharmaceuticals, non-prescription products and animal health products.

Krka obtained marketing authorisations for 19 new products in 47 dosage forms and strengths.

Protecting our know-how and industrial property

In 2014, Krka submitted patent applications for four new inventions, and ten international patent applications on the basis of priority applications from 2013.

In 2014, Krka applied for 70 trademarks in Slovenia, and submitted 33 international and 68 national trademark applications.

Prescription pharmaceuticals

In 2014, Krka obtained marketing authorisations for 13 new products in 36 new dosage forms and strengths. We expanded marketing opportunities for our key products in all regions through various marketing authorisation procedures.

We entered the European market with the antipsychotic Aryzalera/Aripipan (aripiprazole), the anti-epileptic pregabalin and a new form of the antipsychotic Kventiax/Quentiax (quetiapine).

As the first generic producer in the selected European markets, we acquired marketing authorisations under the European Decentralised Procedure for the antipsychotic **Aryzalera/Aripipan** (aripiprazole) in tablet form in four strengths.

Aripiprazole is a third-generation antipsychotic distinguished by a unique double mechanism of action, which differs from other antipsychotics. The medicine is used for the treatment of schizophrenia and bipolar disorder in adults and children aged over 15 years and is taken once a day. The clinical efficacy of aripiprazole may be compared to the efficacy of modern atypical antipsychotics, but stands out in terms of tolerability. It was authorised in ten European countries.

We expanded our range of anti-epileptic medicines. We acquired marketing authorisations under the European Decentralised Procedure in ten countries for the new medicine **pregabalin** in capsules in eight strengths. Thanks to the wide variety of strengths, the dosage may be precisely adjusted to each patient so that the treatment is not disrupted by any adverse events. The advantage of pregabalin is that it is also used for the treatment of generalized anxiety disorder and neuropathic pain in addition to the treatment of epilepsy.

Krka's range of antipsychotics was expanded and a new form of medicine, **Kventiax/Quentiax** (quetiapine), was approved. Quetiapine is a broad-spectrum antipsychotic medicine for treating mental illnesses such as schizophrenia, bipolar disorder and major depression. We integrated the active substance quetiapine into a new prolonged-release tablet in three strengths, which allows the dose to be taken only once a day, which simplifies treatment.

Krka was the only producer to acquire marketing authorisations under the European Decentralised Procedure for a new medicine for lowering high blood pressure, **Tenloris/Alortia** (losartan/amlodipine), an innovative combination in film-coated tablets in four strengths. The complementary effect of two active substances reduces the likelihood of adverse effects and improves tolerability. Taking just one Tenloris tablet, which combines two active substances, may replace two tablets each of which contains a single active substance. This reduces the number of tablets taken daily.

The range of products for lowering blood pressure was further expanded with two combinations, the new Sobycombi (bisoprolol/amlodipine) and the innovative combination Tenloris/Alortia (losartan/amlodipine).

We obtained a marketing authorisation under the European Decentralised Procedure for **Sobycombi** (bisoprolol/amlodipine) fixed-dose combination in tablets in four strengths. The combination effectively controls blood pressure and is also used in the treatment of stable ischemic heart disease.

We added a new medicine **Bravadin** (ivabradine hydrobromide) in tablets in two strengths to our portfolio for the treatment of cardiovascular diseases. It is used in the treatment of coronary artery disease and chronic heart failure. Krka was the first generic producer to acquire marketing approvals for this medicine in the Russian Federation.

Krka was the first generic producer to obtain the marketing approval for the new medicine ivabradine hydrobromide, Bravadin, in the Russian Federation.

We added a new medicine, **Riksila** (aliskiren), in tablet form in two strengths to our portfolio for the treatment of high blood pressure. The medicine was approved in the Russian Federation. Aliskiren is a renin inhibitor used to lower blood pressure either independently or in combination.

Among cholesterol-lowering medicinal products, Krka acquired the first marketing authorisations for **Vasitimb** (ezetimibe/simvastatin), the new fixed-dose combination in tablets. The combination of these two active substances increases responsiveness in reaching and maintaining target cholesterol levels.

We acquired a marketing authorisation under the European Decentralised Procedure for the anti-depressant **Elicea/Escitalex** (escitalopram) 15 mg film-coated tablets, thus adding another strength to the existing three.

New products were added to Krka's range of antibiotics. We obtained marketing authorisations under the European Decentralised Procedure for **Moloxin/Moflaxa/Moxibiot** (moxifloxacin) 400 mg film-coated tablets. The medicine is used for the treatment of paranasal sinus infections, inflammation of the respiratory tract, pneumonia, and pelvic inflammatory disease.

In the Russian Federation, we obtained a new marketing authorisation for the antibiotic **Betaklav** (amoxicillin/clavulanic acid) in film-coated tablets in three strengths. This combination is used for the treatment of a wide range of infections of the respiratory system, urinary system, soft tissues, bones and joints.

We obtained marketing authorisations under the European Decentralised Procedure for **Azibiot** (azithromycin) 250 mg film-coated tablets. Its new strength allows for a five-day dosage schedule and is used to treat infections of the respiratory tract, the skin and subcutaneous tissue and genitals. At the same time, we expanded the marketing opportunities for Azibiot 500 mg film-coated tablets. These were approved under the European Decentralised Procedure in sixteen European countries and under national procedures in Ukraine and Moldova.

We acquired approvals under the European Decentralised Procedure for a new form of **imatinib** in film-coated tablets in two strengths in European markets.

In twelve European countries, **Atordapin/Amaloris** (amlodipine/atorvastatin) film-coated tablets were approved under the European Decentralised Procedure. The fixed-dose combination contains 5 mg of amlodipine and 10 mg of atorvastatin. This additional strength is used as the initial starting dose in treatment with the fixed-dose combination of amlodipine/atorvastatin. 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.

The launch of **Amlewel/Tonanda** (perindopril/indapamide/amlodipine) fixed-dose combination in tablets in five strengths in Slovenia and the Czech Republic was also important.

We introduced fixed-dose combinations of sartans in the European markets. **Candecor/Canocombi** (candesartan/hydrochlorothiazide) in a fixed-dose combination in tablets in four strengths was approved in Estonia, Latvia and Spain.

The fixed-dose combination of valsartan/hydrochlorothiazide in the form of film-coated tablets in three strengths was approved in Spain.

We entered new European markets with the Amlewel/Tonanda (perindopril/indapamide/amlodipine) combination.

We introduced **Nolpaza** (pantoprazole) powder for solution for injection to new markets. We also acquired marketing authorisations under the European Decentralised Procedure for the medicine in the Great Britain, Estonia, Latvia and Lithuania.

We obtained approvals in several European markets for **Doreta** (paracetamol/tramadol) fixed-dose combination in film-coated tablets in two strengths, **Aclexa** (celecoxib) capsules in two strengths and **levetiracetam** film-coated tablets in four strengths.

In addition to aliskiren and ivabradine, we were the first generic producer in the Russian Federation to acquire marketing authorisations for **Enap L COMBI** (enalapril/lercanidipine) film-coated tablets in two strengths and **Dilaxa** (celecoxib) capsules in two strengths. Also in the Russian Federation, we introduced **Lortenza** (losartan/amlodipine) fixed-dose combination in film-coated tablets in four strengths; **Galnora SR** (galantamine) prolonged-release capsules; **Vizarsin Q-Tab** (sildenafil) orodispersible tablets; **Rolpryna SR** (ropinirole) prolonged-release tablets and **Maruxa** (memantine) film-coated tablets.

We acquired authorisations in various markets of Eastern Europe for Krka's key medicines as follows: **Candecor** (candesartan) tablets; **Olimestra** (olmesartan) film-coated tablets; **Lorista** (losartan) 100 mg film-coated tablets; **Co-Prenessa** (perindopril/indapamide) fixed-dose combination; **Prenessa Q-T** (perindopril) orodispersible tablets; **Roxera** (rosuvastatin) film-coated tablets; and **Repodiab** (repaglinide) tablets. The antihistamine **Desradin/Dasselta** (desloratadine) in film-coated tablet form was approved in Kazakhstan, Moldova and Georgia. In Kazakhstan, we acquired a marketing authorisation for the **Telmista** (telmisartan/hydrochlorothiazide) fixed-dose combination in three strengths. In Belarus, we acquired a new marketing authorisation for **Emanera** (esomeprazole) gastro-resistant capsules. In Georgia, we launched **Memaxa** (memantine) film-coated tablets; **Valsacor H80/Valsacor H160/Valsacor HD160** (valsartan/hydrochlorothiazide) fixed-dose combinations and **Yasnal** (donepezil) film-coated tablets. We obtained new marketing authorisations in Ukraine, Moldova and Georgia for **Vizarsin** (sildenafil) film-coated tablets and orodispersible tablets. In Kyrgyzstan, we acquired marketing authorisations for our already established product **Atoris** (atorvastatin) 30 mg, 60 mg and 80 mg tablets. We acquired marketing authorisation for **Nolpaza** (pantoprazole) powder for solutions for injection in Kyrgyzstan and Moldova. We introduced **Amlessa** (perindopril/amlodipine) tablets in four strengths in Kyrgyzstan, Armenia and Azerbaijan. In Ukraine, we acquired new marketing authorisations for key Krka products as

New products account for a significant proportion of sales, primarily due to constant investment in research and development.

Krka deals primarily with the synthesis of new generic medicines.



Krka has obtained marketing authorisations for

19

new products in

47



dosage forms and strengths. Krka has acquired

460

marketing authorisations in various markets.



More than 40% of sales revenue is generated from sales of new products, i.e. products launched on a market in the past five years. Krka is one of the leading pharmaceutical companies that introduces fixed-dose combinations of two or more prolonged-release active pharmaceutical ingredients. At the end of 2014, almost 600 Krka employees were engaged in 175 new development projects.

follows: **Olimestra H20/Olimestra HD20/Olimestra H40/Olimestra HD40** (olmesartan/hydrochlorothiazide) fixed-dose combination in film-coated tablets; **Candecor H/Candecor HD** (candesartan/hydrochlorothiazide) fixed-dose combination in tablets; bisoprolol film-coated tablets; Atoris (atorvastatin) film-coated tablets in three strengths; and **Opryme** (pramipexole) tablets. In the markets of Eastern Europe, we also introduced the oncology products **Neopax** (imatinib) and **Ecansya** (capecitabine).

In the markets of South-Eastern Europe, we acquired approvals for new products from Krka's key therapeutic groups. In Serbia and Macedonia, we expanded our range of medicines for the treatment of cardiovascular diseases by acquiring marketing authorisations for **Atordapin** (atorvastatin/amlodipine) fixed-dose combination in tablets in two strengths. In Serbia and Bosnia and Herzegovina, we acquired marketing authorisations for our medicine from the group of medicines used for lowering blood pressure, **Tolucombi** (telmisartan/hydrochlorothiazide), in fixed-dose combinations in tablets in three strengths. We acquired marketing authorisations for **Sobycor** (bisoprolol) in film-coated tablets in three strengths in Macedonia, Serbia, Bosnia and Herzegovina and Kosovo. In Serbia, we obtained marketing authorisations for **Co-Amlessa** (perindopril/indapamide/amlodipine) combination in tablets in five strengths. We obtained new marketing authorisations for **Elnap** (enalapril/lercanidipine) fixed-dose combination in Bosnia and Herzegovina and Kosovo. **Opryme** (pramipexole) prolonged-release tablets in five different strengths, a medicine which may be used alone or in combination for the treatment of signs and symptoms of Parkinson's disease, was approved in Macedonia, Serbia and Bosnia and Herzegovina. The antihistamine **Dasselta** (desloratadine) in film-coated tablets was approved in Macedonia and Albania.

From the range of oncology medicines, the following new products were approved in the markets of South-East Europe: **Escepran** (exemestane) in Bosnia and Herzegovina, Serbia and Kosovo; **Tolnexa** (docetaxel) in Macedonia, Bosnia and Herzegovina, Kosovo and Serbia; **Ecansya** (capecitabine) in Serbia and Albania; and **Meaxin** (imatinib) in Serbia. In Bosnia and Herzegovina and Macedonia, we acquired marketing authorisations for **Memanda** (memantine) film-coated tablets in two strengths, our medicine for the treatment of Alzheimer's disease. In Serbia, we acquired marketing authorisations for: **Prenessa** (perindopril) tablets; **Prenessa Q-Tab** (perindopril) orodispersible tablets; **Nalgesin Forte** film-coated tablets; and **Yasnal Q-Tab** (donepezil) orodispersible tablets. We acquired marketing authorisations in Kosovo and Serbia for **Aclixa** (celecoxib) capsules in two strengths. We expanded marketing opportunities for our analgesic **Doreta** (tramadol/paracetamol) fixed-dose combination in Macedonia and Kosovo. In Montenegro, we obtained new marketing authorisations for **Valsacor** (valsartan) film-coated tablets in two strengths and **Valsacombi** (valsartan/hydrochlorothiazide) fixed-dose combination in film-coated tablets available in three strengths.

In several countries of our Overseas Markets, we acquired marketing authorisations for key Krka products, as follows: **Atorva TAD** (atorvastatin); **Emanera/Eso TAD** (esomeprazole); **Roswera** (rosuvastatin); **Sertra TAD** (sertraline hydrochloride); **Leve TAD** (levetiracetam); **Tenox/AmlO TAD** (amlodipine); **Mirzaten** (mirtazapine) and **Monkasta** (montelukast).

Non-prescription products

In the group of non-prescription products last year, we further strengthened the position of our key brands **Septotele**, **Bilobil**, **Herbion**, **Pikovit** and **Duovit**.

Our well-established brand **Septotele** was expanded by acquiring marketing authorisations for a variety of products in several markets. We acquired new marketing authorisations for: **Septotele plus spray** in Portugal, Romania, the Russian Federation, Azerbaijan, Mongolia and Armenia; **Septotele plus** lozenges in Portugal and Montenegro; **Septanazal nasal spray** for adults and **Septanazal nasal spray** for children in the Russian Federation, Ukraine, Kazakhstan, Moldova, Serbia, Bosnia and Herzegovina and Kosovo.

Septoaqua nasal spray for adults and **Septoaqua nasal spray** for children were introduced as medicinal devices in Ukraine and Macedonia.

Nolpaza control (pantoprazole) 20 mg gastro-resistant tablets were approved in the class of non-prescription products in Moldova.

In Croatia, **Nalgesin** (naproxen sodium) 220 mg film-coated tablets were approved as a non-prescription medicine.

Among our herbal non-prescription products, we expanded marketing opportunities in various markets for our key brand, **Herbion**. We acquired marketing authorisations for: **Herbion ivy syrup** in Kosovo, Serbia, Armenia, Georgia and Kyrgyzstan; **Herbion Iceland moss** in Romania, the Russian Federation, Kosovo, Ukraine, Uzbekistan, Belarus, and Estonia; and **Herbion Mentomed** lozenges in Bosnia and Herzegovina.

In Mongolia, we acquired a new marketing authorisation for **Bilobil intense** capsules.

In the European Union, we expanded marketing opportunities by obtaining marketing authorisations for the well-established brands of vitamins and minerals. **Pikovit Unique** chewable tablets and **Pikovit Omega 3** syrup were approved in Croatia and Finland. In Finland, the following products were approved as dietary supplements: **Pikovit plus** chewable tablets; **Duovit for men** film-coated tablets; and **Duovit for women** film-coated tablets.

We expanded marketing opportunities for our brands **Herbion** and **Bilobil** in our overseas markets.

Animal health products

In 2014, Krka obtained marketing authorisations for six new products in 11 new dosage forms and strengths.

We acquired marketing authorisations for **Fypyrst Combo** spot-on solution for dogs and **Fypyrst Combo** spot-on solution for cats in ten countries of the European Union under the European Decentralised Procedure, and under the National Procedure in Macedonia, Bosnia and Herzegovina and Ukraine. The fixed-dose combination of fipronil and S-methoprene in both products endows the advanced and complex treatment of external parasites, with an extended effect on their development stages. Both products are significant new additions to the range of pharmaceuticals for treating pets.

We obtained a marketing authorisation for a new medicine for companion animals, Fypyrst Combo, as the first generic manufacturer.

We acquired marketing authorisations under the Decentralised Procedure in 27 European countries and in the Russian Federation under the National Procedure for new medicines, **Milprazon/Milquantel** flavoured tablets in two strengths for dogs and **Milprazon/Milquantel** flavoured film-coated tablets for cats. The milbemycin oxime/praziquantel fixed-dose combination is one of the most advanced medicines for treating infestations with intestinal, lung and eye worms in dogs and cats. Due to its systemic mechanism of action, it also prevents heartworm infestations.

In the European markets and in the Russian Federation, we obtained a marketing authorisation for Milprazon/Milquantel (milbemycin oxime/praziquantel), an advanced fixed-dose combination.

We acquired marketing authorisations under the European Decentralised Procedure in 20 countries of the European Union and under the National Procedure in Serbia for **Marfloxin/Quiflor** (marbofloxacin) 20 mg/ml solution for injection. We extended its use also to companion animals. It is used to treat bacterial infections of the respiratory tract, skin infections and soft tissue infections. In the Russian Federation and Ukraine, we extended the use of **Marfloksin** (marbofloxacin) 100 mg/ml and 20 mg/ml solution for injection to the treatment of bacterial infections in cattle and pigs and **Marfloksin** (marbofloxacin) flavoured tablets in three strengths to the treatment of infections in dogs and cats.

By completing the European Decentralised Procedure in 22 European Union member states, we obtained approval to use **Tolzesyo/Toltranil/Tratol/Toltarox** (toltrazuril) oral suspension for the prevention of infections with coccidiosis in sheep, and in Croatia and Serbia extended its use to cattle.

In Germany, **Floron** (florfenicol) oral powder for treating infections of the respiratory tract was approved for use in pigs, while in Israel **Fenflor** (florfenicol) solution for injection

was approved for use in cattle. **Flimabend** (flubendazole) oral suspension for pigs and poultry was introduced in Serbia and Ukraine. The disinfectant **Ecocid Advanced/Oxicid**, which is based on peroxyacetic acid, was approved in Estonia, Romania, Hungary, Croatia and Serbia. In Serbia and Macedonia, **Enroxil Max** (enrofloxacin) solution for injection was approved also for use in pigs. In Ukraine, we acquired marketing authorisations for: **Fypyrst** (fipronil) cutaneous spray for treating flea, tick and lice infestations in cats and dogs; **Misoxin** (doxycycline) water-soluble powder for pigs and poultry; and **Rycarfa** (carprofen) solution for injection for companion animals. In Macedonia, we also obtained approval for **Dehinel Plus flavour** and **Dehinel plus XL** tablets for treating infestations with internal parasites in dogs. In Kazakhstan, we acquired a marketing authorisation for **Kokcisan 120G** (salinomycin) feed additive for the prevention of coccidiosis in poultry.

Health resort and tourist services

At the end of 2014, a thermal water pool which is connected to the hotel with a hall was built in Šport Hotel in Otočec. There is also a Finnish and Turkish sauna next to the pool and a rest room with access to an outdoor terrace. We introduced a more efficient and eco-friendly heating system with industrial heat pumps. We also built a wastewater treatment plant for the hotel and pool.

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. To meet this objective, we continually optimise the cost efficiency of products and technologies, improve processes to reduce flow time along the entire supply chain, and integrate supply processes in all Krka Group companies and in other contracted production sites.

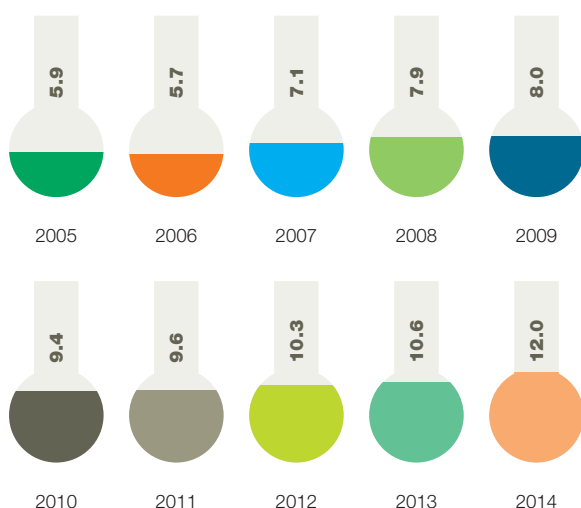
We have improved cost efficiency in Product Supply processes by optimising our production processes in Slovenia and abroad. We will be able to work more easily and efficiently under increasingly more challenging conditions in individual markets with the new management process for the entire product life cycle. We are 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 2013, production in 2014 increased by 13%. Once again, we recorded the largest monthly and quarterly levels of production so far. By continually improving processes, we have considerably reduced the average lead time.

In 2014, we produced 131 tonnes of active ingredients for pharmaceutical production, which is the largest quantity to date.

Production of finished pharmaceutical products in billions pieces



Supply process

In 2014, we expanded electronic operations to some other suppliers. We introduced electronic signing of orders and electronic archiving of documents and improved the assessment procedure for suppliers and producers. We further improved established partnership strategies with suppliers. We substantially cut lead times for most raw materials, thereby reducing the key raw material input prices of our most important products. Certain suppliers are included in our processes already at the development stage of a new product, and, if necessary, they are informed of our development strategy and undergo training.

Production

We have continued the transfer of technologies for new products to large-scale production. We achieved good results in optimising production processes and increasing production yields. We successfully managed technology transfers between plants, thereby using production capacities to their maximum. In consideration of the increasingly 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 2013.

We manufactured more than one billion tablets in one year for the first time in the newly built distribution centre in the Russian Federation and consolidated our position as a local producer in the Russian Federation.

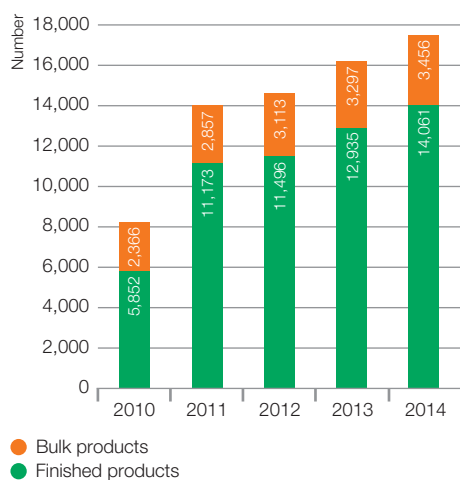
The construction of the new solid dosage forms production plant, NotoL 2, in Novo mesto is nearing completion. This will increase our production capacities from 12 to over 16 billion pieces of solid pharmaceutical forms a year. With Sinteza 1 in Krško we considerably increased the production capacities of active pharmaceutical ingredients.

We upgraded our information technology support for managing, monitoring and controlling processes by capturing data directly from the lines, and by introducing calculating and visualising production process efficiency. We increased the standardisation level and successfully passed it on to our plants abroad with a positive effect on managing production costs.

Preparation of technological documents

We plan the process of implementing post-authorisation activities for the preparation of packaging materials and technological documentation for production in Slovenia and companies abroad in a way that ensures maximum responsiveness depending on sales requirements. Increasing the product range, production sites and changing market demands to which we promptly respond are reflected in the number of bulk and finished products.

The number of finished products and bulk products in production



Warehousing and transport

We comply with the principles of quality, flexibility and responsiveness also in the warehousing and distribution of our products. We implemented a new dispatch system to handle packages faster and enable uninterrupted dispatch 24 hours per day, 7 days a week. We reduced the prices of transport services and reduced environmental pollution by improving the use of vehicles.

Results of stable cash flows:

- **investments;**
- **research and development projects;**
- **strengthening marketing and sales network.**

Krka's indebtedness is low, which enhances flexibility, unobstructed financing and company growth.

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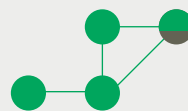
investment projects:

- increase in production capacities for raw materials and finished products;
- modernisation of infrastructure;
- expansion and modernisation of research and development.

Notol 2 is the largest investment in Krka's history:



- investment total: €200 million;
- plant size: 55,000 m²;
- 4.5 billion finished products per year;
- production started in February 2015.



+36%

increase in production capacities for solid pharmaceutical dosage forms.

Investments

In 2014, the Krka Group allocated EUR 174 million to investments, of which EUR 137 million went to the controlling company, and EUR 37 million to subsidiaries. We invested primarily in increasing and updating production capacities. 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.

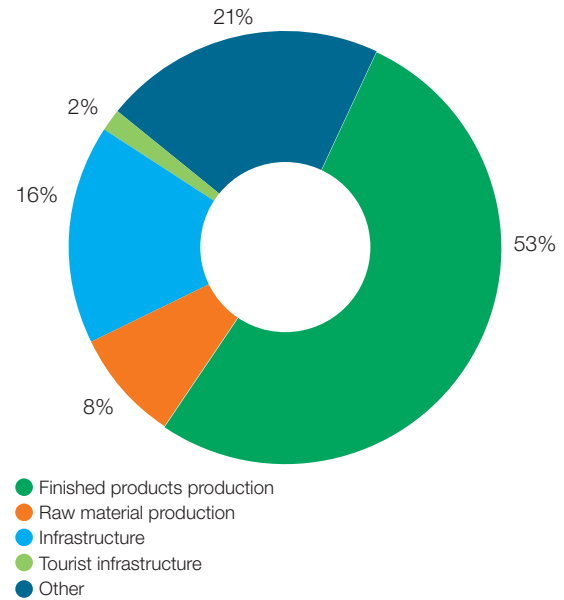
In 2014, our investments amounted to EUR 174 million.

In the past decade, we have allocated EUR 1.26 billion to investments.

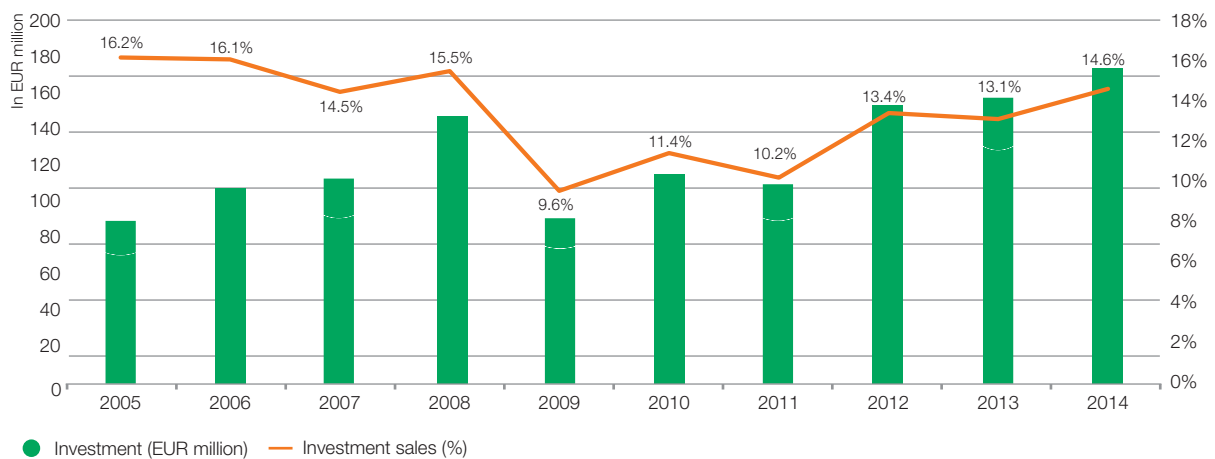
More than twenty investment projects are currently in progress in the Krka Group. All projects comply with environmental standards. The selected equipment matches the best available technology, which guarantees environmental protection and efficient energy use and at the same time ensures safe and efficient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

We invest in the production of raw materials and finished products and in the modernisation of infrastructure to provide stable support for business functions of the entire Group. Investments contributed 14.6% of revenues from sales generated in 2014.

Structure of Krka Group investments in 2014



Krka Group investments in the period from 2005 to 2014



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, which started in June 2012, was completed. This is the largest investment in the history of the Company and is valued at EUR 200 million. Last year, qualifications and validations of systems (i.e. the logistic system, technological equipment and technological media) were carried out. These were quite challenging due to the complexity of the plant and the high level of automation. In November 2014, we acquired approval for one year of trial operations. When the plant is fully technologically equipped, its annual production capacity is expected to total 4.5 billion tablets and capsules a year. The test production in the 55,000-square-metre plant will start at the beginning of 2015.

The annual production capacity of Notol 2 will reach 4.5 billion tablets and capsules.

We are expanding our API production

We finished the construction of the new building complex for the production of active pharmaceutical ingredients (APIs) in Krško after two years and increased our production capacities. In the first phase, we constructed the Sinteza 1 (Synthesis 1) production plant and implemented the accompanying infrastructure. The first of the two production modules was technologically equipped. At the end of July 2014, we manufactured the first batch of an active pharmaceutical ingredient and passed the inspection carried out by Agency for Medicinal Products and Medical Devices of the Republic of Slovenia (JAZMP). The estimated investment totalled EUR 85 million, and production has started on three production lines. In 2015, we plan to equip the second production module.

Energy supply projects

We constructed a new water preparation plant in Ločna to ensure sufficient capacity for the preparation of purified water and tower feed water, and to provide for a secure supply when Notol 2 starts operating. At the end of December, we obtained an operating permit for our investment of EUR 12 million.

Office building 3

In November 2014, we opened a new office building in Ločna. The building is connected with the old office building. The investment in the 5,773-square-metre building totalled EUR 7.2 million.

A new plant in the Russian Federation

One of the Krka Group's most important investments is Krka-Rus 2. We constructed a new production plant in the Russian Federation and extended the logistics centre. The new building measures 34,500 square metres. The entire project's estimated investment value is EUR 135 million. The first phase of investment cost EUR 96 million and increased the annual capacity of the plant to 1.2 billion tablets and capsules. The preparations for implementing the second phase of the investment have started. This phase will involve acquiring technological and warehousing equipment. Its completion is expected in December 2016. The annual production capacity of the new plant when fully technologically equipped is projected to be 1.8 billion tablets and capsules a year and will strengthen Krka's status as a domestic manufacturer in that country. In mid-December 2014, the Krka-Rus plant produced one billion tablets in a year for the first time.

In 2014, we made more than one billion tablets and capsules in our plant Krka Rus 2.

We are expanding our production range

Septotele total, new lozenges, will be launched, so we plan to extend our production capacities in Ljutomer. In December 2014, we obtained a construction permit to build an extension to our plant. The value of the investment is estimated at EUR 9.5 million; the building is expected to be completed in August 2015.

In the production and distribution centre in Jastrebarsko, which operates under Krka's subsidiary Krka Farma Zagreb, we intend to expand our production programme, so we will adjust the warehousing-and-distribution section of the plant accordingly and make improvements to the production section. The investment is estimated at EUR 20 million.

Terme Krka

In December 2014, the subsidiary Terme Krka opened a small hotel pool at Hotel Šport in Otočec, Slovenia. The investment, which also improved the energy efficiency of the building, has been estimated at EUR 2.8 million.

Integrated management system and quality

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

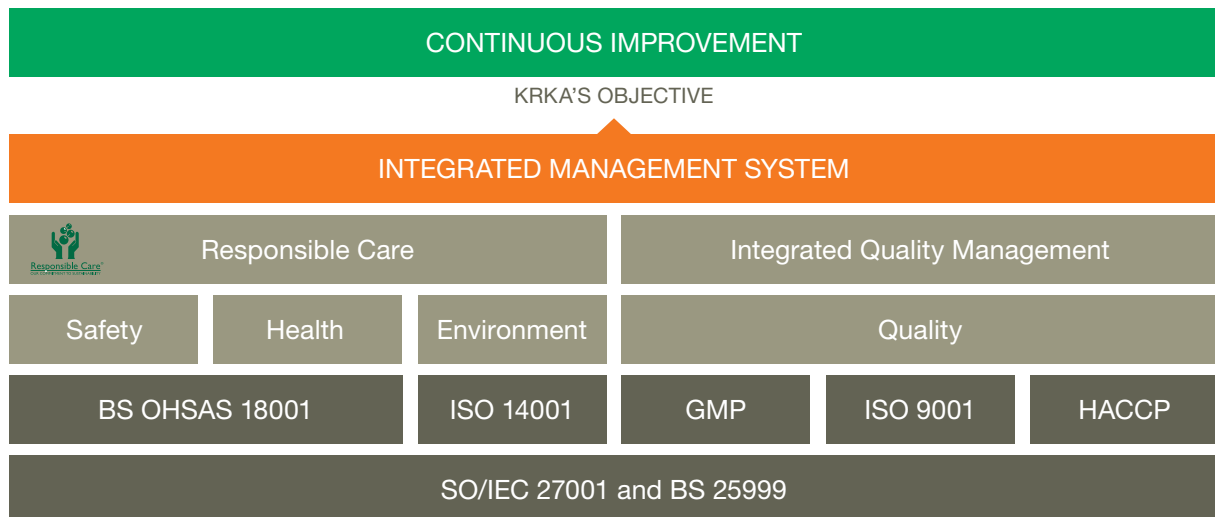
Management and quality systems

We manage various aspects of our operations (quality, environment, health and safety at work, foodstuffs safety, information security, and business continuity management) in a uniform manner with our integrated management system (IMS). 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 continuously upgrade it by reducing costs, shortening the time from the production of a document to its implementation, providing easy access to documents and their security.

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 implementing the company's business continuity.

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 management systems and processes.



Continuous improvements dictated by standards, quality guidelines and the PDCA (Plan-Do-Check-Act) approach are the driving force of progress and upgrades in all areas of the Company's operations. We systematically manage processes,

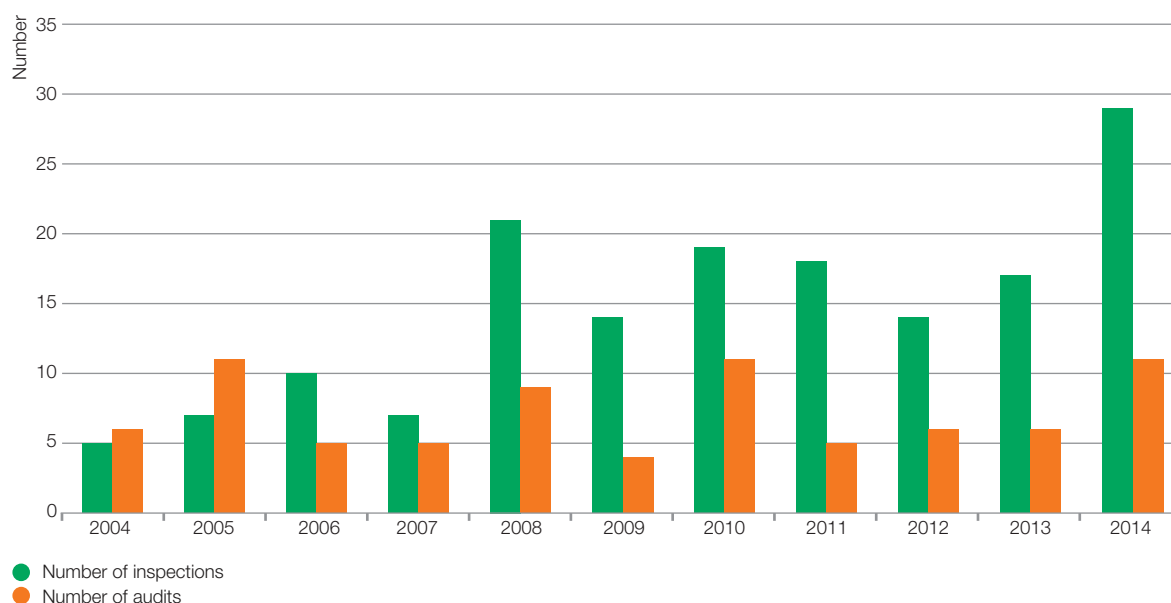
from customer requirements, research and development, production, marketing and sales to the monitoring of customer satisfaction. Customer satisfaction and sustainable business success will remain our key objectives in the future.

Inspections and audits of the management and quality system

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

certification organisations and partner audits. In 2014, the number of inspections significantly increased due to the changes to guidelines and legislation in Slovenia and the European Union.

Number of inspections and audits in the Krka Group



The Agency for Medicinal Products and Medical Devices of the Republic of Slovenia (JAZMP) regularly inspects our quality control, quality assurance system, processes for producing pharmaceuticals and APIs, clinical trials, and pharmacovigilance. In addition to the new *Medicinal Products Act*, a number of different guidelines, good practices and directives of the European Union came into force in 2014 in Slovenia. The implementation of new developments and their application were the principle subjects of inspections. The following were some of the inspections conducted in 2014:

- a successful inspection of compliance with Good Distribution Practice, which refers to organisation, implementation and product storage control before products are used or marketed, and transport from the manufacturer to the end user in compliance with principles and guidelines;
- successfully completed American inspection (US FDA) which inspected the production of active ingredients and non-sterile finished products;
- verification of the new API production plant Sinteza 1 in Krško; and
- successfully completed inspections of the pharmacovigilance systems and Good Clinical Practice.

We successfully passed the inspections and verification conducted by JAZMP, which confirmed that our operations were compliant with the requirements applicable in the

European Union. This is the basis for the renewal of Good Manufacturing Practice Certificates and the maintenance of permits for the production of pharmaceuticals and active substances.

We underwent regular inspections by other agencies for medicinal products in order to enter or remain in markets beyond the European Union where Krka markets its products.

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

Two regular inspections by UVHVR were conducted in the Catering department in order to check that activities were compliant with the *Slovenian Act Regulating the Sanitary Suitability of Foodstuffs, Products and Materials Coming into Contact with Foodstuffs* and the HACCP plan.

We successfully passed all inspections and audits, as the inspectors confirmed suitability and compliance with regulatory requirements applied in the production of pharmaceuticals and APIs.

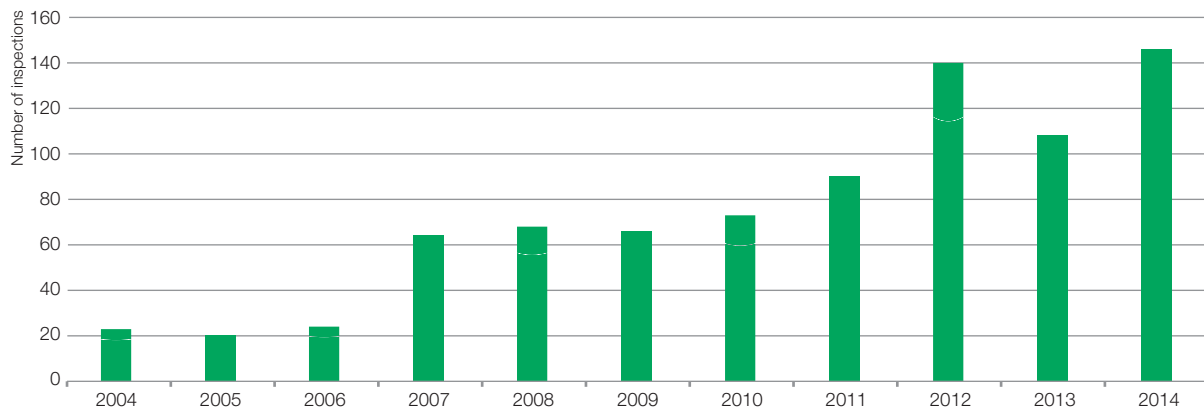
The Health Inspectorate of the Republic of Slovenia regularly sampled food supplements and carried out inspections of production, labelling and ensuring traceability across the entire food supplement production process and verified the implementation of the requirements of the Slovenian *Act Regulating the Sanitary Suitability of Foodstuffs, Products and Materials Coming into Contact with Foodstuffs*.

The Metrology Institute of the Republic of Slovenia carried out an inspection of compliance with the *Metrology Act* and the *Rules on quantities of pre-packed products*.

Our partners audit the quality management system in Krka regularly according to their annual plans. Every audit has confirmed that Krka meets partners' requirements.

Krka's auditors carry out audits of the management systems of suppliers and contract partners to ensure better control of the quality of our products and processes, thus enabling further growth of the company. We pay attention to legislative requirements related to Good Manufacturing Practice, as well as environmental protection, human resources and social responsibility. Therefore, we have been implementing measures to reduce risks related to the quality of products and raw materials produced by suppliers and contractors to an acceptable level. 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.

Number of inspections conducted at suppliers and contract partners



Quality assurance processes

Krka has introduced six key processes for the implementation of its policies and attainment of strategic objectives. These 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 task is to upgrade quality systems, thus improving process efficiency, and the quality and competitiveness of products and services. To achieve this, it is vital that our employees undergo continuous training and continuously upgrade their knowledge in the field of quality management. They co-operate with experts from various areas, seek opportunities for improvement and introduce new developments into 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 we continuously seek new innovative approaches which we then introduce into such processes.

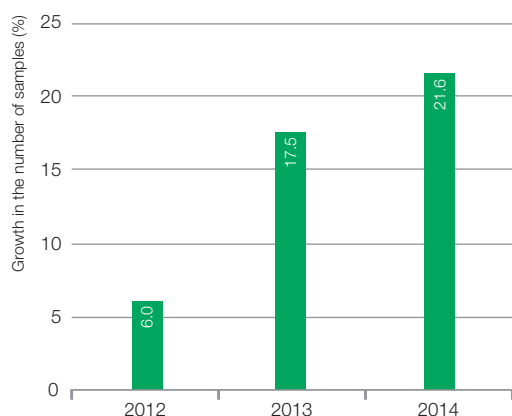
To produce a quality, safe and efficacious product, quality must be integrated into the earliest stages of research and development. We ensure that the quality of products and processes complies with the latest standards and requirements of international legislation by introducing new knowledge and tools,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

We have established a 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 most of our key products, we use active ingredients made according to our own technology, which are the result of our research and development. All incoming materials and manufactured active ingredients are assessed in compliance 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. Krka employees also make useful proposals which contribute to rationalising and optimising work. We inform all employees on a weekly basis about practical suggestions for improving quality.

We apply laboratory quality control to assess the quality of finished products, active ingredients, incoming materials and production environment in all of our production facilities. With continuous improvements, adequate process optimisation and implementation of new advanced analytical techniques, we follow legislation requirements and our business objectives. The implementation of laboratory quality control on incoming materials and manufactured product batches simultaneously and strictly follows production and sales plans. With continuous professional development, constructive communication and the effective organisation of work, we contribute to the timely realisation of orders and customer satisfaction.

Laboratory quality control



We control production processes, active ingredients, and finished pharmaceutical products. By controlling the critical stages of the production process, and examining and assessing the documents for every product batch separately, 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. To achieve improved control of the production processes, we upgraded the system of reporting on completed work in 2014, and through prompt monitoring of findings and with implemented measures we optimised the managing processes.

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

Releasing a batch to the market comes as a result of processes ongoing throughout the product manufacturing cycle.

In view of sales and production requirements, we plan and coordinate activities for the timely release of incoming materials, bulk products and finished products. We continuously improve the planning process and are actively involved in the 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 sales requirements and the performance of production activities. Activities essential for releasing batches on the market arise 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 performed by 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 listed in Krka's Pharmaceutical Manufacturing Licence.

We issue certificates of analysis and certificates of conformance and prepare batch documentation for customers 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 cooperation. In 2014, we updated the finished product certificate of conformance 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. Data on the safety of a medicinal product are collected and evaluated through the entire life cycle of the medicinal product, in the periods before and after the marketing authorisation and upon the daily use of medicinal products. Through the pharmacovigilance system, we assess the risks and benefits of the medicinal product, and we implement measures for risk management and ensure appropriate information for doctors and users. It is our legal obligation to report to JAZMP periodically or in individual cases.

Quality system orientation

Our quality system addresses our customers' demands and expectations in line with the legislative requirements and Good Manufacturing Practice. To further improve processes, we take into account customer satisfaction information about our products by continuously monitoring indirect indicators. We provide for customer satisfaction in relation to our products and services through regularly updated quality assurance contracts and product quality reviews. Another indicator of customer satisfaction is successfully passed audits of product manufacturing in compliance with the Good Manufacturing Practice and registration documents.

A key objective of the IMS is the satisfaction of our customers with Krka products and services.

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

In 2014, we started to conduct monthly reviews of quality indicators that deal with the key processes in Krka that affect the quality, safety and effectiveness of products.

Krka places a strong emphasis on environmental protection and occupational health and safety (ISO 14001, BS OHSAS 18001) as well as on sincere and fair public relations. As a result, we have been granted the right to use the Responsible Care logo every year.

Quality management begins with daily work in each organisational unit, with all processes and products and with every individual. As there is always room for improvement, we launched a campaign to promote quality at the beginning of 2014 (still in progress in the fields of efficiency, economising, knowledge, useful suggestions and environment) under the title "Your Quality Counts". To encourage commitment to quality, we issued a series of expert and motivational articles in our internal monthly bulletin *Utrip*, and sent several messages by e-mail to all the Krka employees. The high commitment to management systems is also reflected in the excellent results of periodic measurements of the organisational climate.

Our ongoing 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 quality systems and pursue their optimisation. In 2014, 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 attend to informing and implementing new developments linked to pharmacopoeia and Good Manufacturing Practice. We provide professional assistance to subsidiaries and regularly monitor their quality systems with audits. The internationalisation of quality system processes leads to coherent and comprehensive quality management, optimisation and process efficiency.

Information security system

Our information security management system (ISMS) is ISO/IEC 27001:2013 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 compliance has been 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. Training our employees and raising their awareness are key elements in the successful implementation of ISMS. They are also carried out by using contemporary technologies such as e-learning.

No major information security incidents occurred in Krka in 2014, which points to the high level of employee awareness and secure information infrastructure.

In compliance with EU directives and the local legislation of countries in which Krka's subsidiaries operate, we completed the systematic approach to personal data protection with a Krka Group level project in 2014. Krka, d. d., Novo mesto has concluded contracts on personal data processing with all the companies in the Group.

We intend to further pursue the in-depth application of contemporary tools to control and increase information security; 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.

We ensure a high availability of critical systems.

Special attention is paid to the availability of critical systems such as the business system, the production system, documentation system, electronic mail, control systems and others. The expected minimal availability of critical systems is 99.5%. For this purpose, we set up a new data centre in 2014, which, together with the basic data centre, ensures a high level of redundancy in accordance with the requirements of high redundancy and data safety.

System	Annual availability in %			
	2014	2013	2012	2011
Business	99.8	99.8	99.9	99.5
Production	99.7	99.9	99.8	99.5
Documentary	99.9	99.8	99.1	99.1
E-mail	99.8	99.8	99.9	99.8

Business continuity management system

We set up our business continuity management system in accordance with the BS25999 standard (*Business Continuity Management*). We assess processes 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. For emergency cases, we have prepared plans of action and disaster relief measures, as well as measures to reduce direct damage. The effectiveness of the business continuity management system is improved by continuously upgrading the system, providing training and practice.

Our business continuity management system is an integral part of Krka's comprehensive risk management.

We pay special attention to increasing the resistance to major incidents or disasters, so that we ensure a high level of redundancy of the company critical infrastructure through new investment projects. The compliance of the business continuity management system with the ISO 22301 standard is planned simultaneously with upgrading the entire quality management system in compliance with the new version of the ISO 9001:2015 standard.

From intensive
research
to new
products and
therapeutic
areas





We allocate some 9% of sales revenue to research and development every year.

We develop generic medicines with added value based on:

- our own innovative synthesis procedures;
- our own innovative pharmaceutical dosage forms and technologies; and
- extensive research to ensure quality, safety and efficacy.

We have been introducing new active pharmaceutical ingredients and combinations of pharmaceutical active ingredients, new pharmaceutical dosage forms and new strengths of medicines. In doing so, we employ the latest development and technological achievements.

Product development

Product development comprises several steps; from pharmaceutical active ingredients to finished products. In addition to research and development, it includes purchasing, the production of raw materials and finished products, and quality management.

Major development areas

New generic prescription pharmaceuticals

Synthesis of pharmaceutical active ingredients

Innovative solid pharmaceutical dosage forms and formulations

Innovative fixed-dose combinations of active ingredients

New strengths of medicines

Medicines with modified release

Therapeutic areas of new product development:

- medicines for treating cardiovascular diseases;
- medicines for treating the central nervous system;
- analgesics;
- products acting on the mouth cavity and pharynx;
- pharmaceuticals for companion animals.

Responsibility to employees

The basis of the success of each company are the employees who ensure the company's growth and development with their work ethic and knowledge. We work in an international environment, so Krka employees have very diverse cultural backgrounds but are connected with each other by the Company's values and goals. A synergistic network of different cultural experiences and a partnership attitude towards the employees produce an environment which motivates and nurtures talent, attracts and retains employees, co-creates opportunities and conditions in order to make us feel safe, accepted and important.

Employees from different cultures are connected by common values and goals.

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

Challenging work, the best possible work conditions, quality of life and work, social security, and safety at work form the foundations for a stimulating work environment in which the goals and needs of the individual are linked with the company's objectives.

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 where we operate. 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.

We are committed to the high ethical and professional standards stipulated in the Krka Code of Ethics.

We offer our employees stimulating work in an international environment, as well as business, professional and personal advancement. On the other hand, they are expected to engage in continual training and development, while striving for excellence at their work, in personal development and interpersonal relations.

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 demonstrate a certain talent and ability during their studies. The students on our scholarships are connected with Krka during their studies. These students get to know Krka and the Company's working processes at organised meetings and during their internship, and have the possibility to prove 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 2014, Krka had 54 students on scholarships, 12 of whom graduated.

A pleasant organisational climate facilitates committed and creative work and the achieving of objectives. It is for this reason that we regularly measure the organisational climate and employees' enthusiasm in the Krka Group and thus record the efficiency of activities and employee satisfaction. The findings of such analyses prove a good tool for preparing improvements and changes within our organisation.

We ensure efficiency with speed and flexibility.

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 to 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.

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

Key data for 2014	
Number of employees	10,499 of that 46.5% in Slovenia
Average age	39.27 years
Share of female employees	63.41%
Share of female employees in management positions	43%
Share of employees with at least university qualification	55%
Share of employees for indefinite time	88.8% (women 89.5% and men 86.6%)
Change in the number of employees in 2014	+451
Fluctuation	7%

Number of employees on 31 December 2014

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	Index 2014/13	Index 2013/12
Krka Company in Slovenia	4,256	4,190	4,085	3,899	3,784	3,563	3,380	3,213	3,016	2,954	102	103
Krka's representative offices outside Slovenia	482	438	410	480	749	1,697	1,870	1,678	1,256	1,024	110	107
Krka Company	4,738	4,628	4,495	4,379	4,533	5,260	5,250	4,891	4,272	3,978	102	103
Subsidiaries outside Slovenia	5,130	4,764	4,287	3,865	3,361	2,036	1,673	1,240	857	620	108	111
Terme Krka Group	585	605	627	653	675	679	679	646	630	626	97	96
Farma GRS*	46	51	52	51							90	98
Krka Group	10,499	10,048	9,461	8,948	8,569	7,975	7,602	6,777	5,759	5,224	104	106

* Includes micro companies founded by Farma GRS.

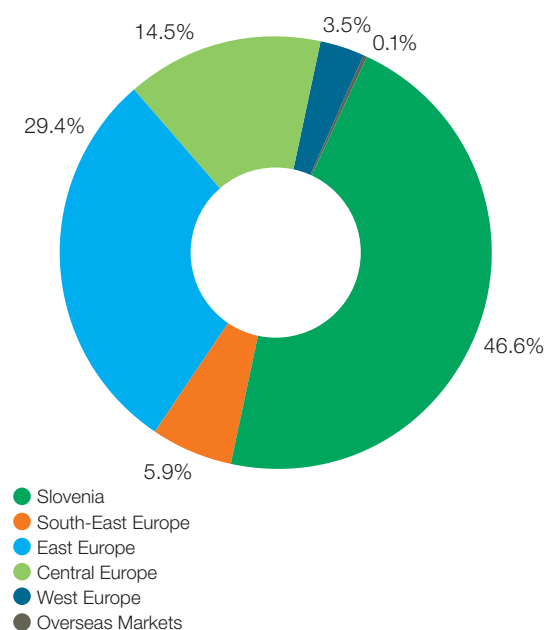
Educational structure

One of the pillars of Krka's human resource policy is continual improvement of the educational structure of our employees as we are aware that only extensive investment in development, demanding technology and highly qualified experts enable

a quick and effective response to the demands of a highly competitive market. The share of employees with at least university-level qualifications is 55%, or 5,771 employees. They include 126 employees with a doctoral degree and 339 employees with a master's degree or specialisation.

Education structure on 31 December 2014

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
PhD	126	111	106	95	90	82	76	68	63	51
Master of Science	339	323	281	266	245	215	178	174	162	153
University Degree	5,306	4,927	4,522	4,230	4,076	3,730	3,604	3,067	2,408	2,018
Higher Professional Education Degree	1,282	1,200	1,072	945	780	698	596	413	324	221
Vocational College Degree	271	272	263	257	248	240	225	230	222	206
Secondary School Education, Level V	1,891	1,889	1,864	1,760	1,711	1,599	1,503	1,365	1,138	1,104
Other	1,284	1,326	1,353	1,395	1,419	1,411	1,420	1,460	1,442	1,471
Total Krka Group	10,499	10,048	9,461	8,948	8,569	7,975	7,602	6,777	5,759	5,224

Employee structure on 31 December 2014 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.

Competence-based systems for various working areas enable us to identify the needs for development, knowledge upgrade and skills development of our employees. Competencies are a good basis for recruitment, education and training programme design and their evaluation.

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 2014, there were 1,352 key and promising employees, which represents 13.2% of the entire Krka Group team.

We identify promising employees and foster their development.

The need to train key and promising employees and well-trained leaders encouraged us to start **our own leadership programme**. It comprises three programmes that are adapted to different levels of management: 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.

An important tool enabling 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.

Knowledge is a Krka value.

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 2014, 459 Krka employees were also part-time students of whom 57 were involved in postgraduate studies. Krka supports them by partly funding the fees and by granting them study leave.

Krka was one of the first companies in Slovenia to develop programmes for **national vocational qualifications (NVQ)**. We are the only ones in the country to offer six programmes of national vocational qualification in the field of pharmaceutical industry. Employees in pharmacies and other pharmaceutical companies are involved in these programmes. In 2014, we awarded 135 NVQ certificates. In total, we have awarded 1,239 certificates since 2004: 1,097 to Krka employees and 142 to employees of other companies and pharmacies.

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 supplemented with e-learning and e-testing, which have become important training tools because Krka is geographically widely dispersed. 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.

Exchanging experience and transferring good practices is important for our success.

In 2014, every Krka Group employee attended different training sessions more than six times. On average, the employees undertook 54 hours of professional development. Krka spends 0.60% of its operating revenues on employee education and training.

In order to connect employees from different countries and achieve synergy in the pursuit of our goals, we organise international conferences related to different areas of our operations: marketing, sales, technology, human resources, and regulatory affairs). They offer an opportunity for the employees of Krka and its subsidiaries and representative offices abroad to exchange experiences, analyse current challenges, and discuss common strategies and goals and how to transfer good practices to enable the Company success and future.

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 and we reward excellence and loyalty.

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.

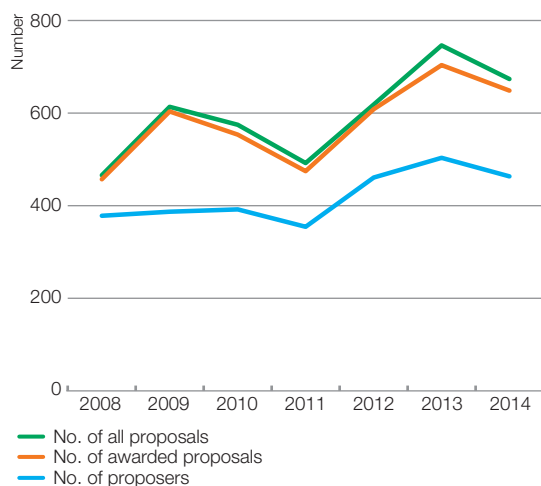
Encouraging mass inventive work

With mass inventive work, Krka encourages employees to continuously think about how to do their jobs faster and better, and be as cost-effective as possible. This is a competitive advantage of the Company and also an award and recognition for the employee. Throughout these years, employees have made over 4,500 useful suggestions and proposals for improvements, showing that inventive work is a well-established and well-known practice.

Through inventive work, employees are included in a system of continuous improvement and a campaign under the slogan "Your efficiency counts", which encourages the employees to try and save in all areas of Krka's operations.

We stimulate inventive work by posting announcements on our Intranet website Krkanet and by publishing them in our in-house monthly magazine *Utrip*, quarterly awards and awards and special recognitions conferred for inventive work at the annual Krka Awards Day. Every year we organise a meeting for them.

Number of employee proposals and improvements



Contribution to environmental protection

- We increased the quantity of useful separated waste by

14%.

- We increased the ratio between useful separated waste and waste disposed at landfills from 2.4 to 2.6.
- We installed the best available technology for waste air purification in the new plants.
- We completed the construction of a state-of-the-art water purification system for the preparation of pharmaceutical waters and energy supply. This will increase the preparation yield and reduce the use of chemicals.

Employees are essential to our success.



Number of employees:

+4%

- At the end of 2014, Krka employed 10,499 people.
- 54% of Krka employees worked outside Slovenia.
- 55% of Krka employees have at least a university degree.
- 459 employees are enrolled in part-time studies.
- Females account for 63% of all employees.
- Females account for 43% of managers.



Quality of life

We live in a time that requires us to be increasingly more responsive and continuously adapt in all areas of work and life. We know that caring for the health and well-being of employees is also the responsibility of the Company.

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, on environmental cleaning campaign days, at events celebrating the opening of new facilities and other events.

We offer quality of life to employees and Krka pensioners.

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.

The employees also have access to a wide range of sports activities. The Krka Trim Club organises sports activities which are attended by approximately 1,000 employees every week in their free time. The Krka Culture and Arts Society contributes to the cultural life. It organises gallery exhibitions, a choir, a theatre club, creative workshops and visiting cultural events.

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.

We manage risks in work processes.

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.

The physical and emotional well-being of our employees, and a pleasant psychosocial climate are ensured by open

communication, zero tolerance to any kind of violence, 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 negative effects of psychoactive substances, healthy meals at our canteens, etc.

The Interpersonal Relations and Sick Leave project, which has helped reduce sick leave, has been in place for several years. In 2014, 3.9% of employees were on sick leave and 6.3% were on maternity leave.

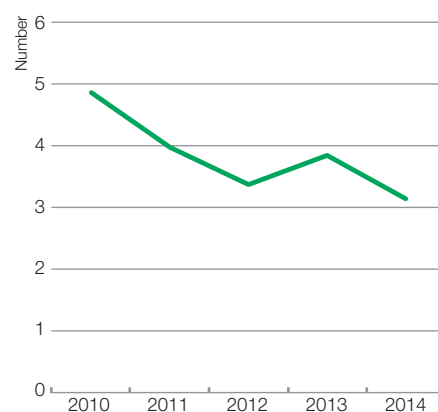
A total of 5.1% of employees have a registered disability who, in accordance with the legislation and regulations related to the disabled, work in appropriate job positions. We apply various preventive measures to reduce additional health issues and disabilities. Apart from preventive and curative care, 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.

The occupational safety 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.

Teamwork in employee health care produces results.

We continually monitor data on workplace accidents. The LTAR (Lost Time Accident Rate) indicator in the graph, which indicates the number of accidents in the workplace requiring three or more days of sick leave per million hours of work, stood at 3.15 in 2014, the lowest value so far. All accidents were minor. The majority of injuries were caused by minor incisions and falls. Females represented 60% of all injured persons and no age group stood out.

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

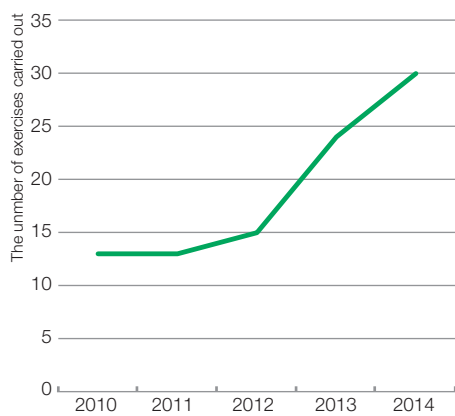


There were no major incidents like fires or major spillage of hazardous chemicals in 2014. The Fire Protection Department and the Industrial Fire Service Crew are responsible for emergency interventions.

We are well-prepared for emergencies.

In 2014, we conducted 30 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 emergency situations, and tested the co-ordination of internal and external emergency teams, as well as Krka first aid and medical teams.

The number of exercises carried out to be better prepared for cases of emergency



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 open two-way communication.

We promote responsible and ethical communication, and encourage open and two-way exchanges at all levels. This is how we create a productive working environment, develop a sense of belonging, and build a culture of mutual trust and respect, lifelong learning and responsible and efficient work.

We keep employees informed about company events by way of various internal communication tools.

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 about the operating

results of the past year, plans for the current year, the Group'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. We provided portals in local languages for our employees in five key markets.

We keep employees informed about events in the company by means of various internal communication tools.

Employees also receive news regularly about the Company by way of 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 four key markets – in Poland, the Russian Federation, Ukraine and Croatia – while *Bilten* is currently issued in ten markets.

Employees also receive daily information about events within the Company in the form of e-news from *Krkaš.si*, updated 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 objective is 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 2014, the Slovenian business daily *Finance* awarded Krka's 2013 annual report as the best annual report and the best report on risk management.

In 2014, we held 120 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 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.

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 successfully passed audits and inspections conducted by regulatory bodies year after year, examining the compliance of our operations and integrated management system with the relevant standards.

In order to reach our research and development objectives we engage in an exchange of ideas and know-how with specialised institutions and companies whereby target-oriented project cooperation with universities and institutes as well as other education and science institutions is of particular importance. We also co-operate with these institutions on a day-to-day basis. 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 co-operating with institutions, quick and reliable documentation is our main concern.

Our professional, scientific and regulatory environment is changing, and we take an active part in these changes by cooperating in various professional and industry

associations in Slovenia, the European Union 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 confirmations, dispatch and other necessary activities, it is of the utmost importance to recognise the expectations and demands of the customers. Our success is reflected by the fact that we have regularly co-operated with more than 90% of the customers for several years.

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. The obtained information is also a valuable source for improving certain areas.

In 2014, we recorded the highest ever customer satisfaction.

When measuring customer satisfaction in previous years we regularly recorded a gradual, but steady improvement of assessments. In 2014, the general index of customer satisfaction reached the highest ever value at 92%. We also marked an increased response of 94%. Special attention is also paid to monitoring satisfaction in some of the most important groups such as customers by individual sales regions and markets, and key buyers. We also monitor our subsidiaries abroad that have an active sales function and the satisfaction of their customers.

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.

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 verbally, in print and electronically. We ensure that the information, which is the

basis for an 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 2014 which were held around large international congresses in Austria, Spain and Italy. In co-operation with several societies we organised an interdisciplinary symposium in Slovenia. These international events were attended by over 600 participants from 28 countries.

In communicating with the professional public, we act responsibly and in accordance with the legislation and other regulations.

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.

A vast market research project showed that Krka is the most reputable pharmaceutical company in Slovenia and one of the leading three in most of our largest markets.

We follow modern technological trends which show an increased use of digital media like smart phones and tablets. In 2014, we continued with providing our medical representatives with tablets. At the end of the year nearly half of the big team were using them to present Krka products, and for planning and recording their work. We also regularly use advanced methods of electronic learning and knowledge testing after training.

The feedback and opinions of indirect customers matter to us. With an external independent research agency we conducted a broad uniform market research project among general practitioners, cardiologists and gastroenterologists, pharmacists and veterinarians in eight largest markets in 2014. The research was aimed at establishing the reputation of the company, products, communication and the work of marketing representatives in comparison to other pharmaceutical companies. The research has

shown that Krka is the most renowned company with all participant groups in Slovenia. It is also the most renowned according to general practitioners in the Russian Federation, gastroenterologists in Romania and veterinary doctors in the Russian Federation and Ukraine. It is also one of the three most renowned companies with all groups also in most other markets. Detailed results have also shown that the activities conducted after the last research improved customer satisfaction in most target areas and therefore improved or at least preserved what had previously been achieved.

The efficacy and safety of our products are proven by the results of clinical trials.

Post-marketing clinical trials and monitoring the clinical efficacy and safety of medicines are 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. To mark the occasion of Krka's 60th anniversary in 2014, we published *Evidence-based therapy with Krka's products* which is an addition to the collection of journals *Krka in medicine and pharmacy*. This publication summarised Krka's extensive activity in the area of clinical trials in recent years. In this way, we managed to gather the results of all trials conducted in various therapeutic areas in one publication. Over 250,000 patients from 27 countries participated in these trials.

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 put all our efforts in ensuring the high quality of our products and services. 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 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.

We ensure consumer safety with a system for monitoring and collecting information on the effects of our products.

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 in compliance with legal requirements and regulations.

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. We actively contribute to the protection of the patients' and public health through pharmacovigilance.

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.

Internet users are ensured quick access to current information on Krka's products.

Texts on products and related texts are presented in accordance with the legislation in several languages on corporate web pages, independent product web pages and thematic portals like educational portal in the Slovenian language www.ezdravje.com, portal with content on pets www.klopi-bolhe.com in seven languages and a new portal www.bolshe-dolshe.ru in the Russian language which in addition to the existing portals www.midva.com in other languages covers the current issues of erectile dysfunction. The web page www.lekarna-na-dom.si, which enables Slovenian consumers to buy non-prescription products in on-line pharmacies, also has many visitors. The Czech version of the web page is also available. Technical and visual upgrade of existing corporate web pages is nearly completed. In 2014, we upgraded three existing language versions and added three new ones.

Promotional and educational videos on non-prescription products are available on You Tube in several languages at one site. Internet content is used in accordance with modern digital trends and adapted to the needs of the users. In 2014, we adjusted the web pages for brands Septotele and Nalgesin to new modern digital trends and presented Naklofen gel and Duovit in a new way. At present there are around 90 websites in over 20 languages enabling customers quick access to current information on Krka's products.

Social corporate responsibility

Social responsibility is inseparably related to our mission of living a healthy life. The established long-term relationship with the local community and contribution to its development form an important part of Krka's history.

We contribute to social progress

We distribute considerable funds to non-profit activities at the local and national level, and support activities beyond Slovenia as well. We support organised groups and individuals whose projects or activities promote social progress. Our priority is to sponsor and donate 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 2014, we allocated 0.35% of total sales to sponsorships and donations.

In 2014, the Krka Company allocated 0.35% of its total sales to sponsorships and grants. We put into practice 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 Krka's operations and plans, and in turn learn about their achievements and goals. We exchange good practices and strengthen our co-operation. Last year we met for the eighth consecutive time.

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. We support and have founded many societies and associations. We have been supporting the Slovenian Cardiovascular Health Society since it was founded.

Through co-operation and partnership we encourage the development of a range of sports activities. We particularly support amateur clubs at the broad local level that enable young people to take part in recreational and competitive sports. For almost four decades, Krka Trim Club has been offering Krka employees all kinds of sport and recreation.

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. As dedicated volunteers on many sponsorship boards and organisations each of them contributes to the development of the community and better quality of life.

In April, we organised Krka's Week of Charity and Volunteering for the third consecutive year.

Many Krka employees also think and live as volunteers partly owing 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 2014 for the third time in a row. These days, many people live in distress and need so the humanitarian efforts of companies and individuals are an increasingly important expression of solidarity. More than 1,000 Krka employees, or 22% of Krka employees in Slovenia, participated in various charity activities. Of these, 239 donated blood 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 4 tonnes of consumable commodities and 380 kilograms of animal food. We kept company with the elderly at twenty-two retirement homes and tenants of six occupational activity centres. We concluded the charity week with an open day for Krka employees and their family members. Krka employees and organisations that cooperate with Krka were involved in the charity event: Krka's Culture and Arts Society, the Krka Trim Club, the Krka Retirees Society and entities sponsored by Krka, i.e. sports clubs and the Krka Wind Orchestra.

We awarded Krka's best volunteers again.

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 2014, we conferred recognition awards following proposals given by Krka employees on two best 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.

Since the foundation, blood donors have represented an important part of our corporate culture. At present 1,300 Krka employees are blood donors. Also in 2014, Krka and the

regional centre of Red Cross awarded 290 Krka employees who had donated blood from five to 110 times. Krka has 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 give presents to children in the holiday season. We frequently respond to the Red Cross and Karitas charities' calls for donations and thus help the community and individuals. We also support several non-profit, non-governmental and non-political organisations. We also collect through our Works Council 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 44 years we have awarded 2,521 Krka Prizes. Our vision for the Krka Prizes is to pave the way for new discoveries that will contribute to upcoming new products. In 2014, five Krka Prizes were conferred for special achievements in the research field and 25 to graduate and postgraduate students, while 29 secondary school students were awarded 13 Krka Prizes for their group projects. In this way we wish to emphasise the importance of research work 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 the 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 authors of doctoral dissertations. They make an important contribution to scientific excellence in Slovenia and high quality of research work in Slovenia. Last year, more than 13 award winners held PhDs.

We support cultural creativity

We have been supporting many types of cultural expression since our incorporation. Krka's own Culture and Arts Society has been functioning since 1971. 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, the literature club and creative workshops.

We support culture in a broad social community, such as the Anton Podbevšek Theatre in Novo mesto and other cultural

institutions, including the Marjan Kozina Music School and the Dolenjska Museum, as well as the Krka Wind Orchestra. For several years, we sponsored Slovenia's pivotal cultural institution, Cankarjev dom, and 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 2014.

We strive for quality of life

Launched 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. The campaign is aimed at raising awareness, and encouraging Slovenians to care for their health and go hiking, because walking is the simplest form of exercise which helps improve physical and emotional well-being. Thousands of hikers have set off on the routes marked with Krka signs. We happily welcome every new hiker encouraged by our campaign to take a new step towards 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. Also, in 2011 and 2012, we organised clean-up events, with Krka employees cleaning and arranging the surroundings of the Terme Krka resorts at Otočec, Šmarješke Toplice, Dolenjske Toplice, Strunjan and Ljutomer. In 2014, 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, 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 installed a new solar power station on the rooftop and the façade of the new packaging material warehouse to generate green energy. Another contribution to a cleaner environment is the 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

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 possible. The environmental certificate ISO 14001, which we obtained 14 years ago, and the integrated environmental protection permit, oblige us to reduce all of our impacts on the environment. This includes the reduction of all emissions, use of natural resources and energy consumption. A clear definition of our responsibility to the natural environment is included in our environmental policy, which commits us also in the future to:

- include environmental awareness in our development strategy and individual investment projects and thus reduce the negative impact on the environment to the greatest possible extent;
- reduce emissions by using all the available technology;
- reduce risks of the occurrence of extraordinary events and improve measures undertaken in any such events;
- use fuels and energy media rationally and reduce waste;
- replace hazardous substances used in technologies with less hazardous ones;
- increase environmental awareness of the employees through education, training and raising their environmental consciousness;
- inform employees and the public about the present state and achievements related to the environment;
- consistently follow and consider the applicable legal provisions and also new legislation and guidelines for the pharmaceutical industry;
- set systematic environmental goals and programmes to improve the present state of the environment.

By fulfilling our tasks and objectives, we achieve a sustainable reduction in all our impacts on the environment.

In 2014, 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 2014

- Installation of the best available technology for waste air purification (i.e. thermal oxidation) in the new plants, Notol 2 in Ločna, Novo mesto and Sinteza 1 in Krško;
- Arrangement of collection points, purchases of new waste management equipment;
- An increase in the separated waste to waste disposed at landfills ratio from 2.4 to 2.6;
- Increase in the quantity of collectible usable waste by 14%.
- Construction of a state-of-the-art water purification system for the preparation of pharmaceutical waters and energy supply.

Costs of environmental protection

We allocate EUR 5 to 6 million annually to environmental protection. Indirect costs of environmental protection total EUR 4 million and include the costs of wastewater discharge and treatment, waste management, waste air treatment, noise reduction, monitoring costs, environmental levies and other indirect costs of environmental protection. Our direct investments in environmental protection total from EUR 1 to 2 million annually. By investing in equipment and technologies, we ensure continuous improvement in all fields of environmental protection.

Use of natural resources

WATER

We are well aware that water is a natural resource on which economic development, the quality of life and our existence depend, so Krka strives to use potable and river water rationally. Water consumption is a very important element of environmental protection, so we consistently plan, monitor and control it, and many of our activities are aimed at maintaining the quality of the River Krka. All water systems at Krka are managed in compliance with Good Manufacturing Practice and the HACCP system.

CONSUMPTION OF POTABLE 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 run-offs through correct planning, implementation and preventive maintenance of pipelines. This is why the increase in potable water consumption lags behind growth in production.

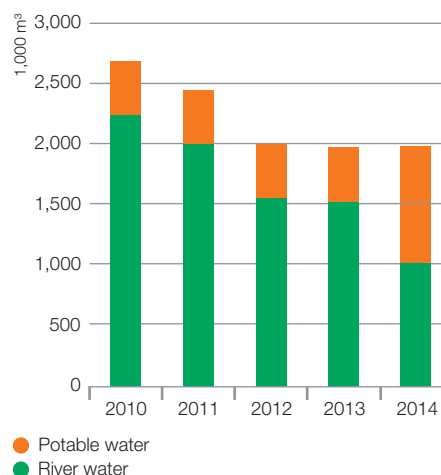
Thanks to the new water purification system, the yield of water preparation will increase and consumption of chemicals will decrease.

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. In 2014, we started the construction of a state-of-the-art water purification system. The new building will include facilities for preparing pharmaceutical waters from potable water and the preparation of river waters for energy supply. We installed devices that will increase the preparation yield and reduce the use of chemicals. All rinsing waters from the new water purification system are collected in a special reservoir, treated again and used in preparing waters for energy supply. 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.

More than 44% of the river water is used for cooling by various heat exchangers, especially in API production, while the remaining 56% is used in the preparation of technological waters for energy supply and production.

In 2014, we reduced fermentation production, so the consumption of river water decreased as well. Krka takes various measures to use potable water rationally.

Consumption of potable and river water



	2014	2013	2012	2011	2010
Total water consumption	1,531,957	1,978,658	2,001,988	2,446,635	2,688,846
Potable water	513,375	455,403	447,268	439,821	443,472
River water	1,018,582	1,523,255	1,554,720	2,006,814	2,245,374

ENERGY

Krka's main sources of energy are:

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

Consumption of energy in GJ	2014	2013	2012	2011	2010
Energy (total)	836,284	801,631	792,221	811,792	809,634
Electric power	292,895	309,765	317,064	327,565	314,004
Natural gas	523,837	469,241	447,338	462,804	467,945
Liquefied petroleum gas	19,395	19,372	19,303	18,480	23,195
Fuel oil	157	3,293	8,516	2,943	4,490

The electric power supply comes from the public utility electricity grid, from our generators powered by renewable

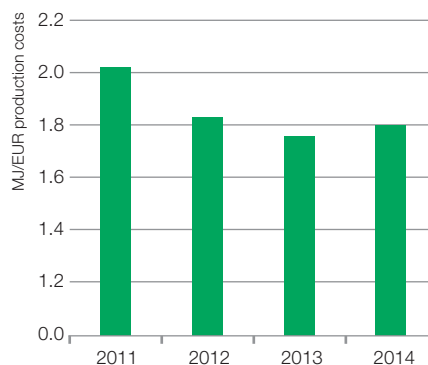
sources such as the solar power station, and from natural gas powered cogeneration of thermal and electric power.

Electric power – alternative sources in GJ	2014	2013	2012	2011	2010
Solar power plant	223	243	289	277	14
Cogeneration	48,989	13,238	0	0	0

SPECIFIC USE OF ENERGY

Specific energy use has been declining as a result of several energy-efficiency measures. In 2014, we began to set up the air-conditioning for appropriate climatic conditions in our new plants, Notal 2 and Sinteza 1, and implementing qualification procedures in technological systems, so specific use of energy increased. Nevertheless, the specific use of energy remained at a level similar to last year.

Specific use of energy

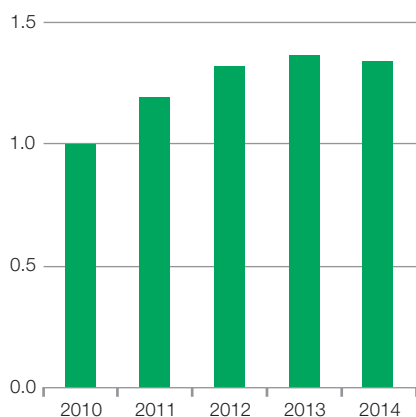


	2014	2013	2012	2011	2010
Specific use of energy MJ/EUR	1.80	1.76	1.83	2.02	2.43

ENERGY EFFICIENCY INDEX

In the past few years, we reduced the specific use of energy and energy efficiency index. Despite the start-ups of our new plants Notal 2 and Sinteza 1, the specific use of energy and energy efficiency index remained similar to the 2013 figures.

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 obliged to maintain the biological diversity* of organisms, especially endangered ones. These include several fish species (such as the asp, huchen, and cactus roach), the thick-shelled fresh water shellfish 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 to protect the environment in the existing buildings as well as in newly planned ones. The collection and discharge of treated wastewater from our water treatment plant do not pose any hazard to the preservation of water and riparian areas or the conditions for connecting these areas. Our sustainable attitude to environmental protection guarantees the preservation of environmental values and biodiversity.

The area of our Ljutomer plant is not included in the Natura 2000 network. Nevertheless, we treat waste waters suitably at the municipal waste water treatment plant in Ljutomer and do not endanger biodiversity with our emissions.

* Biodiversity is the degree of variation of living organisms of all types. 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, which uses our own vehicles or engages external carriers. We deliver products to European and Asian markets by road. We use the most advanced cargo vehicles with ecologically suitable engines. We also supply products to certain Asian markets by air and exceptionally by rail. We supply products to distant markets by sea or by air.

Thanks to the updated car pool and additional training of carriers, we reduced average fuel consumption by 3.7%.

In 2014, we organised transport for 9,281 shipments of finished products, raw materials and packaging materials. We covered 1,748,423 km with our own transport, or 4% more than the year before. Thanks to the updated car pool and additional training of carriers, we reduced average fuel consumption from 32.44 l/100 km to 31.25 l/100 km, or by 3.7%.

Last year, we recorded one traffic accident that involved material damage. Otherwise, we had a clean record of extraordinary events or accidents that might endanger the environment, assets, or safety of people. The competent national bodies for transport control established no violations of legislation related to Krka of any kind. All of our carriers and other parties involved in transport attend annual training courses. We pay special attention to ensuring that all of our contractual carriers and their drivers are duly informed of the requirements and particularities of transporting pharmaceutical products.

Emissions

WASTEWATERS

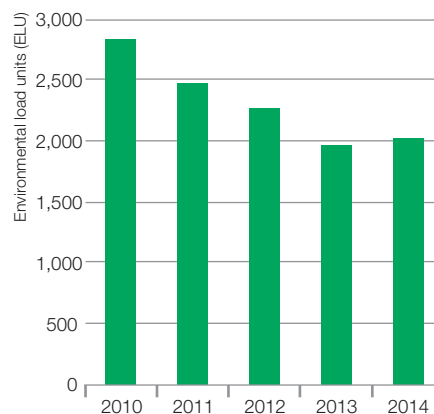
Our plant in Ločna generates industrial, municipal and cooling wastewaters. We treat industrial and municipal wastewaters at our own biological water treatment plant. In 2014, we treated 677,403 m³ of wastewaters, or 37,896 cubic metres more than the year before. In 2013, we generated 558,862 m³ of cooling waters that were not polluted and which 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 2014, we generated a total of 17,400 m³ of wastewater.

Our plant in Šentjernej generates industrial and municipal wastewater. Effluents are discharged by the public sewerage system and treated by the new municipal waste treatment plant in Šentjernej. In 2014, we generated a total of 13,885 m³ of wastewater.

Our plant in Ljutomer generates industrial, municipal and cooling wastewater. The industrial and municipal wastewater amounted to 27,100 cubic metres and was discharged by the public sewage system into the municipal waste treatment plant in Ljutomer. Cooling water generation reached 1,200 m³ in 2014, but, since cooling waters are not polluted, they were discharged through the road and rainwater drainage system into the Ščavnica River.

Wastewater management

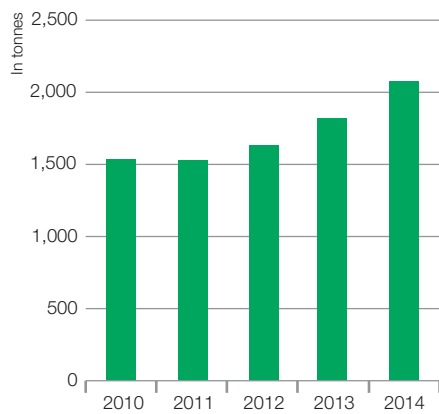


Environmental load units (ELU) are the prescribed mathematical calculation of pollution from all wastewater outlets in Slovenia (Krka Ločna, Šentjernej, Bršljin and Ljutomer). The calculation takes into account the annual wastewater rate of discharge, organic pollution, nitrogen, phosphorous, the suspended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

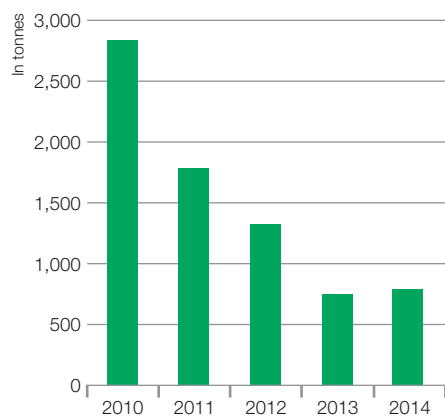
WASTE

Special attention is paid to separating waste at source, i.e. at the point where it is generated. For this purpose, we set up a waste management system that involves advanced equipment for separated collection, pressing and waste transportation. We inform and educate our employees and acquire new equipment in order to further upgrade our waste management system. Our strategic objectives in waste management include the continuous improvement of the ratio of useful separated waste to waste disposed at landfills. Krka successfully pursued this aim in 2014. In 2014, we increased the quantity of useful separated waste (paper, plastic, glass, metal, wood) by 14%. We increased the ratio between useful separated waste and waste disposed at landfills from 2.4 to 2.6. 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.

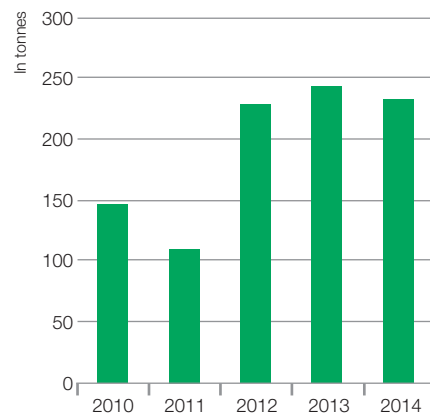
Recyclable waste



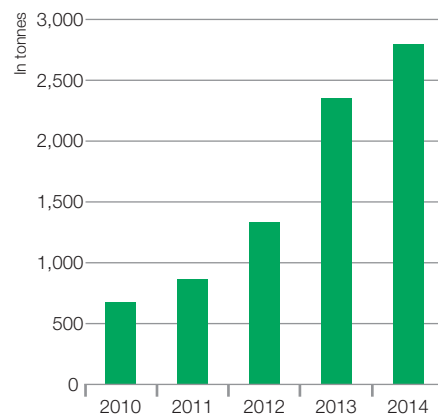
Waste disposed at landfills



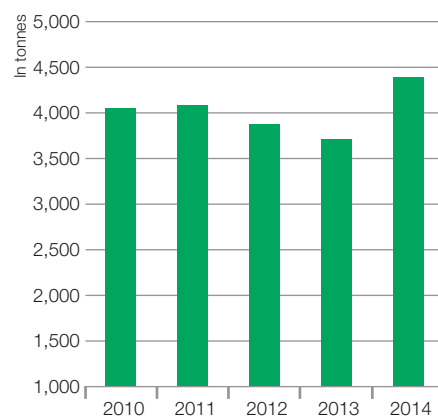
Waste for energy use



Waste for biological processing



Waste for incineration



NOISE

We have been reducing noise emissions as much as possible by installing equipment with reduced noise emissions, setting up noise barriers, and by fitting cargo vehicles with electrical cooling aggregates. All measurements comply with the legislation.

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. Last year, we set up two cutting-edge devices for the thermal oxidation of waste air in our new plants Notol 2 and Sinteza 1 to make the operations as efficient as possible and keep air emissions as low as possible. Absolute filtration is applied to all airborne particle emissions, ensuring that all particles, or at least over 99.95%, are removed.

Air emissions	t CO ₂ ek	2014	2013	2012	2011	2010
Energy related CO ₂ – indirect		30,147	27,367	26,542	26,991	27,331
Energy-related CO ₂ – indirect		40,273	42,593	43,596	45,040	43,176
Total		70,420	69,960	70,138	72,031	70,507

We generate direct emissions of CO₂ through the use of fuels and by emitting ozone-depleting substances from our cooling devices, and indirect emissions by exploiting electric power from the public utility electricity grid which is produced by burning fossil fuels at thermal power plants. In comparison to previous years, in 2014 we reduced indirect emissions of CO₂ due to our cogeneration of electric power, which caused an increase in direct emissions of CO₂. Total emissions of CO₂ were similar to those in 2013, despite the fact that in 2014 the regular production of active substances started at our new plant in Krško.

Environmental protection at Krka's subsidiaries outside Slovenia

Our subsidiaries outside 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 for incineration, wastewater is treated by municipal wastewater treatment plants, and particle emissions are reduced by filtration.

Environmental communication

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

We inform the public about our environmental activities via public announcements in the media and at various seminars, symposia and round tables. We are actively engaged in drafting 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 cooperate closely with professional and scientific organisations. Educational establishments of all levels arrange visits to our plants to see our state-of-the-art environmental protection technology. They also invite us to participate as lecturers. In this way we 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 we share the environment with. We organise traditional bi-annual meetings for local residents; the most recent was in 2013. We inform the local residents about our activities, performance, and plans related to environmental protection.

Krka's sustainable development indicators for 2014

ENVIRONMENT		2014	2013	2012	2011	2010
Total water consumption	m ³	1,429,239	1,978,658	2,001,988	2,446,635	2,688,846
Potable water	m ³	513,375	455,403	447,268	439,821	443,472
River water	m ³	1,018,582	1,523,255	1,554,720	2,006,814	2,245,374
Energy consumption (total)	GJ ¹	836,284	802,293	792,221	811,792	809,634
Electric power	GJ	292,895	310,387	317,064	327,565	314,004
Natural gas	GJ	523,837	469,241	447,338	462,804	467,945
Liquefied petroleum gas	GJ	19,395	19,372	19,303	18,480	23,195
Fuel oil	GJ	157	3,293	8,516	2,943	4,490
Generated electric power – alternative sources (total)	GJ	49,212	13,481	289	277	14
Solar power plant	GJ	223	243	289	277	14
Combined heat and power plant (Cogeneration)	GJ	48,989	13,238	0	0	0
Energy intensity						
Specific use of energy	MJ/EUR	1.80	1.76	1.83	2.02	2.43
Energy efficiency index ²		1.34	1.38	1.33	1.20	1.01
Wastewater (total)	m³	1,320,903	1,632,795	1,721,739	2,309,996	2,504,819
Cooling water	m ³	558,862	930,988	894,236	1,215,235	1,450,556
Industrial wastewater	m ³	762,041	701,807	827,503	1,094,761	1,054,263
– Suspended solids load	t	21.7	20.62	22.1	34.35	22.2
– Biochemical oxygen demand	t	5.3	7.0	20.8	22.3	14.8
– Chemical oxygen demand	t	80.8	66.7	88.5	96.4	99.8
– Nitrogen	t	3.1	3.8	3.8	7.4	6.1
– Phosphorus	t	0.3	0.3	0.4	0.4	0.5
Environmental load units (ELU) ³	EO	2,024	1,967	2,271	2,480	2,839
Waste (total)	t	10,303	8,881	8,397	8,335	9,243
Hazardous waste (total)	t	4,394	3,705	3,878	4,087	4,045
– Solid waste	t	608	508	518	660	511
– Liquid waste	t	3,786	3,197	3,360	3,427	3,534
Non-hazardous waste (subtotal)	t	5,909	5,176	4,519	4,298	5,198
Disposal at landfills (subtotal)	t	792	751	1,319	1,786	2,835
– Mixed waste (disposal)	t	792	751	665	795	790
– Biomass (disposal)	t	0	0	654	991	2,045
Mixed waste (energy use)	t	233	244	229	110	147
Biomass (composting)	t	2,797	2,351	1,338	866	677
Recycling waste (total)	t	2,079	1,819	1,633	1,526	1,533
– Paper	t	1,021	953	790	859	852
– Plastics	t	301	237	221	223	193
– Glass	t	119	104	105	114	114
– Metal	t	126	121	129	69	100
– Wood	t	512	404	382	251	274
Electric and electronic equipment	t	8	11	6	10	6

ENVIRONMENT		2014	2013	2012	2011	2010
Air emissions						
Energy related CO ₂ – indirect	t CO ₂ ek ⁴	30,147	27,367	26,542	26,991	27,331
Energy related CO ₂ – direct	t CO ₂ ek	40,273	42,593	43,596	45,040	43,176
Energy related SO ₂ – direct	t	1	1	1	1	1
Energy related NO _x	t	24	23	23	22	24
Ozone-depleting substances and fluorinated greenhouse gases	t CO ₂ ek	1,421	903	2,203	991	3,300
Compliance						
Extraordinary events		0	0	0	0	0
Environmental protection (total)						
	in EUR thousand	6,531	5,950	6,545	5,310	5,470
Environmental protection costs	in EUR thousand	4,154	4,103	4,220	4,322	4,244
Investments in environmental programmes	in EUR thousand	2,377	1,874	2,325	988	1,226
Society						
Number of employees		4,738	4,628	4,495	4,379	4,533
Slovenia		4,256	4,190	4,085	3,899	3,784
Representative offices abroad		482	438	410	480	749
Health and safety						
Sick leave rate	%	5.1	4.8	4.7	5.0	5.1
Number of accidents		22	28	22	25	31
Lost time accident rate (LTAR)		3.14	3.85	3.38	3.98	4.9
Proportion of disabled employees	%	5.1	4.9	5	5.2	5.8
Education and training						
Number of education and training hours	hour/employee	42	40.6	40	41.2	40
Education and training costs	EUR/employee	741	750	822	807	737

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 CO₂ was based on the emission factors published on the website of the Slovenian Environment Agency.



From many
partners
to mutual
success





Krka's path is a path of mutual co-operation. We have many partners.

That is why we are a good partner to our suppliers and why we employ advanced environmental technologies.

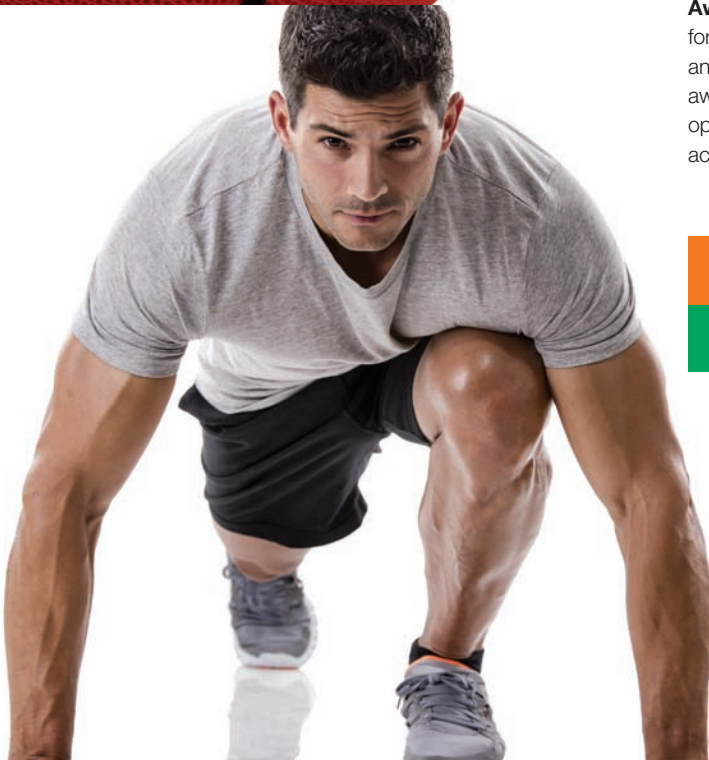
We provide reliability to our customers.

We invest in the development of our employees, reward knowledge and innovation, and continue to encourage a dialogue between generations in our social environment.

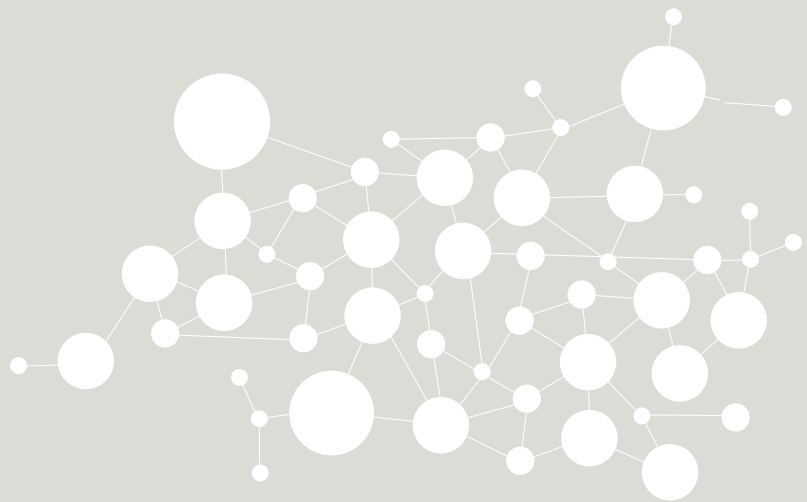
An additional encouragement was **the 2014 Index of Success Award** in the category "sustainable and stable development", for which 500 of the largest international companies in central and eastern Europe were competing. We have received the award several times for profitability and the transparency of operations connected to financial stability, developmental achievements and care for the local environment.

Development of the social environment

Development of Krka



Financial Report



FINANCIAL REPORT

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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 also the "Company"). The financial statements have been prepared in compliance with the International financial Reporting Standards (hereinafter "IFRS") as adopted by the European Union, which is in compliance with the resolution adopted at the 11th Annual General 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 2014 Annual Report, which is published via the SEOnet electronic announcement system of the Ljubljana Stock Exchange, via the ESPI system of the Warsaw Stock Exchange and on the Krka website (<http://www.krka.si/sl/za-vlagatelje/financna-porocila/>).

Each section of the 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 Krka and the Krka Group.

Statement of compliance

The Management Board of Krka, d. d., Novo mesto is responsible for the preparation of the annual report of Krka 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 Krka and its subsidiaries in 2014.

The Management Board hereby acknowledges that:

- the financial statements of Krka and its subsidiaries are 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 Krka and the Krka Group have been prepared in accordance with the applicable legislation and the IFRS, as adopted by the European Union.

The Management Board is responsible for taking the measures required to preserve Krka's and the Krka Group's assets 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 regards 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, 10 March 2015

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

Consolidated financial statements of the Krka Group

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In EUR thousand	Notes	31 Dec 2014	31 Dec 2013
Assets			
Property, plant and equipment	12	846,478	823,704
Intangible assets	13	120,325	115,744
Loans	14	6,944	5,845
Investments	15	7,388	5,231
Deferred tax assets	16	27,521	23,236
Other non-current assets		174	194
Total non-current assets		1,008,830	973,954
Assets held for sale		41	0
Inventories	17	246,260	235,820
Trade receivables	18	467,841	430,435
Other receivables	18	47,436	31,393
Loans	14	1,177	20,215
Investments	15	575	792
Cash and cash equivalents	19	23,585	67,275
Total current assets		786,915	785,930
Total assets		1,795,745	1,759,884
Equity			
Share capital	20	54,732	59,126
Treasury shares	20	-10,677	-69,372
Reserves	20	77,291	194,459
Retained earnings	20	1,229,245	1,147,030
Total equity holders of the parent		1,350,591	1,331,243
Non-controlling interests within equity	20	1,308	1,368
Total equity		1,351,899	1,332,611
Liabilities			
Provisions	23	97,466	103,103
Deferred revenue	24	14,905	12,805
Deferred tax liabilities	16	13,050	12,925
Total non-current liabilities		125,421	128,833
Trade payables	25	115,051	131,227
Borrowings	22	38,019	0
Income tax payable		1,332	7,030
Other current liabilities	26	164,023	160,183
Total current liabilities		318,425	298,440
Total liabilities		443,846	427,273
Total equity and liabilities		1,795,745	1,759,884

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

CONSOLIDATED INCOME STATEMENT

In EUR thousand	Notes	2014	2013
Revenues	5	1,191,614	1,200,827
Cost of sales	7	-470,149	-489,266
Gross profit		721,465	711,561
Other operating income	6	70,731	5,868
Distribution expenses	7	-334,762	-323,361
R&D expenses	7	-108,370	-97,235
Administrative expenses	7	-72,111	-69,245
Operating profit		276,953	227,588
Financial income	10	1,486	2,114
Financial expenses	10	-103,126	-28,361
Net financial expenses		-101,640	-26,247
Profit before tax		175,313	201,341
Income tax payable	11	-9,152	-28,575
Net profit		166,161	172,766
Attributable to:			
– equity holders of the parent		166,221	172,836
– non-controlling interest		-60	-70
Basic earnings per share (in EUR)	21	5.07	5.24
Diluted earnings per share (in EUR)	21	5.07	5.24

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

In EUR thousand	Notes	2014	2013
Net profit		166,161	172,766
Other comprehensive income for the year			
Other comprehensive income reclassified to profit or loss in future periods			
Translation reserve	20	-50,003	-13,542
Change in fair value of available-for-sale financial assets	20	2,368	131
Deferred tax effect	20	-403	-2
Other	20	0	-2,494
Total other comprehensive income reclassified to profit or loss in future periods		-48,038	-15,907
Other comprehensive income that will not be reclassified to profit or loss in future periods			
Restatement of post-employment benefits	23	-17,752	2,514
Deferred tax effect	23	2,923	-427
Total other comprehensive income that will not be reclassified to profit or loss at a future date		-14,829	2,087
Total other comprehensive income for the year (net of tax)		-62,867	-13,820
Total comprehensive income for the year (net of tax)		103,294	158,946
Attributable to:			
– equity holders of the parent		103,354	159,016
– non-controlling interest		-60	-70

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

In EUR thousand	Share capital	Treasury shares	Reserves				
			Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	
Balance at 1 Jan 2014	59,126	-69,372	69,372	101,503	14,990	30,000	
Profit for the year	0	0	0	0	0	0	
Total other comprehensive income for the year (net of tax)	0	0	0	0	0	0	
Total comprehensive income for the year (net of 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 profit 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	
Repurchase of treasury shares	0	-15,140	0	0	0	0	
Formation of reserves for treasury shares	0	0	15,140	0	0	0	
Withdrawal of treasury shares – share capital decrease	-4,394	0	0	4,394	0	0	
Withdrawal of treasury shares by debiting other reserves and release of reserves for treasury shares	0	73,835	-73,835	0	0	0	
Dividends paid	0	0	0	0	0	0	
Total transactions with owners, recognised directly in equity	-4,394	58,695	-58,695	4,394	0	0	
Balance at 31 Dec 2014	54,732	-10,677	10,677	105,897	14,990	30,000	

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

	Fair value reserves	Translation reserve	Retained earnings			Total equity holders of the parent	Non-controlling interests within equity	Total equity
			Other profit reserves	Retained earnings	Profit for the year			
	3,883	-25,289	933,385	81,833	131,812	1,331,243	1,368	1,332,611
	0	0	0	0	166,221	166,221	-60	166,161
	-12,864	-50,003	0	0	0	-62,867	0	-62,867
	-12,864	-50,003	0	0	166,221	103,354	-60	103,294
	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0
	0	0	58,243	-55,243	-3,000	0	0	0
	0	0	0	125,119	-125,119	0	0	0
	0	0	0	0	0	-15,140	0	-15,140
	0	0	0	0	-15,140	0	0	0
	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0
	0	0	0	-68,866	0	-68,866	0	-68,866
	0	0	58,243	1,010	-143,259	-84,006	0	-84,006
	-8,981	-75,292	991,628	82,843	154,774	1,350,591	1,308	1,351,899

In 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 (net of tax)	0	0	0	0	0	0	
Total comprehensive income for the year (net of 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		
Formation of other profit 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 profit reserves under the resolution of the Annual General Meeting	0	0	0	0	0	0	
Repurchase of treasury shares	0	-13,716	0	0	0	0	
Formation of reserves for treasury shares	0	0	13,716	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.

	Fair value reserves	Translation reserve	Retained earnings			Total equity holders of the parent	Non-controlling interests within equity	Total equity
			Other profit reserves	Retained earnings	Profit for the year			
	1,667	-11,747	846,998	74,703	121,843	1,239,083	1,438	1,240,521
	0	0	0	0	172,836	172,836	-70	172,766
	2,216	-13,542	0	-2,493	-1	-13,820	0	-13,820
	2,216	-13,542	0	-2,493	172,835	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	0	-34,000	0	0	0
	0	0	0	121,843	-121,843	0	0	0
	0	0	62,395	-62,395	0	0	0	0
	0	0	0	0	0	-13,716	0	-13,716
	0	0	0	0	-13,716	0	0	0
	0	0	0	-53,140	0	-53,140	0	-53,140
	0	0	0	0	0	0	0	0
	0	0	96,395	6,308	-169,559	-66,856	0	-66,856
	3,883	-25,289	943,393	78,518	125,119	1,331,243	1,368	1,332,611

CONSOLIDATED STATEMENT OF CASH FLOWS

In EUR thousand	Notes	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		166,161	172,766
Adjustments for:		109,208	121,983
– amortisation/depreciation	12,13	97,582	94,144
– foreign exchange differences		187	-770
– investment income		-2,236	-2,253
– investment expenses		1,468	2,063
– interest expenses and other financial expense		3,055	718
– financial income		0	-494
– income tax	11	9,152	28,575
Operating profit before changes in net operating current assets		275,369	294,749
Change in trade receivables		-35,939	-54,132
Change in inventories		-10,440	14,931
Change in trade payables		-2,958	25,812
Change in provisions		-25,854	871
Change in deferred revenue		2,100	381
Change in other current liabilities		3,692	40,938
Income taxes paid		-35,100	-20,799
Net cash from operating activities		170,870	302,751
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,585	1,628
Proceeds from sale of current investments		3	0
Dividends received		22	24
Proceeds from sale of property, plant and equipment		876	868
Purchase of intangible assets	13	-12,911	-5,592
Purchase of property, plant and equipment	12	-174,028	-151,676
Non-current loans		-2,093	-1,818
Proceeds from repayment of non-current loans		1,087	1,281
Acquisition of non-current investments		-103	-50
Proceeds from sale of non-current investments		109	59
Proceeds/payments in connection with current investments and loans		19,237	-8,789
Net cash from investing activities		-166,216	-164,065
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		-364	-1,098
Repayment of non-current borrowings		0	-25,500
Non-current borrowings		38,000	0
Payments in connection with current borrowings		0	-375
Dividends paid	20	-68,718	-52,994
Repurchase of treasury shares	20	-15,140	-13,716
Net cash used in financing activities		-46,222	-93,683
Net increase in cash and cash equivalents		-41,568	45,003
Cash and cash equivalents at the beginning of period		67,275	22,994
Effect of exchange rate fluctuations on cash held		-2,122	-722
Net cash and cash equivalents at end of period		23,585	67,275

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 2014 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 sale of human health products (prescription pharmaceuticals, non-prescription products), animal health products, and health resort and tourist services.

1. Basis for the preparation of financial statements

Statement of compliance

The consolidated financial statements have been prepared in accordance with *International Financial Reporting Standards* (IFRS) promulgated by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (IFRIC), as adopted by the European Union, and in compliance with the *Companies Act (ZGD)*.

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 Krka Group between IFRS and IFRS adopted by the EU.

The consolidated financial statements were approved by the Krka's Management Board on 10 March 2015.

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 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 the euro, which is the functional currency of Krka. All financial information presented in the euro has been rounded to the nearest thousand.

The use of estimates and judgements

The preparation of financial statements requires management to make judgements, 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 the 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, the 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 the indefinite useful life, determining its assessed recoverable amount at each of the reporting dates. As from 1 January 2013, the TAD trademark is recognised as an item of intangible assets with the finite useful life.

Key estimates and assumptions as at the day of the statement of the 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.

- 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 2014 financial year.

- Note 23 *Post-employment benefits*

Defined benefit obligations include the present value of termination benefits on retirement and jubilee awards. They are recognised on the basis of the actuarial calculation approved by the controlling company's Management Board. 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. As a result of changes in the discount interest rate, these obligations significantly increased in 2014.

- Note 23 *Provisions for lawsuits and contingent liabilities*

Several lawsuits and claims have been brought against individual companies in the Krka 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 of the Company 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. The Krka Group reversed EUR 38,995 thousand of provisions and set aside EUR 20,031 thousand of provisions for lawsuits in 2014.

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 previous year. An exception presents adoption of a new standard and interpretations, which are noted below and were applied if relevant events occurred in the Group companies in the reporting period.

Newly adopted standards and interpretations

The accounting policies used in compilation of the consolidated financial statements are consistent with those applied in the financial year ended 31 December 2013, except for the adoption of amended standards and interpretations effective from 1 January 2014, which are noted below.

- IAS 28 – *Investments in Associates and Joint Ventures (Revised)*;
- IAS 32 – *Financial Instruments: Presentation (Amended) – Offsetting Financial Assets and Financial Liabilities*;
- IFRS 10 – *Consolidated Financial Statements, IAS 27 Separate Financial Statements*;
- IFRS 11 – *Joint Arrangements*;
- IFRS 12 – *Disclosures of Interests in Other Entities*;
- IAS 39 – *Financial Instruments (Amended) - Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*;
- IAS 36 – *Impairment of Assets (Amended) – Recoverable Amount Disclosure for Non-Financial Assets*;
- IFRIC 21 – *Levies*.

The impact of new standards and interpretations on the financial statements of the Group is described below.

IAS 28 – Investments in Associates and Joint Ventures (Revised)

As a consequence of the new *IFRS 11 – Joint arrangements, IFRS 12 – Disclosure of Interests in Other Entities*, and *IAS 28 – Investments in Associates*, *IAS 28* has been revised and renamed *IAS 28 – Investments in Associates and Joint Ventures*. The revised standard has no impact on the Krka Group's financial position or performance.

IAS 32 – Financial Instruments: Presentation (Amended) – Offsetting Financial Assets and Financial Liabilities.

These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The revised standard has no impact on the Krka Group’s financial position or performance.

IFRS 10 – Consolidated Financial Statements, and IAS 27 – Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 – Consolidated and Separate Financial Statements that addresses consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation – Special Purpose Entities. 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 judgement to determine which entities are controlled and therefore are required to be consolidated by the parent, compared with the requirements that were in IAS 27. The revised standard has no significant impact on the Krka Group’s financial position or performance.

IFRS 11 – Joint Arrangements

IFRS 11 replaces IAS 31 – Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The revised standard has no impact on the Krka Group’s financial position or performance.

IFRS 12 – Disclosure of Interests in 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 28 and IAS 31. These disclosures relate to an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The new disclosures required are presented by the Company in Note 14 to the separate financial statements of Krka.

IAS 39 – Financial Instruments (Amended) – Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting

Under the amendment there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met. The IASB made a narrow-scope amendment to IAS 39 to permit the continuation of hedge accounting in certain circumstances in which the counterparty to a hedging instrument changes in order to achieve clearing for that instrument. The revised standard has no impact on the Krka Group’s financial position or performance.

IAS 36 – Impairment of Assets (Amended) – Recoverable Amount Disclosure for Non-Financial Assets

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. The new disclosures required are presented in Note 13 to the Krka Group’s financial statements and in Note 14 to the Krka Company’s financial statements.

IFRIC 21 – Levies

The Interpretations Committee was asked to consider how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. This Interpretation is an interpretation of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The revised standard has no impact on the Krka Group’s financial position or performance.

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 the 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 the profit or loss, except for differences arising on the translation of available-for-sale equity instruments, which are recognised directly in the 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 the euro at exchange rates prevailing at the reporting date. The income and expenses of foreign operations are translated to the 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 in hand 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 the 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 the profit or loss when incurred. Financial instruments at fair value through the profit or loss are measured at fair value, and changes therein are recognised in the 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 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 General 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 the 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 EXPENSES

Depreciation is recognised in the 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;
- for means of transportation 5 to 15 years.

Intangible assets

GOODWILL

Goodwill, which occurred with the acquisition of the subsidiary, represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill is measured at cost less accumulated impairment losses.

RESEARCH AND DEVELOPMENT

All other costs referring to the research and development work within the Group are recognised in the 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 the profit or loss as incurred.

AMORTISATION EXPENSES

Amortisation is recognised in the 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 the 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, semi-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 the profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in other comprehensive income is transferred to the 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 the profit or loss.

For available-for-sale financial assets that are equity securities, the reversal is recognised directly in the 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 the 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 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 be determined, net of depreciation or amortisation, if no impairment loss were 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 POST-EMPLOYMENT BENEFITS AND OTHER NON-CURRENT EMPLOYEE BENEFITS

Pursuant to the local legislation of countries where the controlling company and subsidiaries are located, the Group is liable to pay to its employees anniversary bonuses and termination benefits upon retirement. Provisions are 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 using the projected unit credit method. Employee benefit costs, as well as cost of interest are recognised in the profit or loss, whereas restatement of post-employment benefits or unrealised actuarial profit or loss is recognised in the other comprehensive income.

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 sale of goods and services rendered

Revenues from sale of goods are recognised in the profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. Revenues from services rendered are recognised in the 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 the 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 when the shareholder's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Financial expenses comprise interest expenses 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 the profit or loss. All borrowing costs are recognised in the profit or loss using the effective interest method, except those that are attributable to property, plant and equipment under construction.

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the 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 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 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 no-par value 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 East Europe (the Russian Federation and other former Soviet Union countries excluding the Baltic countries).

Segment capital expenditure comprises the total cost incurred during the period of acquisition of property, plant and equipment, and intangible assets.

Amendments to standards and interpretations

STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following new and amended standards have not come into effect by the financial statements' date and will be applied in future periods. The Krka Group will apply the new and revised standards and interpretations when they are adopted.

IAS 16 – Property, Plant & Equipment and IAS 38 – Intangible assets (Amendment) Clarification of Acceptable Methods of Depreciation and Amortisation

The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment clarifies the principle in *IAS 16 – Property, Plant and Equipment* and *IAS – 38 Intangible Assets* that revenues reflect a pattern of economic benefits that are generated from operating a business (which the asset is part of) rather than the economic benefits that are consumed through the use of the asset. As a result, the ratio of revenues generated to total revenues expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendment has not yet

been endorsed by the European Union. The revised standard has no impact on the Krka Group's financial position or performance.

IAS 16 – Property, Plant & Equipment and IAS 41 – Agriculture (Amendment): Bearer plants

The amendment is effective for annual periods beginning on or after 1 January 2016. Bearer plants will now be within the scope of *IAS 16 – Property, Plant and Equipment* and will be subject to all of the requirements therein. This includes the ability to choose between the cost model and revaluation model for subsequent measurement. Agricultural produce growing on bearer plants (e.g. fruit growing on a tree) will remain within the scope of *IAS 41 – Agriculture*. Government grants relating to bearer plants will now be accounted for in accordance with *IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance*, instead of in accordance with *IAS 41*. The amendment has not yet been endorsed by the European Union. The revised standard has no impact on the Krka Group's financial position or performance.

IAS 19 – Employee Benefits (Amended): Employee Contributions

The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The revised standard has no impact on the Krka Group's financial position or performance.

IFRS 9 – Financial Instruments: Classification and Measurement

The standard is applied for annual periods beginning on or after 1 January 2018 with early adoption permitted. The final phase of *IFRS 9* reflects all phases of the financial instruments project and replaces *IAS 39 – Financial Instruments: Recognition and Measurement* and all previous versions of *IFRS 9*. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The standard has not yet been endorsed by the European Union. The management of the controlling company has assessed that while the standard will have an impact on classification and measurement of financial assets and liabilities, it will have no material effect on the Krka Group's financial position or performance.

IFRS 11 – Joint Arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations

The amendment is effective for annual periods beginning on or after 1 January 2016. *IFRS 11* addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The amendment has not yet been endorsed by the European Union. The

revised standard has no impact on the Krka Group's financial position or performance.

IFRS 14 – Regulatory Deferral Accounts

The standard is applied for annual periods beginning on or after 1 January 2016. The aim of this interim standard is to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities, whereby governments regulate the supply and pricing of particular types of activity. This can include utilities such as gas, electricity and water. Rate regulation can have a significant impact on the timing and amount of an entity's revenue. The IASB has a project to consider the broad issues of rate regulation and plans to publish a Discussion Paper on this subject in due course. Pending the outcome of this comprehensive Rate-regulated Activities project, the IASB decided to develop *IFRS 14* as an interim measure. *IFRS 14* permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. The standard has not yet been endorsed by the European Union. The revised standard is not applicable to the Krka Group.

IFRS 15 – Revenue from Contracts with Customers

The standard is applied for annual periods beginning on or after 1 January 2017. *IFRS 15* establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g. sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgements and estimates. The standard has not yet been endorsed by the European Union. The management of the controlling company has assessed that the standard will have no material impact on the Krka Group's financial position or performance.

IFRS 27 – Separate Financial Statements (Amended)

The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors. The standard has not yet been endorsed by the European Union. The management of the controlling company has assessed that it will not change the method used to account for investments in subsidiaries in the separate financial statements.

IFRS 10 – Consolidated Financial Statements, and IAS 28 – Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments are effective for annual periods beginning on or after 1 January 2016. The amendments address an acknowledged inconsistency between the requirements in *IFRS 10* and those in *IAS 28*, in dealing with the sale or contribution of assets between an investor and its associate or a joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments have not yet been endorsed by the European Union. The revised standard has no impact on the Krka Group's financial position or performance.

ANNUAL IMPROVEMENTS TO STANDARDS AND INTERPRETATIONS; 2010–2012 CYCLE

The IASB has issued the *Annual Improvements to IFRSs 2010–2012 Cycle*, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015. The management of the controlling company has assessed that the standard will have no material impact on the Krka Group's financial position or performance.

- **IFRS 2 – Share-based Payment:** This improvement amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').
- **IFRS 3 – Business combinations:** This improvement clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of *IFRS 9 – Financial Instruments*.
- **IFRS 8 – Operating Segments:** This improvement requires an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.
- **IFRS 13 – Fair Value Measurement:** This improvement in the Basis of Conclusion of *IFRS 13* clarifies that issuing *IFRS 13* and amending *IFRS 9* and *IAS 39* did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.
- **IAS 16 – Property, plant and equipment:** The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

- **IAS 24 – Related Party Disclosures:** The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.
- **IAS 38 – Intangible Assets:** The amendment clarifies that when an intangible asset is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

ANNUAL IMPROVEMENTS TO STANDARDS AND INTERPRETATIONS; 2011–2013 CYCLE

The IASB has issued the *Annual Improvements to IFRSs 2011–2013 Cycle*, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2015. The management of the controlling company has assessed that the standard will have no material impact on the Krka Group's financial position or performance.

- **IFRS 1 – First-time Adoption of International Financial Reporting Standards:** This improvement clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements.
- **IFRS 3 – Business combinations:** This improvement clarifies that *IFRS 3* excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- **IFRS 13 – Fair Value Measurement:** This improvement clarifies that the scope of the portfolio exception defined in paragraph 52 of *IFRS 13* includes all contracts accounted for within the scope of *IAS 39 – Financial Instruments: Recognition and Measurement* or *IFRS 9 – Financial Instruments*, regardless of whether they meet the definition of financial assets or financial liabilities as defined in *IAS 32 – Financial Instruments: Presentation*.
- **IAS 40 – Investment Properties:** This improvement clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in *IFRS 3 – Business Combinations and investment property* as defined in *IAS 40 – Investment Property* requires the separate application of both standards independently of each other.

ANNUAL IMPROVEMENTS TO STANDARDS AND INTERPRETATIONS; 2012–2014 CYCLE

The IASB has issued the *Annual Improvements to IFRSs 2012–2014 Cycle*, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. These amendments have not yet been endorsed by the European Union. The management of the controlling company has assessed that the standard will have no material impact on the Krka Group's financial position or performance.

- **IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations:** The amendment clarifies that changing from one of the disposal methods to the other

(through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in *IFRS 5*. The amendment also clarifies that changing the disposal method does not change the date of classification.

- **IFRS 7 – Financial Instruments: Disclosures:** The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. Also, the amendment clarifies that the *IFRS 7* disclosures relating to the offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.
- **IAS 19 – Employee Benefits:** The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- **IAS 34 – Interim financial reporting:** The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g. in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.

IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception (Amendments)

The amendment is effective for annual periods beginning on or after 1 January 2016. The amendments address three issues arising in practice in the application of the investment entities consolidation exception. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Finally, the amendments to *IAS 28 – Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments have not yet been endorsed by the European Union. The revised standard has no impact on the Krka Group's financial position or performance.

IAS 1 – Disclosure Initiative (Amendment)

The amendments to *IAS 1 – Presentation of Financial Statements* further encourage companies to apply

professional judgement in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The narrow-focus amendments to *IAS* clarify, rather than significantly change, existing *IAS 1* requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. These amendments have not yet been endorsed by the European Union. The standard affects presentation only and there is no impact on the Krka Group's financial position or performance.

3. Determination of fair value

A number of the Krka 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 of the Krka Group.

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

In EUR thousand	European Union		South-East Europe	
	2014	2013	2014	2013
Revenues from non-group companies	694,754	676,967	55,200	51,840
Revenues from group companies	206,957	158,031	25,375	20,405
Revenues from reversal of provisions and other income	66,505	5,388	290	750
Operating expenses	-594,859	-544,830	-42,593	-39,280
Operating expenses to Group companies	-346,206	-307,399	-28,381	-25,331
Operating profit	166,400	137,525	12,897	13,310
Interest income	1,139	1,320	7	2
Interest income from Group companies	1,105	1,043	0	0
Interest expenses	-133	-488	0	0
Interest expenses to Group companies	-944	-1,239	0	0
Net financial result	-2,554	-396	-629	-152
Income tax payable	-5,353	-16,682	-367	-1,142
Net profit	158,493	120,447	11,901	12,016
Investments	146,072	127,094	170	146
Depreciation of property, plant and equipment	63,409	62,015	1,712	1,559
Amortisation of intangible assets	5,153	5,012	308	264
Goodwill	42,644	42,644	0	0
Trademark	40,707	41,555	0	0
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
Total assets	1,366,998	1,304,092	40,709	34,641
Total liabilities	324,486	317,839	11,616	8,321

	East Europe		Other		Elimination		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	408,650	427,803	33,010	44,217	0	0	1,191,614	1,200,827
	191,575	214,421	0	0	-423,907	-392,857	0	0
	3,936	-270	0	0	0	0	70,731	5,868
	-327,496	-368,956	-20,444	-26,041	0	0	-985,392	-979,107
	-402,125	-428,330	-7	-10	776,719	761,070	0	0
	85,090	58,577	12,566	18,176	0	0	276,953	227,588
	222	200	0	0	0	0	1,368	1,522
	0	0	0	0	-1,105	-1,043	0	0
	0	-3	0	0	0	0	-133	-491
	-1,058	-1,009	0	0	2,002	2,248	0	0
	-98,179	-25,813	-278	114	0	0	-101,640	-26,247
	-3,104	-9,286	-328	-1,465	0	0	-9,152	-28,575
	-16,193	23,478	11,960	16,825	0	0	166,161	172,766
	27,479	30,028	0	0	0	0	173,721	157,268
	24,119	22,317	266	364	0	0	89,506	86,255
	2,459	2,394	156	219	0	0	8,076	7,889
	0	0	0	0	0	0	42,644	42,644
	0	0	0	0	0	0	40,707	41,555
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
	380,187	410,819	7,851	10,332	0	0	1,795,745	1,759,884
	82,061	85,200	25,683	15,913	0	0	443,846	427,273

5. Revenues

In EUR thousand	2014	2013
Revenues from the sale of products	1,097,065	1,104,524
Revenues from the sale of services	32,311	33,038
Revenues from the sale of material and merchandise	62,238	63,265
Total revenues	1,191,614	1,200,827

6. Other operating income

In EUR thousand	2014	2013
Reversal of non-current provisions	39,077	88
Deferred revenue reversal	2,905	1,740
Gain on sale of property, plant and equipment and intangible assets	552	506
Reversal of receivable allowance	1,127	292
Collected written-off receivables	28	22
Other income	27,042	3,220
Total other operating income	70,731	5,868

Detailed information of non-current provisions reversal is included in Note 23.

The "Other income" includes EUR 20,753 thousand of damages received and reimbursement of court fees from

a lawsuit between Krka and AstraZeneca for the unjustified temporary prohibition of sale of Krka's pharmaceutical Esomeprazole in Great Britain over a period from mid-2010 to the summer of 2011.

7. Costs by nature

In EUR thousand	2014	2013
Cost of goods and material	289,504	334,832
Cost of services	216,579	222,909
Employee benefit costs	330,948	310,939
Amortisation and depreciation expenses	97,582	94,144
Inventory write-offs and allowances	9,433	15,383
Receivables impairment and write-offs	2,896	3,903
Formation of provisions for lawsuits	20,031	94
Other operating expenses	34,719	32,536
Total costs	1,001,692	1,014,740
Change in the value of inventories of products and work in progress	-16,300	-35,633
Total	985,392	979,107

More information on formation of provisions for lawsuits is included in Note 23.

8. Employee benefit costs

In EUR thousand	2014	2013
Gross wages and salaries and continued pay	255,256	240,586
Social security contributions	20,892	19,100
Pension insurance contributions	35,084	33,586
Payroll tax	1,021	1,006
Post-employment benefits and other non-current employee benefits	5,811	4,011
Other costs of labour	12,884	12,650
Total employee benefit costs	330,948	310,939

Other non-current employee benefits cost in 2014 includes mostly the vacation bonuses and commuting allowances.

9. Other operating expenses

In EUR thousand	2014	2013
Grants and assistance for humanitarian and other purposes	2,089	1,810
Environmental levies	2,685	2,919
Other taxes and levies	20,911	19,986
Loss on sale of property, plant and equipment and intangible assets	4,953	2,063
Other expenses	4,081	5,758
Total other operating expenses	34,719	32,536

Other taxes and levies include EUR 16,062 thousand of various levies on pharmaceutical products which the Krka Group pays in individual countries.

10. Financial income and expenses

In EUR thousand	2014	2013
Interest income	1,368	1,522
Change in fair value of investments through profit or loss	93	113
Income from dividends and other shares of the profit	22	24
Other income	3	455
Total financial income	1,486	2,114
Net foreign exchange differences	-100,075	-27,642
Interest expenses	-133	-491
Change in fair value of investments through profit or loss	-5	0
Other expenses	-2,913	-228
Total financial expenses	-103,126	-28,361
Net financial result	-101,640	-26,247

11. Income tax payable

Adjustment to effective tax rate

In EUR thousand	2014	2013
Income tax	11,893	32,870
Deferred tax	-2,741	-4,295
Total income tax	9,152	28,575
Profit before tax	175,313	201,341
Income tax at the rate of 17-percent	29,803	34,228
Increased expenses	-1,207	-1,038
Tax exempt expenses	-3,521	2,038
Tax incentives	-17,589	-11,320
Revenues decreasing the tax base	313	-133
Revenues increasing the tax base	24	122
Effect of tax rate changes on deferred tax	27	1,133
Effect of different tax rates	786	1,001
Other	516	2,544
Total income tax	9,152	28,575
Effective tax rate	5.2%	14.2%

Investments in R&D and investment relief represent the major share of tax incentives.

In the next three years the tax rate is expected to remain at 17%.

12. Property, plant and equipment

In EUR thousand	31 Dec 2014	31 Dec 2013
Land	34,760	32,295
Buildings	415,976	362,654
Equipment	365,880	305,619
Property, plant and equipment being acquired	29,862	123,136
Total property, plant and equipment	846,478	823,704

The Krka Group's largest investment in 2014, in the amount of EUR 77,334 thousand refers to the construction of the Notol 2 plant (2013: EUR 45,457 thousand). Investments in the construction of the Sinteza 1 Plant in Krško for the production of pharmaceuticals reached EUR 14,200 thousand in 2014 (2013: EUR 31,962 thousand); investment in construction of the facility for preparation of water amounted to EUR 11,270 thousand (2013: EUR 685 thousand); EUR 5,677 thousand was invested in construction of an extension to the administrative headquarters (2013: EUR 1,158 thousand); and further EUR 2,572 thousand was spent on expansion of the sterile products production (2013: EUR 905 thousand). A total of EUR 4,140 thousand was spent on various projects in the area of information technology and telecommunications (2013: EUR 5,130 thousand).

Moreover, production capacities are being increased in the subsidiary Krka Farma in Russia with a total EUR 18,261 thousand invested in 2014 (no funds were invested in the project in 2013). An additional EUR 2.157 thousand was invested in the subsidiary Krka-Rus in 2014 (2013: EUR 17,450 thousand). With regards to Farma GRS, there had been two investment projects in progress since 2012, the construction of Proizvodni center za finalizaciju zdravilnih učinkovin (a plant for final processing of active substances) and Kemijsko-razvojni center (a chemical-development centre). In 2014 EUR 583 thousand was invested in the projects (2013: EUR 5,046 thousand), whereas EUR 2,927 thousand was invested in the Terme Krka Group (2013: 2,425 thousand).

Movement of property, plant and equipment (PPE)

In EUR thousand	Land	Buildings	Equipment	PPE being acquired	Total
Cost					
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 under construction	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
Balance at 1 Jan 2014	32,295	665,433	802,862	123,136	1,623,726
Additions	0	0	0	160,810	160,810
Capitalisation – transfer from PPE under construction	2,940	106,278	139,352	-248,570	0
Disposals	-25	-558	-10,417	0	-11,000
Impairment	0	-3,818	-7	0	-3,825
Exchange differences	-450	-29,887	-23,614	-6,033	-59,984
Transfers	0	-207	-317	519	-5
Balance at 31 Dec 2014	34,760	737,241	907,859	29,862	1,709,722
Accumulated depreciation					
Balance at 1 Jan 2013	0	-282,652	-454,921	0	-737,573
Depreciation expenses	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
Balance at 1 Jan 2014	0	-302,779	-497,243	0	-800,022
Depreciation expenses	0	-24,626	-64,880	0	-89,506
Disposals	0	45	9,583	0	9,628
Transfers, reclassification	0	80	-89	0	-9
Impairment	0	328	16	0	344
Exchange differences	0	5,687	10,634	0	16,321
Balance at 31 Dec 2014	0	-321,265	-541,979	0	-863,244
Carrying amount					
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
Balance at 1 Jan 2014	32,295	362,654	305,619	123,136	823,704
Balance at 31 Dec 2014	34,760	415,976	365,880	29,862	846,478

No borrowing costs refer to the items of property, plant and equipment in 2014.

The carrying amount of items of property, plant and equipment, which are temporarily not used, amounted to EUR 1,638 thousand at 31 December 2014 (2013: EUR 3,435 thousand).

22% of total property, plant and equipment, which were used as at 31 December 2014, were fully depreciated (20% as at 31 December 2013). The share of fully depreciated property, plant and equipment is calculated in consideration of their cost. Land is excluded from the calculation.

13. Intangible assets

In EUR thousand	31 Dec 2014	31 Dec 2013
Goodwill	42,644	42,644
Trademark	40,707	41,555
Concessions, patents, licences and similar rights	31,511	26,489
Intangible assets being acquired	5,463	5,056
Total intangible assets	120,325	115,744

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)

In EUR thousand	Goodwill	Trademark	Concessions, patents, licences and similar rights	IA being acquired	Total
Cost					
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 intangibles under construction	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
Balance at 1 Jan 2014	42,644	42,403	95,798	5,056	185,901
Additions	0	0	0	12,911	12,911
Transfer from intangibles under construction	0	0	12,505	-12,505	0
Disposals	0	0	-1,334	0	-1,334
Transfer to PPE	0	0	-32	0	-32
Exchange differences	0	0	-397	1	-396
Balance at 31 Dec 2014	42,644	42,403	106,540	5,463	197,050
Accumulated amortisation					
Balance at 1 Jan 2013	0	0	-64,261	0	-64,261
Amortisation expenses	0	-848	-7,041	0	-7,889
Disposals	0	0	1,784	0	1,784
Exchange differences	0	0	175	0	175
Balance at 31 Dec 2013	0	-848	-69,309	0	-70,157
Balance at 1 Jan 2014	0	-848	-69,309	0	-70,157
Amortisation expenses	0	-848	-7,228	0	-8,076
Disposals	0	0	899	0	899
Transfer from PPE	0	0	25	0	25
Exchange differences	0	0	584	0	584
Balance at 31 Dec 2014	0	-1,696	-75,029	0	-76,725
Carrying amount					
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
Balance at 1 Jan 2014	42,644	41,555	26,489	5,056	115,744
Balance at 31 Dec 2014	42,644	40,707	31,511	5,463	120,325

47% of total intangible assets in use as at 31 December 2014 were fully amortised (48% as at 31 December 2013). The share of fully amortised intangible assets is calculated in consideration of their cost.

Impairment testing for the TAD Pharma trademark

Impairment testing was applied to the TAD trademark and associated goodwill which arose on the takeover of the German company TAD Pharma by the controlling entity Krka at the end of 2007.

The recoverable amount of goodwill that arose on the acquisition of the stake in TAD Pharma was determined under

the cash flow projection method based on five-year financial plans of the cash generating unit. The controlling entity Krka and TAD Pharma were considered cash generating units. A pre-tax discount rate of 9.0% was applied in the projection for both cash generating units: TAD Pharma and Krka. Cash flows over 5 years were extrapolated using the average annual growth of 2.0% for both cash generating units: TAD Pharma and Krka.

In the opinion of the Management Board, a reasonable change of the discount rate or growth rate would not result in goodwill impairment.

Considering the above assumptions, the assessed recoverable amount exceeds the carrying amount and therefore no impairment is required.

14. Loans

In EUR thousand	31 Dec 2014	31 Dec 2013
Non-current loans	6,944	5,845
– loans to others	6,944	5,845
Current loans	1,177	20,215
– portion of non-current loans maturing next year	1,008	1,180
– loans to others	168	19,034
– current interest receivable	1	1
Total loans	8,121	26,060

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 of the Republic of Slovenia in

accordance with the *Corporate Income Tax Act* that defines the interest rate for related parties. The actual interest rate fluctuated between 1.138% and 1.422% in 2014 (2013: between 1.220% and 1.432%). The maximum repayment period is 15 years and is the same as in 2013.

15. Investments

In EUR thousand	31 Dec 2014	31 Dec 2013
Non-current investments	7,388	5,231
– available-for-sale financial assets	7,388	5,231
Current investments including derivatives	575	792
– shares and interests held for trading	157	131
– other current investments	418	661
Total investments	7,963	6,023

Available-for-sale financial assets amounting to EUR 714 thousand refer to investments in shares and interests in companies in Slovenia (2013 year-end: EUR 848 thousand), and EUR 6,674 thousand to investments in shares of companies abroad (2013 year-end: EUR 4,383 thousand).

Other current investments refer to Slovenian mutual funds in the amount of EUR 418 thousand (2013 year-end: EUR 351 thousand). The Krka Group held no assets under management as at 31 December 2014, while at the end of 2013 assets under management amounted to EUR 310 thousand.

Movement in available-for-sale financial assets

In EUR thousand	Available-for-sale financial assets
Balance at 1 Jan 2013	5,100
Adjustment to market value	131
Balance at 31 Dec 2013	5,231
Balance at 1 Jan 2014	5,231
Adjustment to market value	2,157
Balance at 31 Dec 2014	7,388

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 2,368 thousand in 2014 (2013: EUR 131 thousand),

whereas EUR -211 thousand of adjustments is recognised in the profit or loss. No adjustment was recognised in the profit or loss in 2013.

16. Deferred tax assets and liabilities

In EUR thousand	Receivables		Liabilities	
	2014	2013	2014	2013
Investments, property, plant and equipment and intangible assets	503	976	14,048	14,141
Available-for-sale financial assets	1,546	17	771	368
Inventories	13,124	4,505	95	431
Assets/liabilities	3,769	4,456	324	312
Provisions for lawsuits	0	8,330	0	0
Provisions for post-employment benefits and other non-current employee benefits	9,434	6,292	0	0
Transfer of tax loss	1,333	988	0	0
Total	29,709	25,564	15,238	15,252
Offsetting	-15,238	-15,252	-15,238	-15,252
Net	14,471	10,312	0	0

In EUR thousand	Balance at 1 Jan 2013	Recognised in profit or loss	Translation reserves	Recognised in comprehensive income	Balance at 31 Dec 2013	Recognised in profit or loss	Translation reserves	Recognised in comprehensive income	Balance at 31 Dec 2014
Investments, property, plant and equipment and intangible assets	-12,901	-255	-9	0	-13,165	-303	-77	0	-13,545
Available-for-sale financial assets	-180	-169	0	-2	-351	1,528	0	-402	775
Inventories	-393	4,448	19	0	4,074	9,034	-79	0	13,029
Assets/liabilities	6,107	825	-288	-2,500	4,144	246	-945	0	3,445
Provisions for lawsuits	8,820	-490	0	0	8,330	-8,330	0	0	0
Provisions for post-employment benefits and other non-current employee benefits	7,310	-595	4	-427	6,292	221	-1	2,922	9,434
Transfer of tax loss	457	531	0	0	988	345	0	0	1,333
Total	9,220	4,295	-274	-2,929	10,312	2,741	-1,102	2,520	14,471

Unrecognised deferred tax on account of tax losses of subsidiaries amounted to EUR 2,627 thousand at the end of 2014 (EUR 1,970 thousand as at the end of 2013).

17. Inventories

In EUR thousand	31 Dec 2014	31 Dec 2013
Materials	106,098	96,785
Work in progress	56,984	57,903
Products	75,633	77,069
Merchandise	7,429	3,923
Inventory advances	116	140
Total inventories	246,260	235,820

The write-downs and write-offs of inventories to net realisable value amounted to EUR 9,433 thousand (2013: EUR 15,383 thousand).

18. Trade and other receivables

In EUR thousand	31 Dec 2014	31 Dec 2013
Current trade receivables	467,841	430,435
Other current receivables	47,436	31,393
Total receivables	515,277	461,828

Allowances for and write-offs of receivables recorded within financial expenses amounted to EUR 2,896 thousand in 2014 (2013: EUR 3,903 thousand).

Current trade receivables

In EUR thousand	Gross value	Allowances for disputed and doubtful debt	Net value at 31 Dec 2014	Net value at 31 Dec 2013
Domestic customers	9,612	400	9,212	10,688
Foreign customers	478,850	20,221	458,629	419,747
Total current trade receivables	488,462	20,621	467,841	430,435

52% of trade receivables was secured with the SID – Prva kreditna zavarovalnica, d. d.

Other current receivables

Other current receivables refer mostly to receivables due by the state, in particular arising from corporate income tax in the amount of EUR 19,381 thousand (2013: EUR 1,870 thousand) and other receivables due from the state amounting to EUR 21,883 thousand (2013: EUR 17,985 thousand).

19. Cash and cash equivalents

In EUR thousand	31 Dec 2014	31 Dec 2013
Cash in hand and cheques	23	39
Bank balances	23,562	67,236
Total cash and cash equivalents	23,585	67,275

The Krka Group concluded contracts with four different banks on the authorised overdraft limit on bank accounts in the total amount of EUR 2,500 thousand (2013: contracts with

three banks in the total amount of EUR 2,000 thousand). No negative balances were recorded on these bank accounts as at 31 December 2014, hence no overdraft facilities were used.

20. Equity

Share capital

Krka reduced its share capital by withdrawing 2,632,672 treasury shares, accounting for 7.431% of all shares issued, in accordance with the resolution adopted at the 19th Annual General Meeting on 3 July 2014. After the withdrawal of treasury shares, the share capital of Krka in the amount of EUR 54,732 thousand is represented by 32,793,448 ordinary 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 2014, the controlling company recorded 173,279 treasury shares, which accounts for 0.53% of the share capital value.

At the 19th Annual General Meeting held on 3 July 2014, the shareholders adopted a resolution authorising the

Management Board of the controlling company to acquire treasury shares, under condition that the combined share of all treasury shares acquired and already held, could not exceed 10% of share capital or 3,279,344 of shares.

Based on this authorisation, the Company is allowed to 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 25-fold the earnings per share held by the majority stakeholders as stated in the last published audited financial statements of the Krka Group, which is an approximation of the highest closing price of KRKG shares on the regulated market.

Treasury shares acquired on the basis of this authorisation may be disposed of in the following ways:

- to be exchanged for equity-stakes in other companies, based on its M&A strategy;
- to be sold to a strategic partner.

Repurchase of treasury shares in 2014

	Number of shares	Weighted average share price (in EUR)	Value of shares (in EUR thousand)
Balance at 31 Dec 2013	2,561,005		69,372
Total purchases in 2014	244,946	61.81	15,140
Withdrawal of treasury shares	-2,632,672		-73,835
Balance at 31 Dec 2014	173,279		10,677

The subscription fee is included in the weighted average price of shares.

The 2014 repurchase of treasury shares in terms of days is illustrated in Enclosure 1 to the Financial Statements of the Krka Group and Krka, d. d., Novo mesto.

Reserves

The Krka 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 10,677 thousand as at the reporting date and increased by EUR 15,140 thousand based on their formation as a result of additional repurchase of treasury shares; and reduced by EUR 73,835 thousand due to withdrawal 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 105,897 thousand as at 31 December 2014 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 to the ownership transformation of the controlling company and EUR 4,394 thousand of share premium resulting from reduction in the share capital due to withdrawal of treasury shares. The amount may be used solely for the purpose of increasing share capital.

Legal reserves may form up to 30% of the share capital. They amounted to EUR 14,990 thousand at 31 December 2014 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. The Krka Group's statutory reserves may be formed up to the amount of EUR 30,000 thousand. Statutory reserves can be used for loss coverage, formation of reserves for treasury shares, decreasing share capital by share withdrawal, and 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 decreased by EUR 12,864 thousand and amounted to EUR -8,981 thousand as at 31 December 2014. The total change results from a decrease in the fair value of available-for-sale financial assets (by EUR 2,368 thousand), a reduction of EUR 403 thousand referring to the related deferred tax effect, a reduction on account of restatement of post-employment benefits by EUR 17,752 thousand; and an increase of EUR 2,923 thousand referring to the related deferred tax effect due to the restatement of post-employment benefits.

The *translation reserve* decreased by EUR 50,003 thousand compared to 2013 and amounted to EUR -75,292 thousand as at 31 December 2014. The decrease is a result of exchange rate losses 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 166,221 thousand. The decrease, on the other hand, is a result of allocation of accumulated profit to dividend pay-out (EUR 68,866 thousand) in accordance with the resolution adopted by the 19th Annual General Meeting held on 3 July 2014; and of an additional formation of reserves for treasury shares by the controlling company in 2014 (EUR 15,140 thousand).

The amount of the dividend pay-out, shown in the statement of cash flows, differs from the figure, confirmed by the Annual General 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 pay-out in the amount of EUR 148 thousand (2013: EUR 145 thousand).

Dividends per share

In 2014, the declared gross dividend per share was EUR 2.10 (2013: EUR 1.61).

Non-controlling interests within equity

In EUR thousand	Non-controlling interest		Equity attributable to non-controlling interest		Profit for the year attributable to non-controlling interest	
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
Interest held by minority shareholders in Golf Grad Otočec, d. o. o.*	36.9%	36.9%	1,261	1,339	-78	-85
Interest held by minority shareholders in Farma GRS, d. o. o.**	0.3%	0.3%	47	29	18	15
Total			1,308	1,368	-60	-70

* Terme Krka has a 63.1% holding in Golf Grad Otočec, d. o. o., whereas holdings of the other partners are as follows: IMP PROMONT-ELEKTRO d.o.o. (3.05%), Abanka Vipava d.d. (6.10%), Trimco, 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% 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 5.07 in 2014 and decreased by 3.1% over the previous year, when it amounted to EUR 5.24. The calculation of earnings per share took account of the profit for the period attributable to the controlling interests in the amount of EUR 166,221 thousand

(2013: EUR 172,836 thousand). The weighted average number of shares was accounted for in the calculation for both years, i.e. 32,768,062 shares for 2014 and 33,002,621 shares for 2013. 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

In EUR thousand	31 Dec 2014	31 Dec 2013
Non-current borrowings	0	0
Current borrowings	38,019	0
– borrowings from domestic banks	38,000	0
– current interest payable	19	0
Total borrowings	38,019	0

23. Provisions

In EUR thousand	Balance at 31 Dec 2013	Formation	Utilisation	Reversal	Translation reserves	Balance at 31 Dec 2014
Provisions for post-employment benefits and other non-current employee benefits	53,624	25,944	-2,530	-82	-18	76,938
Other provisions	49,479	20,149	-10,100	-38,995	-5	20,528
– provisions for lawsuits	49,142	20,031	-10,073	-38,995	-5	20,100
– other provisions	337	118	-27	0	0	428
Total provisions	103,103	46,093	-12,630	-39,077	-23	97,466

As at 31 December 2013 the provision of EUR 47,500 thousand was set aside for potential liabilities related to proceedings by the European Commission against the controlling Company regarding the alleged violation of the competition law in the sale of perindopril to EU markets. In July 2014 the controlling Company received a decision of the European Commission imposing a penalty of EUR 10,000 thousand on the Company. The residual amount of provision (EUR 37,500 thousand) was reversed by the Company and in September 2014 an appeal was lodged against the European Commission's decision at the General Court in Luxembourg.

A settlement was reached in the lawsuit brought against Krka by Sanofi Aventis, France, for an alleged patent infringement protecting the clopidogrel active substance. The unutilised amount of provisions of EUR 1,430 thousand, the difference between EUR 1,500 thousand of provisions set aside and the amount paid to the plaintiff was reversed.

The other income includes damages received and reimbursement of court fees from a lawsuit between Krka and AstraZeneca for the unjustified temporary prohibition of sale of Krka's pharmaceutical Esomeprazole in Great Britain over a period from mid-2010 to the summer of 2011. Since the plaintiff appealed against the court decision, the controlling entity set aside provisions in total of EUR 20,000 thousand.

The amounts of provisions for lawsuits referring to intellectual property are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated amount, if the indemnification claim is not yet disclosed. External

advisers 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 has not yet been closed.

In addition to aforementioned lawsuits referring to intellectual property, another 12 lawsuits are in progress against Krka and its subsidiaries totalling EUR 10,250 thousand, as well as 24 lawsuits referring to other areas (labour legislation, civil lawsuits) totalling EUR 3,946 thousand. Based on its familiarisation with the content of disputes and based on the legal opinion of external experts, the management of the Company assessed that there was no need to set aside provisions relating to the above disputes and lawsuits.

Provisions for post-employment benefits and other non-current employment benefits are based on a calculation performed by a certified actuary and they were accounted for under following assumptions:

- discount rate of 2.45% in the reporting period (2013: 5.00%) referring to the harmonised 15-term entrepreneurial bond yield with high credit rating in the euro area, increased by a margin for local risk;
- currently applicable amounts of retirement benefits and anniversary bonuses as defined by internal acts;
- employee turnover depending in particular upon the employees' age;
- mortality rates calculated on the basis of last mortality tables available;
- increase in wages by 1.80% (2013: 1.80%).

Provisions for post-employment benefits

In EUR thousand	2014	2013
Balance at 1 Jan	42,644	43,390
Employee benefit costs (CSC)	1,626	1,836
Interest expense	2,021	2,376
Post-employment benefits paid	-1,745	-2,444
Actuarial surplus/deficit, of that:	17,752	-2,514
– change in financial assumptions	16,307	
– experience	1,445	
Balance at 31 Dec	62,298	42,644

Sensitivity analysis

Change in	Discount rate		Salary increase	
	Percentage point		Percentage point	
Change by	0.5	-0.5	0.5	-0.5
Impact on liabilities in EUR thousand	-3,638	4,016	3,866	-3,532

24. Deferred revenue

In EUR thousand	Balance at 31 Dec 2013	New deferred revenue received	Deferred revenue reversal	Balance at 31 Dec 2014
Grants received from the European Fund for Regional Development and Republic of Slovenia budget for the production of pharmaceuticals in the new Notol 2 plant	0	2,813	-83	2,730
Grants received from the budget for the Dolenjske and Šmarješke Toplice health resorts and Golf Grad Otočec	4,515	0	-219	4,296
Grants by the European Regional Development Fund	13	0	-5	8
Grants by the European Fund – development of new technologies (FBD project)	633	0	-98	535
Grants by the European Fund – Development Centres of the Slovene Economy	7,091	836	-1,157	6,770
Property, plant and equipment received for free	553	5	-13	545
Emission coupons	0	43	-22	21
Other deferred revenue	0	1,309	-1,309	0
Total deferred revenue	12,805	5,006	-2,906	14,905

Production of pharmaceuticals in the new Notol 2 plant and FBD projects are partly funded by the European Union (European Regional Development Fund). The projects are 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

In EUR thousand	31 Dec 2014	31 Dec 2013
Payables to domestic suppliers	46,252	51,905
Payables to foreign suppliers	64,442	70,859
Payables from advances	4,357	8,463
Total trade payables	115,051	131,227

26. Other current liabilities

In EUR thousand	31 Dec 2014	31 Dec 2013
Accrued contractual discounts on products sold	106,603	102,952
Payables to employees – gross wages, other receipts and charges	35,091	32,028
Other	22,329	25,203
Total other current liabilities	164,023	160,183

The item "Other" also includes current liabilities to the state on account of VAT payable in the amount of EUR 3,724 thousand

and other current liabilities to the state in total of EUR 5,984 thousand.

27. Contingent liabilities and commitments

In EUR thousand	31 Dec 2014	31 Dec 2013
Guarantees issued	18,822	19,710
Other	620	620
Total contingent liabilities	19,442	20,330

Major items of guarantees issued include a counter guarantee for due payment of potential liabilities from the issued customs guarantee of EUR 6,000 thousand in Belarus; a contract bond issued on behalf of subsidiary Farma GRS in the amount of EUR 5,300 thousand; and a guarantee issued to the Financial 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 other income includes damages received and reimbursement of court fees from a lawsuit between Krka and AstraZeneca for the unjustified temporary prohibition of sale of Krka's pharmaceutical Esomeprazole in Great Britain over a period from mid-2010 to the summer of 2011. Since the plaintiff appealed against the court decision, the controlling

entity set aside provisions in total of EUR 20,000 thousand. In addition to aforementioned lawsuits referring to intellectual property, another 12 lawsuits are in progress against Krka and its subsidiaries totalling EUR 10,250 thousand, as well as 24 lawsuits referring to other areas (labour legislation, civil lawsuits) totalling EUR 3,946 thousand. Based on its familiarisation with the content of disputes and based on the legal opinion of external experts, the management of the controlling company assessed that there was no need to set aside provisions relating to the above disputes and lawsuits.

Based on the contracts that had been signed in connection with the on-going investments, at year-end the Company accounted for EUR 35,596 thousand of future liabilities resulting from acquisition of property, plant and equipment (2013 year-end: EUR 120,890 thousand).

Operating lease

In EUR thousand	31 Dec 2014	31 Dec 2013
Up to 1 year	3,689	4,492
1–5 years	3,066	2,906
More than 5 years	0	159
Total lease liabilities	6,755	7,557

Lease contracts with terms in excess of 5 years refer to lease of real estate (primarily offices), 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. Due to the extensive scope of international import and export business, the Group is primarily exposed to foreign exchange and credit risks.

Credit risk

The credit control process involves obtaining credit ratings for clients to which the controlling company and subsidiaries make product sales worth an annual EUR 100,000 or more, and regular, dynamic monitoring of customer payment discipline.

More than 95% of trade receivables due from the Krka Group customers is included in the credit control.

In comparison to the beginning of 2014, total trade receivables increased at the end of the year, but the value of mature and outstanding receivables remained within the normal range acceptable for Krka. Krka believes that the payment discipline of buyers did not change.

At the end of the year, 75% of trade receivables due by buyers from the Russian Federation were secured with credit

insurance. The value of trade receivables due by buyers from the Russian Federation in the local currency increased during the year because of extended terms of payment and rising sales prices in the rouble due to the falling exchange rate.

One half of our trade receivables due by Ukrainian buyers are hedged by bank guarantees or have credit insurance coverage. We noticed that terms of payment extended slightly because companies have difficulty accessing foreign currencies.

At the end of the year, 52% of trade receivables were secured with the credit insurance. A part of receivables is secured also with financial instruments. The receivable hedging policy has remained unchanged in 2014.

In 2014, Krka recorded no significant write-offs of trade receivables due by buyers, and no increase in problematic trade receivables.

CREDIT RISK EXPOSURE

The carrying amount of financial assets represents the biggest exposure to credit risk as illustrated below.

In EUR thousand	Notes	31 Dec 2014	31 Dec 2013
Loans	14	8,121	26,060
Investments	15	7,963	6,023
Trade receivables	18	467,841	430,435
Cash and cash equivalents	19	23,585	67,275
Total		507,510	529,793

As for financial assets exposed to credit risk, loans and trade receivables are presented separately.

Loans by geographical region

In EUR thousand	31 Dec 2014	31 Dec 2013
Slovenia	7,472	25,336
South-East Europe	136	152
East Europe	216	317
Central Europe	297	255
West Europe	0	0
Overseas Markets	0	0
Total	8,121	26,060

Trade receivables by geographical region

In EUR thousand	31 Dec 2014	31 Dec 2013
Slovenia	9,213	10,813
South-East Europe	104,071	99,437
East Europe	182,801	182,700
Central Europe	79,794	63,381
West Europe	86,920	70,461
Overseas Markets	5,042	3,643
Total	467,841	430,435

52% of trade receivables were secured with the SID – Prva kreditna zavarovalnica, d. d.

Maturity analysis of loans and receivables as at the reporting date

In EUR thousand	Gross 2014	Allowance 2014	Gross 2013	Allowance 2013
Not-past due	8,115	0	26,055	0
Past due up to 20 days	3	0	3	0
Past due between 21 and 50 days	1	0	2	0
Past due between 51 and 180 days	1	0	0	0
Past due more than 180 days	12	11	41	41
Total	8,132	11	26,101	41

Maturity structure of trade receivables as at the reporting date

In EUR thousand	Gross 2014	Allowance 2014	Gross 2013	Allowance 2013
Not-past due	437,637	2,788	407,436	3440
Past due up to 20 days	14,090	219	7,311	83
Past due between 21 and 50 days	4,235	164	2,985	57
Past due between 51 and 180 days	11,841	423	11,841	64
Past due more than 180 days	20,659	17,027	20,412	15,906
Total	488,462	20,621	449,985	19,550

The Krka Group agrees extended terms with some customers. If the Group did not extend payment terms to some of the customers, the maturity structure of receivables less amounts due from the state and advances would be as follows as at reporting date: not past due EUR 392,315 thousand (2013: EUR 350,726 thousand); past due up to 20 days: EUR 22,939

thousand (2013: EUR 19,726 thousand); past due between 21 and 50 days EUR 10,041 thousand (2013: EUR 11,572 thousand); past due between 51 and 180 days EUR 40,859 thousand (2013: EUR 46,812 thousand); and past due more than 180 days: EUR 22,308 thousand (2013: EUR 21,142 thousand).

Movement of allowances for loans

In EUR thousand	2014	2013
Balance at 1 Jan	41	48
Impairment of loans	-30	0
Reversal of impairment	0	-2
Recovery of loans written-off	0	-5
Balance at 31 Dec	11	41

Movements in receivable impairments less receivables due by the state and advances

In EUR thousand	2014	2013
Balance at 1 Jan	19,550	16,446
Formation of allowance	2,831	3,704
Write-off of receivables	-116	-185
Reversal of impairment	-1,127	-292
Collected written-off receivables	0	-15
Effect of exchange rate differences	-517	-108
Balance at 31 Dec	20,621	19,550

Liquidity risk

Krka has earned a good reputation among business partners due to its financial discipline, investments in growth, operations financed primarily by its own financial assets and stable cash flows. The exposure of the Krka Group to liquidity risks was low, and other than some insubstantial current borrowings the Group accrued no debts.

The controlling company manages the liquidity risks of the Krka Group centrally at the group level, and also prepares financial budget plans for subsidiaries and provides funds under convenient terms. Due to growing competitiveness among banking service providers, in 2014 Krka also managed to reduce costs related to payment transactions and documentary operations with banks in several subsidiaries.

MATURITY OF FINANCIAL LIABILITIES

Financial liabilities in terms of maturity are outlined in the tables below.

Financial liabilities maturity as at 31 Dec 2014

In EUR thousand	Carrying amount	Contractual cash flows				
		Total	Up to 6 months	From 6 to 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Current borrowings from banks	38,019	38,269	20,214	18,055	0	0
Payables to suppliers	110,694	110,694	110,694	0	0	0
Total non-derivative financial liabilities	148,713	148,963	130,908	18,055	0	0
Total derivative assets/liabilities	0	0	0	0	0	0
Total	148,713	148,963	130,908	18,055	0	0

Financial liabilities maturity as at 31 Dec 2013

In EUR thousand	Carrying amount	Contractual cash flows				
		Total	Up to 6 months	From 6 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

Currency risk

The Krka Group is exposed to currency risks due to its extensive international operations. The emphasis is 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.

In 2014, the currency exchange rates had negative effect on the business performance of the Krka Group.

The largest portion of negative foreign exchange differences presented in the income statement was accrued due to the exposure of the Group to the Russian rouble. The exchange rate of the Russian rouble fluctuated widely in 2014. At the end of the first quarter, a 7% depreciation in the exchange rate was recorded in comparison to the beginning of the year. At the end of the second quarter, the exchange rate increased and almost completely neutralised the drop recorded in the first quarter. In the third quarter and at its end, the value of the rouble was 9% lower than at the beginning of the year. The fall was most notable in November and December. Only in the last quarter, its value dropped by 31%. Since the last quarter of the year is the most important in terms of the Group sales, the drop affected the Group's performance even more notably.

From the beginning to the end of 2014, the Russian rouble lost 37% of its value against the euro. The rouble-related exchange rate losses were affected by extended payment terms for customers and investment in additional production and distribution capacities of Krka-Rus. These were financed by loans of the controlling company to the subsidiary in the Russian rouble.

The gradual depreciation of the Russian rouble in 2014 was caused by the Ukrainian crisis and tightening of the sanctions that followed. In the second half of the year, the impact of

sanctions was followed by the pronounced negative effect of falling oil prices, which resulted in destabilisation and loss of confidence in the Russian economy. The measures applied by the Russian Central Bank and government managed to slow the uncontrolled drop in the value of the Russian rouble, but its exchange rate remained unsteady.

Substantial exchange rate losses resulting from the depreciation of the Russian rouble were accrued in part due to the received payments, the majority of these being due to the revaluation of receivables due by buyers in the Russian rouble and business relations between the controlling company and its subsidiaries.

The instability of the exchange rate, increasing interest rate differences of the rouble against the euro and insufficient supply of financial instruments caused a sharp increase in the cost of hedging by derivatives. At the end of the year, hedging costs were additionally increased as a result of measures taken by the Central Bank to regulate exchange rates, in particular the increase in key interest rate.

Due to all this, the Krka Group did not hedge its financial position in the Russian rouble by derivatives, but tried to mitigate the depreciation effect by adjusting sales prices and purchases made in the rouble.

The value of the Ukrainian hryvnia fell by 41% against the euro in 2014. The Krka Company invoices Ukrainian buyers in the euro, so the depreciation of the hryvnia had no obvious negative effect on the performance of the Company. However, the crisis caused a decline in the purchasing power in Ukraine as well, which affected our performance.

The Krka Group generated foreign exchange losses due to the decrease in the Hungarian forint (6%), Serbian dinar (5%) and Polish zloty (3%), but they represent a small proportion in total foreign exchange differences recognised in the income statement. Other foreign currencies had no effect on our performance.

CURRENCY RISK EXPOSURE

In EUR thousand	31 Dec 2014				
	EUR*	PLN	HRK	RUB	RON
Loans	8,121	0	0	0	0
Trade receivables	161,121	43,091	27,188	140,023	56,713
Borrowings	-38,019	0	0	0	0
Trade payables	-84,645	-1,183	-474	-5,092	-293
Financial position exposure	46,578	41,908	26,714	134,931	56,420

* EUR is the functional currency and does not represent exposure to foreign currency risk.

In EUR thousand	31 Dec 2013				
	EUR*	PLN	HRK	RUB	RON
Loans	26,060	0	0	0	0
Trade receivables	143,451	31,932	32,513	146,946	51,542
Borrowings	0	0	0	0	0
Trade payables	-109,257	-1,232	-385	-9,687	-387
Financial position exposure	60,254	30,700	32,128	137,259	51,155

* EUR is the functional currency and does not represent exposure to foreign currency risk.

Significant foreign exchange rates

	Average exchange rate*		Final exchange rate*	
	2014	2013	2014	2013
PLN	4.18	4.20	4.27	4.15
HRK	7.63	7.58	7.66	7.63
RUB	50.93	42.33	72.34	45.32
RON	4.44	4.42	4.48	4.47

* 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 10% (or 1%) percent change of stated currencies exchange rate in respect of the euro as at 31 December 2014 or 31 December 2013 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. The calculation of the above-stated exchange rates volatility impact took into account the balance of receivables, liabilities and borrowings denominated in the local currencies.

In EUR thousand	Effect on profit or loss before tax			
	2014		2013	
Currency fluctuation	+10%	-10%	+10%	-10%
RUB	13,493	-13,493	13,726	-13,726
Currency fluctuation	+1%	-1%	+1%	-1%
PLN	419	-419	307	-307
HRK	267	-267	321	-321
RON	564	-564	512	-512

Any additional 10% change of the Russian rouble value or any additional 1% change of the Polish zloty, the Croatian kuna or the Romanian leu in respect to the euro value, would result in

additional change in the profit or loss before tax in the above-stated amounts.

Interest rate risk

In the past the Krka Group repaid all of its non-current borrowings and no new borrowings were raised by the Group

in 2014. Thus the reference interest rate changes no longer had a decisive impact on the Group's interest rate exposure.

EXPOSURE TO INTEREST RATE RISK

In EUR thousand	2014	2013
Financial instruments at the fixed interest rate	-6,880	26,060
Financial assets	8,120	26,060
Financial liabilities	-15,000	0
Financial instruments at the variable interest rate	-23,000	0
Financial assets	0	0
Financial liabilities	-23,000	0

ANALYSIS OF THE CASH FLOW'S SENSITIVITY BY APPLYING THE VARIABLE INTEREST RATE

An increase of the interest rate by 100 basis points would decrease the profit or loss for 2014 by EUR 230 thousand (a decrease of the interest rate by 100 basis points would increase the profit or loss by EUR 230 thousand). An increase/decrease of the variable interest rate in 2013 would have no

impact since the Group had not agreed any financial assets or liabilities at a variable interest rate. The analysis, prepared in the same manner for both years, assumes that all other remaining variables, in particular the foreign exchange rate, remain unchanged.

As at 31 December 2014, the Group had no non-current borrowings. A detailed schedule of current borrowings is presented below.

Current borrowings

In EUR thousand	31 Dec 2014	31 Dec 2013
Current borrowings inclusive of current portion of non-current borrowings	38,000	0
– from banks	38,000	0
Current borrowings exclusive of current portion of non-current borrowings	38,000	0
Average balance of current borrowings (financial year)	19,000	188
Interest paid in the financial year	109	78
Other cost of raising current borrowings	15	15
Average effective cost of current borrowings (financial year)	0.65%	49.60%
Currency structure of current borrowings		
– EUR	100%	/
Structure of current borrowings in terms of interest rates:		
– fixed	100%	/

Capital management

Krka reduced its share capital by withdrawing 2,632,672 treasury shares, accounting for 7.431% of all shares issued, in accordance with the resolution adopted at the 19th Annual General Meeting on 3 July 2014. After the withdrawal of treasury shares, the share capital of Krka in the amount of EUR 54,732 thousand is represented by 32,793,448 ordinary 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 Krka 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. Dividends are paid out on an annual basis. Up to 50% of consolidated profit of the majority owners generated in the preceding year will be appropriated to dividends in line with the applicable development strategy for the 2014-2018 period. In setting the amount of profit to be allocated to dividends, the Group's financial needs in terms of its investments and major takeovers are also considered. 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 2014 or 2013.

The Krka Group 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.

In EUR thousand	31 Dec 2014	31 Dec 2013
Borrowings	38,019	0
Trade and other current liabilities	279,074	291,410
Cash and cash equivalents	23,585	-67,275
Net indebtedness	340,678	224,135
Equity	1,351,899	1,332,611
Equity and net indebtedness	1,692,577	1,556,746
Gearing (debt/equity) ratio	20.1%	14.4%

Fair value

In EUR thousand	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current loans	6,944	6,944	5,845	5,845
Available-for-sale financial assets	7,388	7,388	5,231	5,231
Current loans	1,177	1,177	20,215	20,215
Current investments	575	575	792	792
– shares and interests held for trading	157	157	131	131
– other current investments	418	418	661	661
Trade receivables	467,841	467,841	430,435	430,435
Cash and cash equivalents	23,585	23,585	67,275	67,275
Borrowings	-38,019	-38,019	0	0
Trade and other liabilities excluding amounts owed to the state and employees and advances	-231,285	-231,285	-240,838	-240,838
Total	238,206	238,206	288,955	288,955

In terms of fair value, assets and liabilities 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.

Assets at fair value

In EUR thousand	31 Dec 2014				31 Dec 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at fair value								
Available-for-sale financial assets	6,025	0	1,363	7,388	3,657	0	1,574	5,231
Shares and interests held for trading	157	0	0	157	131	0	0	131
Other current investments (mutual funds and assets in management)	418	0	0	418	661	0	0	661
Total assets at fair value	6,600	0	1,363	7,963	4,449	0	1,574	6,023
Assets for which fair value is disclosed								
Non-current loans	0	0	6,944	6,944	0	0	5,845	5,845
Current loans	0	0	1,177	1,177	0	0	20,215	20,215
Trade receivables	0	0	467,841	467,841	0	0	430,435	430,435
Cash and cash equivalents	0	0	23,585	23,585	0	0	67,275	67,275
Total assets for which fair value is disclosed	0	0	499,547	499,547	0	0	523,770	523,770
Total	6,600	0	500,910	507,510	4,449	0	525,344	529,793

Liabilities at fair value

In EUR thousand	31 Dec 2014				31 Dec 2013			
	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	38,019	38,019	0	0	0	0
Trade and other liabilities excluding amounts owed to the state and employees and advances	0	0	231,285	231,285	0	0	240,838	240,838
Total liabilities for which fair value is disclosed	0	0	269,304	269,304	0	0	240,838	240,838
Total	0	0	269,304	269,304	0	0	240,838	240,838

The fair value of non-current loans and borrowings is calculated by applying the discounted cash flow of the principal and interest. The discount interest rate for 2014 was computed based on the 2% annual interest rate, while a 5% annual interest rate was applied in 2013.

The fair value of securities held for trading is computed on the basis of the stock exchange quotation of the respective securities at the 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

At the end of the year 2014, members of the Management Board of the controlling company held 37,050 of Krka shares, i.e. 0.1130% of total equity, or 0.1136% of voting rights,

whereas members of the Supervisory Board of the controlling company held 13,445 shares, i.e. 0.0410% of total equity, or 0.0412% of voting rights, and the Managing Directors of subsidiaries held 24,575 of shares, i.e. 0.0749% of the total equity, or 0.0753% of voting rights.

Equity stakes held by members of the Management and the Supervisory Boards of the Krka Company and their shares of voting rights

	31 Dec 2014			31 Dec 2013		
	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	0.0686	0.0690	22,500	0.0635	0.0685
Aleš Rotar	12,770	0.0389	0.0391	12,770	0.0360	0.0389
Zvezdana Bajc	1,660	0.0051	0.0051	1,660	0.0047	0.0051
Vinko Zupančič	120	0.0004	0.0004	120	0.0003	0.0004
Danica Novak Malnar	0	0	0	0	0	0
Total Members of the Management Board	37,050	0.1130	0.1136	37,050	0.1046	0.1127
Members of the Supervisory Board						
Jože Lenič	180	0.0005	0.0006	180	0.0005	0.0005
Julijana Kristl	230	0.0007	0.0007	230	0.0006	0.0007
Vincenc Manček	11,543	0.0352	0.0354	11,543	0.0326	0.0351
Mojca Osolnik Videmšek	452	0.0014	0.0014	452	0.0013	0.0014
Matjaž Rakovec	0	0	0	0	0	0
Sergeja Slapničar	0	0	0	0	0	0
Franc Šašek	540	0.0016	0.0017	540	0.0015	0.0016
Tomaž Sever	500	0.0015	0.0015	500	0.0014	0.0015
Mateja Vrečer	0	0	0	0	0	0
Total Members of the Supervisory Board	13,445	0.0410	0.0412	13,445	0.0380	0.0409
Total	50,495	0.1540	0.1548	50,495	0.1425	0.1536

Krka reduced its share capital by withdrawing 2,632,672 treasury shares, accounting for 7.431% of all shares issued, in accordance with the resolution adopted at the 19th Annual General Meeting on 3 July 2014. After the withdrawal of treasury shares, the share capital of Krka is represented by 32,793,448 ordinary no-par value shares and has been taken into account in the capital shares calculation as at 31 December 2014. Before the withdrawal of treasury shares,

the share capital of Krka was represented by 35,426,120 ordinary no-par value shares, which was taken into account in the capital share calculation as at 31 December 2013.

Treasury shares were eliminated from the calculation of voting rights (173,279 treasury shares as at 31 December 2014 and 2,561,005 as at 31 December 2013).

Remuneration paid to groups of persons (gross)

In EUR thousand	2014	2013
Members of the Management Board in the controlling company	2,373	2,390
Managers of subsidiaries	2,557	2,514
Members of the Supervisory Board in the controlling company	209	209
Members of the Supervisory and Management Boards in subsidiaries	9	189
Total gross remuneration paid to groups of persons	5,148	5,302

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 solely earnings for exercising the function within the Supervisory and Management Boards.

Gross earnings paid to employees employed under individual employment contracts were in 2014 recorded at EUR 10,965 thousand (2013: EUR 15,618 thousand).

Remuneration paid to Members of the Management Board in the controlling company in 2014

In EUR thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net pay-out	Net fringe benefits and other earnings	Gross	Net	Gross	Net
Jože Colarič	381	148	13	377	147	758	308
Aleš Rotar	296	120	9	259	102	555	231
Zvezdana Bajc	271	109	9	235	92	506	210
Vinko Zupančič	218	88	11	185	73	403	172
Danica Novak Malnar	141	63	6	10	5	151	74
Total Members of the Management Board	1,307	528	48	1,066	419	2,373	995

In EUR thousand	Net fringe benefits and other earnings						Total
	Executive health insurance	Supplementary pension insurance	Other bonuses	Refund of work-related costs	Vacation bonus		
Jože Colarič	4.21	3.05	4.89	0.03	0.54		12.72
Aleš Rotar	3.37	3.05	0.82	0.91	0.54		8.69
Zvezdana Bajc	3.37	3.05	1.72	0.99	0.55		9.68
Vinko Zupančič	3.38	3.05	3.31	0.76	0.55		11.05
Danica Novak Malnar	1.47	3.05	0.02	1.01	0.64		6.19
Total Members of the Management Board	15.80	15.25	10.76	3.70	2.82		48.33

Remuneration paid to Members of the Management Board in the controlling company in 2013

In EUR thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net pay-out	Net fringe benefits 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 Members of the Management Board	1,258	516	45	1,132	444	2,390	1,005

In EUR thousand	Net fringe benefits 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 Members of the Management Board	15.57	14.10	8.15	3.57	3.00	44.38

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 2014

In EUR thousand	Basic pay for exercising the function		Attendance fees		Commuting allowances		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Jože Lenič	23.25	17.00	3.36	2.45	0.00	0.00	26.61	19.45
Julijana Kristl	19.37	14.17	2.03	1.48	0.46	0.33	21.86	15.98
Vincenc Manček	19.37	14.17	1.76	1.28	0.00	0.00	21.13	15.45
Mojca Osolnik Videmšek	21.31	15.59	2.48	1.81	0.46	0.33	24.25	17.73
Matjaž Rakovec	20.93	15.30	2.20	1.61	0.36	0.26	23.49	17.17
Sergeja Slapničar	19.37	14.17	2.70	1.97	0.40	0.29	22.47	16.43
Franc Šašek	20.93	15.30	2.70	1.97	0.00	0.00	23.63	17.27
Tomaž Sever	19.37	14.17	2.70	1.97	0.46	0.33	22.53	16.47
Mateja Vrečer	21.31	15.59	2.03	1.48	0.00	0.00	23.34	17.07
Total remuneration paid to Members of the Supervisory Board	185.21	135.46	21.96	16.02	2.14	1.54	209.31	153.02

In accordance with the resolution adopted at the 16th Annual General 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 pay-outs on an annual level.

In addition to attendance fees, members of the Company's Supervisory Board receive on an annual basis also a basic pay

for exercising the function in the amount of EUR 15,500 gross each. The President of the Supervisory Board is further entitled to an extra fee in the amount of 50% of the basic pay for exercising the function of Member of the Supervisory Board, whereas the Deputy President of the Supervisory Board is entitled to an extra fee of 10% of the basic pay for exercising the function of a Member of the Supervisory Board. Members of the Supervisory Board Commission receive an extra fee for exercising the function in the amount of 25% of the basic pay for exercising the function of a Member of the Supervisory Board. President of the Commission is further entitled to a bonus corresponding to 50% of the extra fee for exercising the function of a member the Supervisory Board Commission.

Members of the Company's Supervisory Board and members of the Supervisory Board Commission receive a basic pay and an extra fee for exercising the function, in proportionate monthly payments to which they are entitled during their mandate. The monthly payment amounts to one twelfth of the aforesaid annual amounts. Each member of the Supervisory Board Commission is in every financial year entitled – regardless of the above-mentioned or the number of

commissions he is a member of or presides over – to receive bonuses until the total amount of these bonuses reaches 50% of the basic pay for exercising the function for each

Supervisory Board member taking into account the actual pay-outs on an annual level.

Loans to groups of persons

In EUR thousand	Balance		Repayments	
	31 Dec 2014	31 Dec 2013	2014	2013
Members of the Management Board in the controlling company	2	3	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	2	3	1	1

Loans granted to staff employed under individual employment contracts were as at 31 December 2014 recorded at EUR 84 thousand (EUR 121 thousand as at 31 December 2013).

Repayments of the respective loans amounted in the reporting period to EUR 24 thousand (2013: EUR 27 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 2014	Currency	Headcount at 31 Dec 2014	Headcount at 31 Dec 2013
The controlling entity					
KRKA, d. d., Novo mesto		54,732,265	EUR	4,738	4,628
Subsidiaries					
TERME KRKA, d. o. o., Novo mesto, Slovenia	100%	14,753,239	EUR	585	605
Farma GRS, d. o. o., Novo mesto, Slovenia	99.7%	1,003,000	EUR	46	51
KRKA-FARMA d. o. o., Zagreb, Croatia	100%	143,027,200	HRK	176	182
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	37,000	RON	208	194
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	111,080	RSD	63	62
KRKA-FARMA DOOEL, Skopje, Macedonia	100%	49,060,618	MKD	34	32
KRKA Bulgaria EOOD, Sofia, Bulgaria	100%	19,550	BGN	58	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	283	261
KRKA FARMA LLC, Sergiev Posad, Russian Federation	100%	753,874,800	RUB	1,945	1,701
KRKA UKRAINE LLC, Kiev, Ukraine	100%	100,000	UAH	380	381
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	100%	13,500	USD	119	112
KRKA - POLSKA Sp. z o. o., Warsaw, Poland	100%	17,490,000	PLN	846	811
KRKA ČR, s. r. o., Prague, Czech Republic	100%	100,000	CZK	252	259
KRKA Magyarország Kft., Budapest, Hungary	100%	44,880,000	HUF	164	159
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10,000	EUR	118	120
UAB KRKA Lietuva, Vilnius, Lithuania	100%	34,000	LTL	76	77
SIA KRKA Latvia, Riga, Latvia	100%	9,954	EUR	37	37
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650,000	EUR	188	170
KRKA Sverige AB, Stockholm, Sweden	100%	150,000	SEK	5	4
KRKA Pharma GmbH, Vienna, Austria	100%	36,500	EUR	24	21

This table continues on page 162.

	Share in equity	Share capital value at 31 Dec 2014	Currency	Headcount at 31 Dec 2014	Headcount at 31 Dec 2013
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10,000	EUR	24	20
KRKA FARMACÊUTICA, S.L., Madrid, Spain	100%	10,000	EUR	39	22
KRKA FARMACEUTICI MILANO, S.R.L., Milan, Italy	100%	10,000	EUR	33	36
Krka France Eurl, Paris, France	100%	10,000	EUR	36	38
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1,000	EUR	7	7
KRKA Belgium, SA, Brussels, Belgium	95%	146,250	EUR	6	1
KRKA Finland Oy, Espoo, Finland	100%	2,500	EUR	7	0
KRKA UK Ltd, London, Great Britain*	/	/	/	1	
KRKA USA, LLC, Wilmington, USA	100%	10,000	USD	0	0

* The share capital had not been paid by 31 Dec 2014.

The subsidiary Terme Krka held 63.1% interest in Golf Grad Otočec, d. o. o., at 31 December 2014; Farma GRS held a 100% interest in its subsidiaries GRS TEHFARMA, d. o. o., GRS VIZFARMA, d. o. o., GRS PREK FARMA, d. o. o., GRS

EKO FARMA, d. o. o., GRS TREN FARMA d. o. o., and GRS VRED FARMA d. o. o.; and subsidiary Krka France Eurl held a 5% interest in subsidiary KRKA Belgium, SA.

31. Educational structure of employees

	2014		2013	
	Headcount (average)	Share (in %)	Headcount (average)	Share (in %)
PhD	118	1.2	109	1.1
MSc	331	3.2	309	3.2
University education	5,126	49.9	4,729	48.3
Higher professional education	1,236	12.0	1,130	11.6
Vocational college education	271	2.6	269	2.7
Secondary school education	1,894	18.4	1,889	19.3
Skilled workers	1,184	11.5	988	10.1
Unskilled workers	124	1.2	360	3.7
Total (average for the period)	10,284	100.0	9,783	100.0

32. Transactions with audit firms

The annual fee for auditing of the Krka Group's financial statements in 2014 amounted to EUR 471 thousand (2013: EUR 469 thousand). In addition, the auditing firms provided various consultation services to the Group in 2014 charging a fee of EUR 79 thousand.

33. Subsequent events

Below is presentation of events that have taken place since the end of 2014 and up to 31 March 2015.

- At its meeting on Wednesday 21 January, Krka's Supervisory Board appointed the current President of the Management Board and Chief Executive, Jože Colarič, for a new six-year term of office. His latest term of office commences on 1 January 2016 and ends at the end of 2021.
- In the period from 1 January to 10 March 2015, after the certified auditors concluded the audit of 2014 operations, the Krka Group recorded more than EUR 15 million of foreign exchange gains related to the Russian rouble.
- From the beginning of 2015 to the end of January 2015 (followed by the closed period until the annual report is published), we acquired 41,065 treasury shares worth EUR 2,378,981. The balance of treasury shares totals 214,344 (i.e. 0.654% of total shares).

Independent Auditor's report



This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the shareholders 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, 2014, 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 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

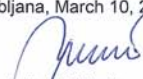
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Krka Group, as of December 31, 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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, 2015


Sanja Košir Nikašinovič
Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1


Lidija Šinkovec
Certified auditor

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

STATEMENT OF FINANCIAL POSITION

In EUR thousand	Notes	31 Dec 2014	31 Dec 2013
Assets			
Property, plant and equipment	12	623,622	563,978
Intangible assets	13	33,120	28,303
Investments in subsidiaries	14	299,119	288,323
Trade receivables from subsidiaries		14,091	14,018
Loans	15	27,588	31,009
Investments	16	7,386	5,022
Deferred tax assets	17	10,833	15,167
Other non-current assets		91	127
Total non-current assets		1,015,850	945,947
Assets held for sale		41	0
Inventories	18	201,081	190,968
Trade receivables	19	460,652	426,195
Other receivables	19	34,333	15,424
Loans	15	47,752	72,492
Investments	16	575	792
Cash and cash equivalents	20	8,203	49,417
Total current assets		752,637	755,288
Total assets		1,768,487	1,701,235
Equity			
Share capital	21	54,732	59,126
Treasury shares	21	-10,677	-69,372
Reserves	21	154,133	219,746
Retained earnings	21	1,183,125	1,122,746
Total equity		1,381,313	1,332,246
Liabilities			
Borrowings	23	2,000	2,000
Provisions	24	86,628	94,464
Deferred revenue	25	3,834	2,314
Total non-current liabilities		92,462	98,778
Trade payables	26	139,960	145,921
Borrowings	23	102,020	70,190
Income tax payable		0	4,823
Other current liabilities	27	52,732	49,277
Total current liabilities		294,712	270,211
Total liabilities		387,174	368,989
Total equity and liabilities		1,768,487	1,701,235

The accounting policies and notes are an integral part of the financial statements.

INCOME STATEMENT

In EUR thousand	Notes	2014	2013
Revenues	5	1,134,169	1,116,339
Cost of sales	7	-462,674	-457,925
Gross profit		671,495	658,414
Other operating income	6	64,605	3,007
Distribution expenses	7	-308,425	-295,791
R&D expenses	7	-112,646	-100,161
Administrative expenses	7	-57,862	-53,942
Operating profit		257,167	211,527
Financial income	10	9,178	5,316
Financial expenses	10	-112,313	-28,967
Net financial expenses		-103,135	-23,651
Profit before tax		154,032	187,876
Income tax payable	11	-9,647	-23,203
Net profit		144,385	164,673
Basic earnings per share (in EUR)	22	4.41	4.99
Diluted earnings per share (in EUR)	22	4.41	4.99

The accounting policies and notes are an integral part of the financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME

In EUR thousand	Notes	2014	2013
Net profit		144,385	164,673
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	2,368	131
Deferred tax effect	21	-402	-2
Total other comprehensive income reclassified to profit or loss in future periods		1,966	129
Other comprehensive income that will not be reclassified to profit or loss in future periods			
Restatement of post-employment benefits	24	-15,997	2,512
Deferred tax effect	24	2,719	-427
Total other comprehensive income that will not be reclassified to profit or loss at a future date		-13,278	2,085
Total other comprehensive income for the year (net of tax)		-11,312	2,214
Total comprehensive income for the year (net of tax)		133,073	166,887

The accounting policies and notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

In EUR thousand	Share capital	Treasury shares	Reserves		
			Reserves for treasury shares	Share premium	
Balance at 1 Jan 2014	59,126	-69,372	69,372	101,503	
Profit for the year	0	0	0	0	
Total other comprehensive income for the year (net of tax)	0	0	0	0	
Total comprehensive income for the year (net of tax)	0	0	0	0	
Transactions with owners, recognised directly in equity					
Formation of statutory reserves	0	0	0	0	
Formation of other profit 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 profit reserves under the resolution of the Annual General Meeting	0	0	0	0	
Repurchase of treasury shares	0	-15,140	0	0	
Formation of reserves for treasury shares	0	0	15,140	0	
Withdrawal of treasury shares – share capital decrease	-4,394	0	0	4,394	
Withdrawal of treasury shares by debiting other reserves and release of reserves for treasury shares	0	73,835	-73,835	0	
Dividends paid	0	0	0	0	
Total transactions with owners, recognised directly in equity	-4,394	58,695	-58,695	4,394	
Balance at 31 Dec 2014	54,732	-10,677	10,677	105,897	

The accounting policies and notes are an integral part of the financial statements.

In EUR thousand	Share capital	Treasury shares	Reserves		
			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 (net of tax)	0	0	0	0	
Total comprehensive income for the year (net of tax)	0	0	0	0	
Transactions with owners, recognised directly in equity					
Formation of statutory reserves	0	0	0	0	
Formation of other profit 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 profit reserves under the resolution of the Annual General Meeting	0	0	0	0	
Repurchase of treasury shares	0	-13,716	0	0	
Formation of reserves for treasury shares	0	0	13,716	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 accounting policies and notes are an integral part of the financial statements.

				Retained earnings			Total equity
	Legal reserves	Statutory reserves	Fair value reserve	Other profit reserves	Retained earnings	Profit for the year	
	14,990	30,000	3,881	943,393	62,396	116,957	1,332,246
	0	0	0	0	0	144,385	144,385
	0	0	-11,312	0	0	0	-11,312
	0	0	-11,312	0	0	144,385	133,073
	0	0	0	0	0	0	0
	0	0	0	58,243	-55,243	-3,000	0
	0	0	0	0	116,957	-116,957	0
	0	0	0	0	0	0	0
	0	0	0	0	0	0	-15,140
	0	0	0	0	0	-15,140	0
	0	0	0	0	0	0	0
	0	0	0	0	0	0	0
	0	0	0	0	-68,866	0	-68,866
	0	0	0	58,243	-7,152	-135,097	-84,006
	14,990	30,000	-7,431	1,001,636	55,244	126,245	1,381,313

				Retained earnings			Total equity
	Legal reserves	Statutory reserves	Fair value reserve	Other profit reserves	Retained earnings	Profit for the year	
	14,990	30,000	1,667	846,998	61,388	116,543	1,232,215
	0	0	0	0	0	164,673	164,673
	0	0	2,214	0	0	0	2,214
	0	0	2,214	0	0	164,673	166,887
	0	0	0	0	0	0	0
	0	0	0	34,000	0	-34,000	0
	0	0	0	0	116,543	-116,543	0
	0	0	0	62,395	-62,395	0	0
	0	0	0	0	0	0	-13,716
	0	0	0	0	0	-13,716	0
	0	0	0	0	-53,140	0	-53,140
	0	0	0	96,395	1,008	-164,259	-66,856
	14,990	30,000	3,881	943,393	62,396	116,957	1,332,246

STATEMENT OF CASH FLOWS

In EUR thousand	Notes	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		144,385	164,673
Adjustments for:		97,456	95,503
– amortisation/depreciation	12,13	72,050	71,466
– foreign exchange differences		11,821	2,904
– investment income		-9,519	-5,493
– investment expenses		9,751	1,741
– interest expenses and other financial expenses		3,706	1,682
– income tax	11	9,647	23,203
Operating profit before changes in net operating current assets		241,841	260,176
Change in trade receivables		-35,928	-30,814
Change in inventories		-10,113	-413
Change in trade payables		7,257	27,425
Change in provisions		-26,150	484
Change in deferred revenue		1,520	-438
Change in other current liabilities		3,305	5,786
Income taxes paid		-25,329	-10,252
Net cash from operating activities		156,403	251,954
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		3,237	3,457
Proceeds from sale of current investments		3	0
Dividends received		22	23
Proportionate profit of subsidiaries		5,993	2,519
Proceeds from sale of property, plant and equipment		509	699
Purchase of intangible assets	13	-10,927	-4,661
Purchase of property, plant and equipment	12	-139,764	-112,053
Acquisition of subsidiaries and a share of minority interest without obtained assets		-19,973	-30,952
Refund of subsequent payments in subsidiaries		185	2,267
Non-current loans		-10,015	-3,090
Proceeds from repayment of non-current loans		3,014	1,413
Acquisition of non-current investments		-79	-41
Proceeds from sale of non-current investments		101	59
Payments/proceeds in connection with current investments and loans		25,631	-6,162
Net cash from investing activities		-142,063	-146,522
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		-1,360	-2,069
Repayment of non-current borrowings		0	-25,500
Non-current borrowings		0	1,200
Acquisition of current borrowings		31,801	24,259
Dividends paid	21	-68,718	-52,995
Repurchase of treasury shares	21	-15,140	-13,716
Net cash used in financing activities		-53,417	-68,821
Net increase in cash and cash equivalents		-39,077	36,611
Cash and cash equivalents at the beginning of period		49,417	13,369
Effect of exchange rate fluctuations on cash held		-2,137	-563
Net cash and cash equivalents at end of period		8,203	49,417

The accounting policies and notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Krka, d. d., Novo mesto is the controlling company in the Krka Group with its registered seat at Šmarješka cesta 6, 8501 Novo mesto, Slovenia.

The Company is engaged in development, production, marketing and sale of human health products (prescription pharmaceuticals and non-prescription products) and animal health products.

1. Basis for the preparation of financial statements

Statement of compliance

The financial statements of Krka have been prepared in accordance with *International Financial Reporting Standards* (IFRS) promulgated by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (IFRIC), as adopted by the European Union, and in compliance with the *Companies Act (ZGD)*.

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 10 March 2015.

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 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 the euro, which is Krka's functional currency. All financial information presented in the euro has been rounded to the nearest thousand.

The use of estimates and judgements

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 the 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, the 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 the financial position that are associated with future operations and which could result in significant adjustment of the book values of assets and liabilities are presented below.

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

- Note 14 *Impairment testing of 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 is 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 found a need for impairment of investments in subsidiary Terme Krka as at 31 December 2014, therefore the Company impaired that investments.
- Note 24 *Post-employment benefits*
Defined benefit obligations include the present value of termination benefits on retirement and jubilee awards. They are recognised on the basis of the actuarial calculation approved by the Company's Management Board. 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. As a result of changes in the discount interest rate, these obligations significantly increased in 2014.

- Note 24 *Provisions for lawsuits and contingent liabilities*

Several lawsuits and claims have been brought against Krka 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 of the Company 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. Krka reversed EUR 38,930 thousand of provisions and set aside EUR 20,000 thousand of provisions for lawsuits in 2014.

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 previous year. An exception presents adoption of new standards and interpretations, which are noted below and which were 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 2013, except for the adoption of amended standards and interpretations effective from 1 January 2014, which are noted below.

- IAS 28 – *Investments in Associates and Joint Ventures (Revised)*;
- IAS 32 – *Financial Instruments: Presentation (Amended) – Offsetting Financial Assets and Financial Liabilities*;
- IFRS 10 – *Consolidated Financial Statements, IAS 27 Separate Financial Statements*;
- IFRS 11 – *Joint Arrangements*;
- IFRS 12 – *Disclosures of Interests in Other Entities*;
- IAS 39 – *Financial Instruments (Amended) – Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*;
- IAS 36 – *Impairment of Assets (Amended) – Recoverable Amount Disclosure for Non-Financial Assets*;
- IFRIC 21 – *Leases*.

The impact of new standards and interpretations on the Krka Company's financial statements is described below.

IAS 28 – *Investments in Associates and Joint Ventures (Revised)*

As a consequence of the new *IFRS 11 – Joint arrangements, IFRS 12 – Disclosure of Interests in Other Entities*, and *IAS 28 – Investments in Associates*, *IAS 28* has been revised and renamed *IAS 28 – Investments in Associates and Joint Ventures*. The revised standard has no impact on the Krka Company's financial position or performance.

IAS 32 – *Financial Instruments: Presentation (Amended) – Offsetting Financial Assets and Financial Liabilities*.

These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the *IAS 32* offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The revised standard has no impact on the Krka Company's financial position or performance.

IFRS 10 – *Consolidated Financial Statements*, and *IAS 27 – Separate Financial Statements*

IFRS 10 replaces the portion of *IAS 27 – Consolidated and Separate Financial Statements* that addresses consolidated financial statements. It also addresses the issues raised in *SIC-12 Consolidation – Special Purpose Entities*. *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 judgement to determine which entities are controlled and therefore are required to be consolidated by the parent, compared with the requirements that were in *IAS 27*. The revised standard has no significant impact on the Krka Company's financial position or performance.

IFRS 11 – *Joint Arrangements*

IFRS 11 replaces *IAS 31 – Interests in Joint Ventures* and *SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers*. *IFRS 11* removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The revised standard has no impact on the Krka Company's financial position or performance.

IFRS 12 – *Disclosure of Interests in 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 28* and *IAS 31*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The new disclosures required are presented by the Company in Note 14 to the financial statements of the Krka Company.

IAS 39 – Financial Instruments (Amended) – Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting

Under the amendment there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met. The IASB made a narrow-scope amendment to IAS 39 to permit the continuation of hedge accounting in certain circumstances in which the counterparty to a hedging instrument changes in order to achieve clearing for that instrument. The revised standard has no impact on the Krka Company's financial position or performance.

IAS 36 – Impairment of Assets (Amended) – Recoverable Amount Disclosure for Non-Financial Assets

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. The new disclosures required are presented by the Company in Note 14 to the financial statements of the Krka Company.

IFRIC 21 – Levies

The Interpretations Committee was asked to consider how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. This Interpretation is an interpretation of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The revised standard has no impact on the Krka Company's financial position or performance.

Foreign currencies

FOREIGN CURRENCY TRANSACTIONS

Transactions and balances in foreign currencies are translated to the 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 when the fair value was determined. Foreign currency differences are recognised in the profit or loss, except for differences arising on the translation of available-for-sale equity instruments, which are recognised directly in the 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 in hand 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 the 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 the 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 a subsidiary is recognised in the profit or loss 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 a 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 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 General 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 an item 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 in line with the adopted strategy. 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 the 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 EXPENSES

Depreciation is recognised in the 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**RESEARCH AND DEVELOPMENT**

All costs referring to the research and development work within the Company are recognised in the 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 the profit or loss as incurred.

AMORTISATION EXPENSES

Amortisation is recognised in the 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, semi-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 the profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in other comprehensive income is transferred to the 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 the profit or loss.

For available-for-sale financial assets that are equity securities, the reversal is recognised directly in the 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 of the asset's carrying amount.

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 POST-EMPLOYMENT BENEFITS AND OTHER NON-CURRENT EMPLOYEE BENEFITS

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 performed by using the projected unit credit method. Employee benefit costs, as well as cost of interest are recognised in the profit or loss, whereas restatement of post-employment benefits or unrealised actuarial profit or loss is recognised in the other comprehensive income.

Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the estimated future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

PROVISIONS FOR LAWSUITS

The Company discloses provisions for lawsuits referring to alleged patent infringements. The eligibility of provisions formed in terms of the lawsuit's favourable or unfavourable outcome is assessed on an annual basis. The amounts of provisions are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated potential amount, if the indemnification claim is not yet disclosed.

Revenues from sale of goods and services rendered

Revenues from sale of goods are recognised in the profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. Revenues from services rendered are recognised in the 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, 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

Deferred revenue referring to government grants are initially recognised when there is reasonable assurance that they will be received and that the Company will comply with the conditions associated with the grants. Deferred revenue that compensate the Company for expenses incurred are recognised 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 the 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 the profit or loss. Interest income is recognised as it accrues in the profit or loss, using the effective interest method. Dividend income is recognised in the profit or loss on the date when the shareholder's right to receive payment is established, which in 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 the profit or loss. All borrowing costs are recognised in the profit or loss using the effective interest method, except those that are attributable to property, plant and equipment under construction.

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the 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 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 Krka'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 East Europe (the Russian Federation and other former Soviet Union countries excluding the Baltic countries).

Segment capital expenditure comprises the total cost incurred during the period of acquisition of property, plant and equipment, and intangible assets.

Amendments to standards and interpretations

STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following new and amended standards have not come into effect by the financial statements' date and will be applied in future periods. The Krka Company will apply the new and revised standards and interpretations when they are adopted.

IAS 16 – Property, Plant & Equipment and IAS 38 – Intangible assets (Amendment) Clarification of Acceptable Methods of Depreciation and Amortisation

The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment clarifies the principle in *IAS 16 – Property, Plant and Equipment* and *IAS 38 – Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (which the asset is part of) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendment has not yet been endorsed by the European Union. The revised standard has no impact on the Krka Company's financial position or performance.

IAS 16 – Property, Plant & Equipment and IAS 41– Agriculture (Amendment): Bearer plants

The amendment is effective for annual periods beginning on or after 1 January 2016. Bearer plants will now be within the scope of *IAS 16 – Property, Plant and Equipment* and will be subject to all of the requirements therein. This includes the ability to choose between the cost model and revaluation model for subsequent measurement. Agricultural produce growing on bearer plants (e.g., fruit growing on a tree) will remain within the scope of *IAS 41 – Agriculture*. Government grants relating to bearer plants will now be accounted for in accordance with *IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance*, instead of in accordance with *IAS 41*. The amendment has not yet been endorsed by the European Union. The revised standard has no impact on the Krka Company's financial position or performance.

IAS 19 – Employee Benefits (Amended): Employee Contributions

The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The revised standard has no impact on the Krka Company's financial position or performance.

IFRS 9 – Financial Instruments: Classification and Measurement

The standard is applied for annual periods beginning on or after 1 January 2018 with early adoption permitted. The final phase of *IFRS 9* reflects all phases of the financial instruments project and replaces *IAS 39 – Financial Instruments: Recognition and Measurement* and all previous versions of *IFRS 9*. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The standard has not yet been endorsed by the European Union. The management of the controlling company has assessed that while the standard will have an impact

on classification and measurement of financial assets and liabilities, it will have no material effect on the Krka Company's financial position or performance.

IFRS 11 – Joint Arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations

The amendment is effective for annual periods beginning on or after 1 January 2016. *IFRS 11* addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The amendment has not yet been endorsed by the European Union. The revised standard has no impact on the Krka Company's financial position or performance.

IFRS 14 – Regulatory Deferral Accounts

The standard is applied for annual periods beginning on or after 1 January 2016. The aim of this interim standard is to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities, whereby governments regulate the supply and pricing of particular types of activity. This can include utilities such as gas, electricity and water. Rate regulation can have a significant impact on the timing and amount of an entity's revenue. The IASB has a project to consider the broad issues of rate regulation and plans to publish a Discussion Paper on this subject in due course. Pending the outcome of this comprehensive Rate-regulated Activities project, the IASB decided to develop *IFRS 14* as an interim measure. *IFRS 14* permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. The standard has not yet been endorsed by the European Union. The revised standard is not applicable to Krka.

IFRS 15 – Revenue from Contracts with Customers

The standard is applied for annual periods beginning on or after 1 January 2017. *IFRS 15* establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g. sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgements and estimates. The standard has not yet been endorsed by the European Union. The management of the Krka Company has assessed that the standard will have no material impact on the Krka Company's financial position or performance.

IFRS 27 – Separate Financial Statements (Amended)

The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors. The standard has not yet been endorsed by the European Union. The management of the Krka Company has assessed that it will not change the method used to account for investments in subsidiaries in the separate financial statements.

IFRS 10 – Consolidated Financial Statements, and IAS 28 – Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendment is effective for annual periods beginning on or after 1 January 2016. The amendments address an acknowledged inconsistency between the requirements in *IFRS 10* and those in *IAS 28*, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments have not yet been endorsed by the European Union. The revised standards have no impact on the Krka Company's financial position or performance.

ANNUAL IMPROVEMENTS TO STANDARDS AND INTERPRETATIONS; 2010–2012 CYCLE

The IASB has issued the *Annual Improvements to IFRSs 2010–2012 Cycle*, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015. The management of the Krka Company has assessed that the standard will have no material impact on the Krka Company's financial position or performance.

- **IFRS 2 – Share-based Payment:** This improvement amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').
- **IFRS 3 – Business combinations:** This improvement clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of *IFRS 9 – Financial Instruments*.
- **IFRS 8 – Operating Segments:** This improvement requires an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.

- **IFRS 13 – Fair Value Measurement:** This improvement in the Basis of Conclusion of *IFRS 13* clarifies that issuing *IFRS 13* and amending *IFRS 9* and *IAS 39* did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.
- **IAS 16 – Property, plant and equipment:** The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.
- **IAS 24 – Related Party Disclosures:** The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.
- **IAS 38 – Intangible Assets:** The amendment clarifies that when an intangible asset is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

ANNUAL IMPROVEMENTS TO STANDARDS AND INTERPRETATIONS; 2011–2013 CYCLE

The IASB has issued the *Annual Improvements to IFRSs 2011–2013 Cycle*, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2015. The management of the Krka Company has assessed that the standard will have no material impact on the Krka Company's financial position or performance.

- **IFRS 1 – First-time Adoption of International Financial Reporting Standards:** This improvement clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements.
- **IFRS 3 – Business combinations:** This improvement clarifies that *IFRS 3* excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- **IFRS 13 – Fair Value Measurement:** This improvement clarifies that the scope of the portfolio exception defined in paragraph 52 of *IFRS 13* includes all contracts accounted for within the scope of *IAS 39 – Financial Instruments: Recognition and Measurement* or *IFRS 9 – Financial Instruments*, regardless of whether they meet the definition of financial assets or financial liabilities as defined in *IAS 32 – Financial Instruments: Presentation*.
- **IAS 40 – Investment Properties:** This improvement clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in *IFRS 3 – Business Combinations and investment property* as defined in *IAS 40 – Investment Property* requires the separate application of both standards independently of each other.

ANNUAL IMPROVEMENTS TO STANDARDS AND INTERPRETATIONS; 2012–2014 CYCLE

The IASB has issued the *Annual Improvements to IFRSs 2012–2014 Cycle*, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. These amendments have not yet been endorsed by the European Union. The management of the Krka Company has assessed that the standard will have no material impact on the Krka Company's financial position or performance.

- **IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations:** The amendment clarifies that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in *IFRS 5*. The amendment also clarifies that changing the disposal method does not change the date of classification.
- **IFRS 7 – Financial Instruments: Disclosures:** The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. Also, the amendment clarifies that the *IFRS 7* disclosures relating to the offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.
- **IAS 19 – Employee Benefits:** The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- **IAS 34 – Interim financial reporting:** The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g. in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.

IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception (Amendments)

The amendment is effective for annual periods beginning on or after 1 January 2016. The amendments address three issues arising in practice in the application of the investment entities consolidation exception. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is

consolidated. All other subsidiaries of an investment entity are measured at fair value. Finally, the amendments to *IAS 28 Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments have not yet been endorsed by the European Union. The revised standard has no impact on the Krka Company's financial position or performance.

IAS 1 – Disclosure Initiative (Amendment)

The amendments to *IAS 1 Presentation of Financial Statements* further encourage companies to apply professional judgement in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The narrow-focus amendments to *IAS* clarify, rather than significantly change, existing *IAS 1* requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. These amendments have not yet been endorsed by the European Union. The amendment affects presentation only and there is no impact on the Krka Company's financial position or 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

In EUR thousand	European Union		South-East Europe		East Europe		Other		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Revenues	673,432	642,138	52,233	45,922	379,308	388,884	29,196	39,395	1,134,169	1,116,339
Revenues from reversal of provisions and other income	63,715	2,667	64	26	826	314	0	0	64,605	3,007
Operating expenses	-564,353	-508,171	-39,641	-35,623	-317,169	-337,984	-20,444	-26,041	-941,607	-907,819
Operating profit	172,794	136,634	12,656	10,325	62,965	51,214	8,752	13,354	257,167	211,527
Interest income	2,009	2,491	0	0	1,058	1,009	0	0	3,067	3,500
Interest expense	-1,217	-1,511	0	0	0	0	0	0	-1,217	-1,511
Net financial result	-4,817	-280	-65	30	-97,975	-23,515	-278	114	-103,135	-23,651
Income tax payable	-6,482	-14,988	-475	-1,132	-2,362	-5,618	-328	-1,465	-9,647	-23,203
Net profit	161,495	121,366	12,116	9,223	-37,372	22,081	8,146	12,003	144,385	164,673
Investments	137,473	116,714		0		0		0	137,473	116,714
Depreciation of property, plant and equipment	48,938	47,836	1,489	1,336	15,306	15,720	266	364	65,999	65,256
Amortisation of intangible assets	3,592	3,572	279	256	2,023	2,163	156	219	6,050	6,210
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
Total assets	1,306,443	1,242,625	40,679	35,407	413,517	412,873	7,848	10,330	1,768,487	1,701,235
Total liabilities	278,238	270,622	9,377	7,368	73,876	75,086	25,683	15,913	387,174	368,989

5. Revenues

In EUR thousand	2014	2013
Revenues from the sale of products	1,009,354	991,164
Revenues from the sale of services	3,758	3,494
Revenues from the sale of material and merchandise	121,057	121,681
Total revenues	1,134,169	1,116,339

6. Other operating income

In EUR thousand	2014	2013
Reversal of non-current provisions	38,930	0
Deferred revenue reversal	1,336	749
Gain on sale of property, plant and equipment and intangible assets	342	178
Collected written-off receivables	1,036	177
Other income	22,961	1,903
Total other operating income	64,605	3,007

Detailed information of non-current provisions reversal is included in Note 24.

The "Other income" includes EUR 20,753 thousand of damages received and reimbursement of court fees from

a lawsuit between Krka and AstraZeneca for unjustified temporary prohibition of sale of Krka's pharmaceutical Esomeprazole in Great Britain over a period from mid-2010 to the summer of 2011.

7. Costs by nature

In EUR thousand	2014	2013
Cost of goods and material	308,976	316,298
Cost of services	313,442	314,827
Employee benefit costs	202,869	185,705
Amortisation and depreciation expenses	72,050	71,466
Inventory write-offs and allowances	4,843	10,936
Receivables impairment and write-offs	1,110	2,566
Formation of provisions for lawsuits	20,000	0
Other operating expenses	22,078	19,480
Total costs	945,368	921,278
Change in the value of inventories	-3,761	-13,459
Total	941,607	907,819

More information on formation of provisions for law suits is included in Note 24.

8. Employee benefit costs

In EUR thousand	2014	2013
Gross wages and salaries and continued pay	157,199	144,787
Social security contributions	11,647	10,774
Pension insurance contributions	20,221	18,483
Post-employment benefits and other non-current employee benefits	5,258	3,304
Other costs of labour	8,544	8,357
Total employee benefit costs	202,869	185,705

Post-employment benefits and other non-current employee benefits are explained in detail in Note 24. Other employee benefit costs primarily includes the vacation bonuses and commuting allowances.

Compulsory pension and disability insurance (comprising both the employee's and the employer's contribution) payable in 2014 amounted to EUR 37,614 thousand (2013: EUR 35,039 thousand). Additional pension insurance amounted to EUR 6,138 thousand (2013: EUR 5,251 thousand).

9. Other operating expenses

In EUR thousand	2014	2013
Grants and assistance for humanitarian and other purposes	1,666	1,302
Environmental levies	1,927	2,086
Other taxes and levies	13,175	12,833
Loss on sale of property, plant and equipment and intangible assets	755	1,572
Other expenses	4,555	1,687
Total other operating expenses	22,078	19,480

10. Financial income and expenses

In EUR thousand	2014	2013
Interest income	3,067	3,500
Change in fair value of investments through profit or loss	93	113
Derivatives income	3	0
– income	3	0
Income from dividends and other shares of the profit	6,015	1,703
– dividends	22	24
– profits of Group companies	5,993	1,679
Total financial income	9,178	5,316
Net foreign exchange differences	-99,611	-27,284
Interest expenses	-1,217	-1,511
Change in fair value of investments through profit or loss	-8,996	0
Other expenses	-2,489	-172
Total financial expenses	-112,313	-28,967
Net financial result	-103,135	-23,651

11. Income tax payable

Adjustment to effective tax rate

In EUR thousand	2014	2013
Income tax	2,996	22,179
Deferred tax	6,652	1,024
Total income tax	9,648	23,203
Profit before tax	154,032	187,876
Income tax at the rate of 17-percent	26,185	31,939
Tax exempt expenses	1,999	1,853
Tax incentives	-17,513	-11,093
Revenues decreasing the tax base	-1,024	-440
Effect of tax rate changes on deferred tax	0	944
Total income tax	9,647	23,203
Effective tax rate	6.3%	12.4%

Investments in R&D and investment relief represent a major share of tax incentives.

In the next three years the tax rate is expected to remain at 17%.

12. Property, plant and equipment

In EUR thousand	31 Dec 2014	31 Dec 2013
Land	22,285	19,348
Buildings	286,874	206,786
Equipment	301,751	222,865
Property, plant and equipment being acquired	12,712	114,979
Total property, plant and equipment	623,622	563,978

Krka's largest investments in 2014, in the amount of EUR 77,334 thousand refers to construction of the Notol 2 plant (2013: EUR 45,457 thousand). Investments in construction of the Sinteza 1 Plant in Krško for the production of pharmaceuticals reached EUR 14,200 thousand in 2014 (2013: EUR 31,962 thousand); investment in construction of the facility for the preparation of water amounted to EUR 11,270 thousand (2013:

EUR 685 thousand); EUR 5,677 thousand was invested in the construction of an extension to the administrative headquarters (2013: EUR 1,158 thousand); and further EUR 2,572 thousand was spent on the sterile products production expansion (2013: EUR 905 thousand). A total of EUR 4,140 thousand was spent on various projects in the area of information technology and telecommunications (2013: EUR 5,130 thousand).

Movement of property, plant and equipment (PPE)

In EUR thousand	Land	Buildings	Equipment	PPE being acquired	Total
Cost					
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 under construction	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
Balance at 1 Jan 2014	19,348	422,527	640,294	114,979	1,197,148
Additions	0	0	0	126,546	126,546
Capitalisation – transfer from PPE under construction	2,940	98,409	127,464	-228,813	0
Disposals, deficit, surplus	-3	-558	-5,994	0	-6,555
Transfers within PPE	0	-207	230	0	23
Balance at 31 Dec 2014	22,285	520,171	761,994	12,712	1,317,162
Accumulated depreciation					
Balance at 1 Jan 2013	0	-199,388	-383,409	0	-582,797
Depreciation expenses	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
Balance at 1 Jan 2014	0	-215,741	-417,429	0	-633,170
Depreciation expenses	0	-17,681	-48,318	0	-65,999
Disposals, deficit, surplus	0	45	5,602	0	5,647
Transfers within PPE	0	80	-98	0	-18
Balance at 31 Dec 2014	0	-233,297	-460,243	0	-693,540
Carrying amount					
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
Balance at 1 Jan 2014	19,348	206,786	222,865	114,979	563,978
Balance at 31 Dec 2014	22,285	286,874	301,751	12,712	623,622

No borrowing costs were attributed to the items of property, plant and equipment in 2014.

The carrying amount of items of property, plant and equipment, which are temporarily not used, amounted to EUR 1,150 thousand at 31 December 2014 (2013: EUR 2,911 thousand).

24% of total property, plant and equipment, which were used as at 31 December 2014, were fully depreciated (24% as at 31 December 2013). The share of fully depreciated property, plant and equipment is calculated in consideration of their cost. Land is excluded from the calculation.

13. Intangible assets

In EUR thousand	31 Dec 2014	31 Dec 2013
Concessions, patents, licences and similar rights	27,660	23,334
Intangible assets being acquired	5,460	4,969
Total intangible assets	33,120	28,303

Intangible assets refer to software and registration documentation for new pharmaceuticals.

Movement of intangible assets (IA)

In EUR thousand	Concessions, patents, licences and similar rights	IA being acquired	Total
Cost			
Balance at 1 Jan 2013	71,181	4,237	75,418
Additions	0	4,661	4,661
Transfer from intangibles under construction	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
Balance at 1 Jan 2014	74,334	4,969	79,303
Additions	0	10,927	10,927
Transfer from intangibles under construction	10,436	-10,436	0
Disposals	-682	0	-682
Transfers, reclassification	-23	0	-23
Balance at 31 Dec 2014	84,065	5,460	89,525
Accumulated amortisation			
Balance at 1 Jan 2013	-45,510	0	-45,510
Amortisation expenses	-6,210	0	-6,210
Disposals	681	0	681
Transfers, reclassification	39	0	39
Balance at 31 Dec 2013	-51,000	0	-51,000
Balance at 1 Jan 2014	-51,000	0	-51,000
Amortisation expenses	-6,050	0	-6,050
Disposals	627	0	627
Transfer within assets under construction	18	0	18
Balance at 31 Dec 2014	-56,405	0	-56,405
Carrying amount			
Balance at 1 Jan 2013	25,671	4,237	29,908
Balance at 31 Dec 2013	23,334	4,969	28,303
Balance at 1 Jan 2014	23,334	4,969	28,303
Balance at 31 Dec 2014	27,660	5,460	33,120

32% of total intangible assets in use as at 31 December 2014 were fully amortised (32% as at 31 December 2013).

The share of fully amortised intangible assets is calculated in consideration of their cost.

14. Investments in subsidiaries

Movement of investments in subsidiaries

In EUR thousand	Investments in subsidiaries
Cost	
Balance 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
Balance at 1 Jan 2014	288,323
Establishment of new companies	3
Subsequent payments	457
Share capital increase	19,512
Refund of subsequent payments	-185
Balance at 31 Dec 2014	308,110
Accumulated depreciation	
Balance at 1 Jan 2013	0
Balance at 31 Dec 2013	0
Balance at 1 Jan 2014	0
Investment impairment	-8,991
Balance at 31 Dec 2014	-8,991
Net value	
Balance at 1 Jan 2013	259,455
Balance at 31 Dec 2013	288,323
Balance at 1 Jan 2014	288,323
Balance at 31 Dec 2014	299,119

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 is determined with application of methods that are most appropriate in terms of an individual investment. The Company's investment in subsidiary Terme Krka amounted to EUR 45,407 thousand as at 31 December 2013. As the investment's value is in excess of the amount of equity of the subsidiary, the Company checked whether there were any indicators of the investment's impairment. The calculation was made using the discounted cash flow method and going concern assumption as the subsidiary Terme Krka is expected to continue its operations for a foreseeable future. The 2.0% growth rate over the long-term was assumed in the calculation, and the Terme Krka's net cash flows were discounted using an 8.55% discount rate. No deduction for

lack of marketability was made since the subsidiary is not subject to the transaction. Market approach (comparable company valuation multiples) was applied in the assessment process. The estimated value of equity under the method ranges between the value of share capital assessed by application of discounted cash flow method. In consideration of the valuation results using both methods, Krka recognised an impairment of the investment in Terme Krka in the amount of EUR 8,991 thousand.

Krka also holds an investment in the subsidiary KRKA-RUS LLC in the Russian Federation. In view of markedly unfavourable fluctuation of the Russian rouble exchange rate towards the end of 2014, Krka carried out an impairment test of the investment and found that there was no need for its impairment.

Investments in subsidiaries

In EUR thousand	Share in equity	Share capital	Value of share in subsidiaries	
	31 Dec 2014	31 Dec 2014	31 Dec 2014	31 Dec 2013
KRKA-RUS LLC, Istra, Russian Federation	100%	45,777	98,175	93,416
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650	97,000	97,000
TERME KRKA, d. o. o., Novo mesto, Slovenia	100%	14,753	36,416	45,407
KRKA-FARMA d. o. o., Zagreb, Croatia	100%	18,611	19,738	19,738
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	100%	4,093	18,697	18,697
KRKA FARMA LLC, Sergiev Posad, Russian Federation	100%	10,422	15,170	492
Krka France Eurl, Paris, France	100%	10	2,806	2,599
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	1,260	1,010
Farma GRS, d. o. o., Novo mesto, Slovenia	99.7%	1,003	1,000	1,000
KRKA-FARMA DOOEL, Skopje, Macedonia	100%	795	802	802
KRKA Magyarország Kft, Budapest, Hungary	100%	142	548	733
KRKA Belgium, SA, Brussels, Belgium	95%	146	146	71
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10	110	110
KRKA Sverige AB, Stockholm, Sweden	100%	16	16	16
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	100%	11	11	11
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	8	10	10
KRKA Bulgaria EOOD, Sofia, Bulgaria	100%	10	10	10
KRKA FARMA, d. o. o., Sarajevo, Bosnia and Herzegovina	100%	10	10	10
UAB KRKA Lietuva, Vilnius, Lithuania	100%	10	10	10
SIA KRKA Latvia, Riga, Latvia	100%	10	10	10
KRKA UKRAINE LLC, Kiev, Ukraine	100%	5	9	9
KRKA USA, LLC, Wilmington, USA	100%	8	8	8
KRKA ČR, s. r. o., Prague, Czech Republic	100%	4	4	4
KRKA Finland Oy, Espoo, Finland	100%	3	3	0
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1	1	1
KRKA UK Ltd, London, Great Britain*	/	/	/	/
Total			299,119	288,323

* The share capital had not been paid by 31 December 2014.

A subsidiary KRKA Finland Oy, in which Krka holds a 100-percent interest, was established in Espoo, Finland in 2014. In addition, a subsidiary KRKA UK Ltd was established in London. However, as at 31 December 2014, the subsidiary's share capital had not been paid.

The subsidiary Terme Krka held a 63.1% interest in Golf Grad Otočec, d. o. o. at 31 December 2014; Farma GRS held a 100% interest in its subsidiaries GRS TEHFARMA, d. o. o., GRS VIZFARMA, d. o. o., GRS PREK FARMA, d. o. o., GRS EKO FARMA, d. o. o., GRS TREN FARMA d. o. o and GRS VRED FARMA d. o. o.; and subsidiary Krka France Eurl held a 5% interest in subsidiary KRKA Belgium, SA.

15. Loans

In EUR thousand	31 Dec 2014	31 Dec 2013
Non-current loans	27,588	31,009
– loans to subsidiaries	20,965	25,533
– loans to others	6,623	5,476
Current loans	47,752	72,492
– portion of non-current loans maturing next year	3,039	2,290
– loans to subsidiaries	44,306	50,744
– loans to others	129	19,011
– current interest receivable	278	447
Total loans	75,340	103,501

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

of the Republic of Slovenia in accordance with the *Corporate Income Tax Act* that defines the interest rate for related parties. The actual interest rate fluctuated between 1.138% and 1.422% in 2014. The maximum repayment period is 15 years.

Loans granted to subsidiaries including related current interest receivable

In EUR thousand	31 Dec 2014	31 Dec 2013
Non-current loans to subsidiaries	23,311	25,767
KRKA-RUS LLC, Istra, Russian Federation	12,576	20,071
KRKA FARMA LLC, Sergiev Posad, Russian Federation	4,853	0
KRKA UKRAINE LLC, Kiev, Ukraine	1,509	1,509
KRKA FARMACEUTICI MILANO, S.R.L., Milan, Italy	1,081	877
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	1,013	1,013
KRKA ROMANIA S.R.L., Bucharest, Romania	683	1,488
KRKA Belgium, SA, Brussels, Belgium	589	0
KRKA Bulgaria EOOD, Sofia, Bulgaria	500	500
SIA KRKA Latvia, Riga, Latvia	300	300
KRKA Finland Oy, Espoo, Finland	207	0
UAB KRKA Lietuva, Vilnius, Lithuania	0	9
Current loans to subsidiaries	44,418	52,237
TERME KRKA, d. o. o., Novo mesto, Slovenia	38,905	39,285
Farma GRS, d. o. o., Novo mesto, Slovenia	5,509	11,621
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	4	0
UAB KRKA Lietuva, Vilnius, Lithuania	0	820
KRKA ROMANIA S.R.L., Bucharest, Romania	0	480
KRKA Bulgaria EOOD, Sofia, Bulgaria	0	31
Total loans to subsidiaries	67,729	78,004

The maximum repayment period on non-current loans to subsidiaries is 9 years.

16. Investments

In EUR thousand	31 Dec 2014	31 Dec 2013
Non-current investments	7,386	5,022
– available-for-sale financial assets	7,386	5,022
Current investments including derivatives	575	792
– shares and interests held for trading	157	131
– other current investments	418	661
Total investments	7,961	5,814

Available-for-sale financial assets amounting to EUR 713 thousand refer to investments in shares and interests in companies in Slovenia (2013 year-end: EUR 640 thousand), and EUR 6,673 thousand to investments in shares of companies abroad (2013 year-end: EUR 4,382 thousand).

Other current investments refer to Slovenian mutual funds in the amount of EUR 418 thousand (2013 year-end: EUR 351 thousand). Krka held no assets under management as at 31 December 2014, while at the end of 2013 assets under management amounted to EUR 310 thousand.

Movement in available-for-sale financial assets

In EUR thousand	Available-for-sale financial assets
Balance at 1 Jan 2013	4,891
Adjustment to market value	131
Balance at 31 Dec 2013	5,022
Balance at 1 Jan 2014	5,022
Adjustment to market value	2,364
Balance at 31 Dec 2014	7,386

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 2,368 thousand in 2014 (2013: EUR 131 thousand),

whereas EUR 4 thousand of adjustments is recognised in the profit or loss. No adjustment was recognised in the profit or loss in 2013.

17. Deferred tax assets and liabilities

In EUR thousand	Receivables		Liabilities	
	2014	2013	2014	2013
Available-for-sale financial assets	1,546	17	771	368
Receivables	1,779	1,863	0	0
Provisions for lawsuits	0	8,330	0	0
Provisions for post-employment benefits and other non-current employee benefits	8,279	5,325	0	0
Total	11,604	15,535	771	368
Offsetting	-771	-368	-771	-368
Net	10,833	15,167	0	0

In EUR thousand	Balance at 1 Jan 2013	Recognised in profit or loss	Recognised in comprehensive income	Balance at 31 Dec 2013	Recognised in profit or loss	Recognised in comprehensive income	Balance at 31 Dec 2014
Available-for-sale financial assets	-180	-169	-2	-351	1,528	-402	775
Receivables	1,679	184	0	1,863	-84	0	1,779
Provisions for lawsuits	8,820	-490	0	8,330	-8,330	0	0
Provisions for post-employment benefits and other non-current employee benefits	6,301	-549	-427	5,325	235	2,719	8,279
Total	16,620	-1,024	-429	15,167	-6,651	2,317	10,833

18. Inventories

In EUR thousand	31 Dec 2014	31 Dec 2013
Materials	93,578	85,272
Work in progress	54,794	55,192
Products	46,022	45,450
Merchandise	6,652	5,021
Inventory advances	35	33
Total inventories	201,081	190,968

The write-down and write-off of inventories to net realisable value amounted to EUR 4,843 thousand (2013: EUR 10,936 thousand).

19. Trade and other receivables

In EUR thousand	31 Dec 2014	31 Dec 2013
Current trade receivables	460,652	426,195
– current receivables due from subsidiaries	231,295	225,363
– current trade receivables due from customers other than Group companies	229,357	200,832
Other current receivables	34,333	15,424
Total receivables	494,985	441,619

Current receivables due from subsidiaries

In EUR thousand	31 Dec 2014	31 Dec 2013
KRKA FARMA LLC, Sergiev Posad, Russian Federation	60,643	67,902
KRKA-RUS LLC, Istra, Russian Federation	57,239	80,064
TAD Pharma GmbH, Cuxhaven, Germany	37,001	8,436
KRKA-FARMA d. o. o., Zagreb, Croatia	21,075	24,330
KRKA-FARMA DOOEL, Skopje, Macedonia	10,031	7,832
KRKA FARMACÉUTICA, S.L., Madrid, Spain	8,974	5,015
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	8,546	6,665
KRKA Sverige AB, Stockholm, Sweden	7,746	7,761
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	7,443	6,606
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	4,071	3,321
Krka France Eurl, Paris, France	2,267	2,381
KRKA Pharma GmbH, Vienna, Austria	1,759	1,484
KRKA FARMACEUTICI MILANO, S.R.L., Milan, Italy	1,634	1,437
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	1,131	294
Receivables due from other Group companies	1,735	1,835
Total current receivables due from subsidiaries	231,295	225,363

Current trade receivables due from customers other than Group companies

In EUR thousand	Gross value	Allowances for doubtful and disputed receivables	Net value at 31 Dec 2014	Net value at 31 Dec 2013
Current trade receivables due from customers other than domestic Group companies	7,896	55	7,841	9,212
Foreign customers (other than Group companies)	237,041	15,525	221,516	191,620
Total trade receivables	244,937	15,580	229,357	200,832

The receivable write-offs and allowances for receivables that are disclosed among financial expenses amounted to EUR 1,110 thousand in 2014 (2013: EUR 2,566 thousand).

47% of trade receivables due from customers other than Group companies were secured with the SID – Prva kreditna zavarovalnica, d. d.

Other current receivables

The majority of other current receivables in total of EUR 34,333 thousand represent receivables due from the state on account of corporate income tax in the amount of EUR 17,510 thousand (none due as at 31 December 2013) and VAT in the amount of EUR 11,434 thousand (EUR 12,137 thousand as at 31 December 2013).

The Company recorded EUR 151 thousand of advances for services (EUR 334 thousand as at 31 December 2013).

20. Cash and cash equivalents

In EUR thousand	31 Dec 2014	31 Dec 2013
Cash in hand and cheques	5	4
Bank balances	8,198	49,413
Total cash and cash equivalents	8,203	49,417

Krka concluded contracts with four different banks on the authorised overdraft limit on bank accounts in the total amount of EUR 2,500 thousand (2013: contracts with three banks in total of EUR 2,000 thousand). No negative balances were

recorded on these bank accounts as at 31 December 2014, hence no overdraft facilities were used.

21. Equity

Share capital

Krka has reduced its share capital by withdrawal of 2,632,672 treasury shares, accounting for 7.431% of all shares issued, in accordance with the resolution adopted at the 19th Annual General Meeting on 3 July 2014. After the withdrawal of treasury shares, the share capital of Krka in the amount of EUR 54,732 thousand is represented by 32,793,448 ordinary 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.

At the 19th Annual General Meeting held on 3 July 2014, 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, could not exceed 10% of share capital or 3,279,344 of shares.

Based on this authorisation, the Company is allowed to 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 25-fold the earnings per share held by the majority stakeholders as stated in the last published audited financial statements of the Krka Group, which is an approximation of the highest closing price of KRKG shares on the regulated market.

Treasury shares

As at 31 December 2014, the controlling company recorded 173,279 treasury shares, which accounts for 0.53% of the share capital value.

Treasury shares acquired on the basis of this authorisation 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.

Repurchase of treasury shares in 2014

	Number of shares	Weighted average share price (in EUR)	Value of shares (in EUR thousand)
Balance at 31 Dec 2013	2,561,005		69,372
Total purchases in 2014	244,946	61.81	15,140
Withdrawal of treasury shares	-2,632,672		-73,835
Balance at 31 Dec 2014	173,279		10,677

The subscription fee is included in the weighted average price of shares.

The 2014 repurchase of treasury shares in terms of days is illustrated in Enclosure 1 to the Financial Statements of the Krka Group and Krka, d. d., Novo mesto.

Reserves

The Company's reserves comprise reserves for treasury shares, the share premium, legal and statutory reserves and fair value reserve.

Reserves for treasury shares amounted to EUR 10,677 thousand as at the reporting date and increased by EUR 15,140 thousand based on their formation as a result of additional repurchase of treasury shares; and were reduced by EUR 73,835 thousand due to the withdrawal 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 105,897 thousand as at 31 December 2014 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, and EUR 4,394 thousand of share premium resulting from reduction in the share capital due to the withdrawal of treasury shares. The amount may be used solely for the purpose of increasing share capital.

Legal reserves may form up to 30% of the share capital. They amounted to EUR 14,990 thousand as at 31 December 2014 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 Krka 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 decreased by EUR 11,312 thousand and amounted to EUR -7,431 thousand as at 31 December 2014. The total change results from a decrease in the fair value of available-for-sale financial assets (by EUR 2,368 thousand), a reduction of EUR 402 thousand referring to the related deferred tax effect, a reduction on account of restatement of post-employment benefits by EUR 15,997 thousand; and an increase of EUR 2,719 thousand referring to the related deferred tax effect due to the restatement of post-employment benefits.

Retained earnings

Retained earnings grew based on the profit in the amount of EUR 144,385 thousand. The decrease, on the other hand, is a result of allocation of accumulated profit to dividend pay-out (EUR 68,866 thousand) in accordance with the resolution adopted by the 19th Annual General Meeting held on 3 July 2014; and of an additional formation of reserves for treasury shares by the controlling company in 2014 (EUR 15,140 thousand).

The amount of the dividend pay-out, shown in the statement of cash flows, differs from the figure, confirmed by the Annual General 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 pay-out in the amount of 148 thousand (2013: EUR 145 thousand).

Dividends per share

In 2014, the declared gross dividend per share was EUR 2.10 (2013: EUR 1.61).

Identification of distributable profit

In EUR thousand	2014	2013
Compulsory appropriation of profit		
Profit for the year	144,385	164,673
– to cover the loss from previous periods	0	0
– allocation to legal reserves	0	0
– allocation to reserves for treasury shares	-15,140	-13,716
– allocation to statutory reserves	0	0
Profit after compulsory appropriation	129,245	150,957
– formation of other profit reserves under the resolution of the Management and Supervisory Boards	-3,000	-34,000
Surplus of profit	126,245	116,957
Identification of distributable profit		
– surplus of profit	126,245	116,957
– retained earnings from previous periods	55,243	62,395
Distributable profit	181,488	179,352

22. Earnings per share

Basic earnings per share amounted to EUR 4.41 in 2014 and decreased by 11.7% over the previous year, when it amounted to EUR 4.99. The calculation of earnings per share took account of the profit for the period in the amount of EUR 144,385 thousand (2013: EUR 164,673 thousand). The weighted average number of shares was accounted for in the calculation for both years, i.e. 32,768,062 shares for 2014 and

33,002,621 shares for 2013. Treasury shares were eliminated from the calculation.

All shares issued by Krka are ordinary shares, hence the diluted earnings per share ratio equalled the basic earnings per share.

23. Borrowings

In EUR thousand	31 Dec 2014	31 Dec 2013
Non-current borrowings	2,000	2,000
– borrowings from subsidiaries	2,000	2,000
Current borrowings	102,020	70,190
– borrowings from subsidiaries	63,898	70,097
– borrowings from domestic banks	38,000	0
– current interest payable	122	93
Total borrowings	104,020	72,190

Borrowings from subsidiaries, including current interest payable

In EUR thousand	31 Dec 2014	31 Dec 2013
Non-current borrowings from subsidiaries	2,000	2,000
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	2,000	2,000
Current borrowings from subsidiaries	64,001	70,190
TAD Pharma GmbH, Cuxhaven, Germany	61,587	70,093
KRKA FARMACÉUTICA, S.L., Madrid, Spain	1,855	0
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	334	50
TERME KRKA, d. o. o., Novo mesto, Slovenia	169	47
Farma GRS, d. o. o., Novo mesto, Slovenia	56	0
Total borrowings from subsidiaries	66,001	72,190

Current borrowings are denominated in the euro and were extended for the period of one year. These borrowings were not secured.

24. Provisions

In EUR thousand	Balance at 31 Dec 2013	Formation	Utilisation	Reversal	Balance at 31 Dec 2014
Provisions for post-employment benefits and other non-current employee benefits	45,464	23,572	-2,408	0	66,628
Provisions for lawsuits	49,000	20,000	-10,070	-38,930	20,000
Total provisions	94,464	43,572	-12,478	-38,930	86,628

As at 31 December 2013 the provision of EUR 47,500 thousand was set aside for potential liabilities related to proceedings by the European Commission against Krka regarding the alleged infringement of the competition law in the sale of perindopril to EU markets. In July 2014 Krka received the European Commission's decision imposing a penalty of EUR 10,000 thousand on the Company. The residual amount of provision (EUR 37,500 thousand) was reversed by the Company and in September 2014 an appeal was lodged against the European Commission's decision at the General Court in Luxembourg.

A settlement was reached in the lawsuit brought against Krka by Sanofi Aventis, France, for the alleged patent infringement protecting the clopidogrel active substance. The unutilised amount of provisions of EUR 1,430 thousand as the difference between EUR 1,500 thousand of provisions set aside and the amount paid to the plaintiff was reversed.

The other income includes damages received and reimbursement of court fees from a lawsuit between Krka and AstraZeneca for the unjustified temporary prohibition of sale of Krka's pharmaceutical Esomeprazole in Great Britain over a period from mid-2010 to the summer of 2011. Since the plaintiff appealed against the court decision court, Krka set aside provisions in total of EUR 20,000 thousand.

The amounts of provisions for lawsuits referring to intellectual property are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated amount, if the indemnification claim is not yet disclosed. External

advisers 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 has not yet been closed.

In addition to aforementioned lawsuits referring to intellectual property, another eight lawsuits are in progress against Krka totalling EUR 250 thousand of indemnification claims, as well as two lawsuits referring to other areas (labour legislation, civil lawsuits) totalling EUR 104 thousand. Based on its familiarisation with the content of disputes and based on legal opinion of external experts, the management of Krka assessed that there was no need to set aside provisions relating to the above disputes and lawsuits.

Provisions for post-employment benefits and other non-current employment benefits are based on a calculation performed by a certified actuary and they were accounted for under following assumptions:

- discount rate of 2.45% in the reporting period (2013: 5.00%) referring to the harmonised 15-term entrepreneurial bond yield with high credit rating in the euro area, increased by a margin for local risk;
- currently applicable amounts of retirement benefits and anniversary bonuses as defined by internal acts;
- employee turnover depending in particular upon the employees' age;
- mortality rates calculated on the basis of last mortality tables available;
- increase in wages by 1.80% (2013: 1.80%).

Provisions for post-employment benefits

In EUR thousand	2014	2013
Balance at 1 Jan	35,146	36,093
Employee benefit costs (CSC)	1,496	1,506
Interest expense	1,786	1,985
Post-employment benefits paid	-1,400	-1,927
Actuarial surplus/deficit, of that:	15,997	-2,511
– change in financial assumptions	14,519	
– experience	1,478	
Balance at 31 Dec	53,025	35,146

Sensitivity analysis

	Discount rate		Salary increase	
Change in	Percentage point		Percentage point	
Change by	0.5	-0.5	0.5	-0.5
Impact on liabilities in EUR thousand	-3,425	3,782	3,791	-3,466

25. Deferred revenue

In EUR thousand	Balance at 31 Dec 2013	New deferred revenue received	Deferred revenue reversal	Balance at 31 Dec 2014
Grants received from the European Fund for Regional Development and Republic of Slovenia budget for the production of pharmaceuticals in the new Notol 2 plant	0	2,813	-83	2,730
Grants by the European Regional Development Fund	13	0	-5	8
Grants by the European Fund – development of new technologies (FBD project)	633	0	-98	535
Property, plant and equipment received for free	553	0	-13	540
Emission coupons	0	43	-22	21
Other deferred revenue	1,115	0	-1,115	0
Total deferred revenue	2,314	2,856	-1,336	3,834

Production of pharmaceuticals in the new Notol 2 plant and FBD projects are partly funded by the European Union (European Regional Development Fund). The projects are 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

In EUR thousand	31 Dec 2014	31 Dec 2013
Payables to subsidiaries	50,216	58,218
Payables to domestic suppliers	42,957	48,313
Payables to foreign suppliers	44,233	35,613
Payables from advances	2,554	3,777
Total trade payables	139,960	145,921

Payables to subsidiaries

In EUR thousand	31 Dec 2014	31 Dec 2013
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	11,693	11,504
KRKA FARMA LLC, Sergiev Posad, Russian Federation	8,890	14,102
KRKA ROMANIA S.R.L., Bucharest, Romania	5,428	4,269
KRKA-FARMA d. o. o., Zagreb, Croatia	3,648	6,860
Farma GRS, d. o. o., Novo mesto, Slovenia	3,625	3,133
TAD Pharma GmbH, Cuxhaven, Germany	3,512	2,487
KRKA UKRAINE LLC, Kiev, Ukraine	3,345	4,883
KRKA Magyarország Kft, Budapest, Hungary	3,105	2,645
KRKA ČR, s. r. o., Prague, Czech Republic	1,780	2,304
KRKA Slovensko, s.r.o., Bratislava, Slovakia	1,399	1,300
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	515	434
UAB KRKA Lietuva, Vilnius, Lithuania	480	975
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	455	639
KRKA-FARMA DOOEL, Skopje, Macedonia	369	391
KRKA Bulgaria EOOD, Sofia, Bulgaria	363	164
Krka France Eurl, Paris, France	289	546
KRKA Belgium, SA, Brussels, Belgium	259	0
KRKA FARMACEUTICI MILANO, S.R.L., Milan, Italy	239	275
KRKA Pharma GmbH, Vienna, Austria	223	249
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	186	34
KRKA-RUS LLC, Istra, Russian Federation	146	824
KRKA FARMACÉUTICA, S.L., Madrid, Spain	138	87
TERME KRKA, d. o. o., Novo mesto, Slovenia	72	68
KRKA FARMA, d. o. o., Sarajevo, Bosnia and Herzegovina	25	12
KRKA Sverige AB, Stockholm, Sweden	20	11
SIA KRKA Latvia, Riga, Latvia	10	0
KRKA USA, LLC, Wilmington, USA	2	2
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	0	20
Total payables to subsidiaries	50,216	58,218

27. Other current liabilities

In EUR thousand	31 Dec 2014	31 Dec 2013
Accrued contractual discounts on products sold	18,489	17,192
Payables relating to unpaid equity of subsidiaries	258	258
Payables to employees – gross wages, other receipts and charges	27,543	24,660
Other	6,442	7,167
Total other current liabilities	52,732	49,277

28. Contingent liabilities and commitments

In EUR thousand	31 Dec 2014	31 Dec 2013
Guarantees issued	19,792	21,734
Other	620	620
Total contingent liabilities	20,412	22,354

Major items of guarantees issued include a counter guarantee for due payment of potential liabilities from the issued customs guarantee of EUR 6,000 thousand in Belarus, a contract bond issued on behalf of subsidiary Farma GRS in the amount of EUR 5,300 thousand, a guarantee issued for receivables of TAD Pharma amounting to EUR 3,000 thousand, and a guarantee issued to the Financial 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 other income includes damages received and reimbursement of court fees from a lawsuit between Krka and AstraZeneca for the unjustified temporary prohibition of sale of Krka's pharmaceutical Esomeprazole in Great Britain over a period from mid-2010 to the summer of 2011. Since the plaintiff appealed against the court decision, Krka set

aside provisions of total EUR 20,000 thousand. In addition to aforementioned lawsuits referring to intellectual property, another eight lawsuits are in progress against Krka totalling EUR 250 thousand of indemnification claims, as well as two lawsuits referring to other areas (labour legislation, civil lawsuits) totalling EUR 104 thousand. Based on its familiarisation with the content of disputes and based on the legal opinion of external experts, the management of the Krka Company assessed that there was no need to set aside provisions relating to the above disputes and lawsuits.

Based on the contracts that had been signed in connection with the on-going investments, at year-end the Company accounted for EUR 36,322 thousand of future liabilities resulting from acquisition of property, plant and equipment (2013 year-end: EUR 116,385 thousand).

Operating lease

In EUR thousand	31 Dec 2014	31 Dec 2013
Up to 1 year	907	1,107
1–5 years	829	1,162
More than 5 years	0	111
Total lease liabilities	1,736	2,380

Lease contracts with terms in excess of 5 years refer to lease of real estate (primarily offices), 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 Group's performance is managed by means of active risk management. Due to the extensive scope of international import and export business, Krka is primarily exposed to foreign exchange risk and to credit risks.

Credit risk

The credit control process involves obtaining credit ratings for clients to which the controlling company and subsidiaries make product sales worth an annual EUR 100,000 or more, and regular, dynamic monitoring of customer payment discipline.

At the end of last year, more than 95% of trade receivables due by the Krka buyers were included in the process of credit control.

In comparison to the beginning of 2014, total trade receivables increased at the end of the year, but the value of mature and outstanding receivables remained within the normal range acceptable for Krka. Krka believes that the payment discipline of buyers did not change.

At the end of the year, 47% of trade receivables were secured with the credit insurance. A part of receivables is secured also with financial instruments. The receivable hedging policy has remained unchanged in 2014.

In 2014, Krka recorded no significant write-offs of trade receivables due by buyers, and no increase in problematic trade receivables.

CREDIT RISK EXPOSURE

The carrying amount of financial assets represents the biggest exposure to credit risk as illustrated below.

In EUR thousand	Notes	31 Dec 2014	31 Dec 2013
Loans	15	75,340	103,501
Investments	16	7,961	5,814
Trade receivables	19	460,652	426,195
Cash and cash equivalents	20	8,203	49,417
Total		552,156	584,927

As for financial assets exposed to credit risk, loans and trade receivables were the major items.

Loans by geographical region

In EUR thousand	31 Dec 2014	31 Dec 2013
Slovenia	51,880	76,235
South-East Europe	1,210	2,534
East Europe	20,068	22,725
Central Europe	300	1,130
West Europe	1,882	877
Overseas Markets	0	0
Total	75,340	103,501

Trade receivables by geographical region

In EUR thousand	31 Dec 2014	31 Dec 2013
Slovenia	8,022	9,467
South-East Europe	95,536	94,883
East Europe	192,117	205,622
Central Europe	74,907	61,417
West Europe	85,027	51,163
Overseas Markets	5,043	3,643
Total	460,652	426,195

47% of trade receivables due from customers other than Group companies were secured with the SID – Prva kreditna zavarovalnica, d. d.

Maturity analysis of loans and receivables as at the reporting date

In EUR thousand	Gross 2014	Allowance 2014	Gross 2013	Allowance 2013
Not-past due	75,334	0	103,496	0
Past due up to 20 days	3	0	3	0
Past due between 21 and 50 days	1	0	2	0
Past due between 51 and 180 days	1	0	0	0
Past due more than 180 days	12	11	41	41
Total	75,351	11	103,542	41

Maturity structure of trade receivables as at the reporting date

In EUR thousand	Gross 2014	Allowance 2014	Gross 2013	Allowance 2013
Not-past due	433,841	2,066	400,948	2,977
Past due up to 20 days	7,569	53	8,580	45
Past due between 21 and 50 days	7,113	86	6,289	38
Past due between 51 and 180 days	10,031	135	7,179	11
Past due more than 180 days	17,678	13,240	18,723	12,453
Total	476,232	15,580	441,719	15,524

The Krka Company agrees extended terms with some customers. If the Company did not extend payment terms to some of the customers, maturity structure of receivables would be as follows as at reporting date: not past due EUR 424,229 thousand (2013: EUR 397,545 thousand); past due up to 20 days: EUR 10,306 thousand (2013: EUR 10,709

thousand); past due between 21 and 50 days EUR 7,565 thousand (2013: EUR 6,454 thousand); past due between 51 and 180 days EUR 16,454 thousand (2013: EUR 8,288 thousand); and past due more than 180 days: EUR 17,678 thousand (2013: EUR 18,723 thousand).

Movement of allowances for loans

In EUR thousand	2014	2013
Balance at 1 Jan	41	48
Impairment of loans	-30	0
Reversal of impairment	0	-2
Recovery of loans written-off	0	-5
Balance at 31 Dec	11	41

Movements in receivable impairments less receivables due by the state and advances

In EUR thousand	2014	2013
Balance at 1 Jan	15,524	13,282
Formation of allowance	1,071	2,497
Write-off of receivables	0	-76
Reversal of impairment	-1,035	-158
Collected written-off receivables	0	-14
Effect of exchange rate differences	20	-7
Balance at 31 Dec	15,580	15,524

Liquidity risk

Krka has earned a good reputation among business partners due to its financial discipline, investments in growth, operations financed primarily by its own financial assets and stable cash flows. Krka's exposure to liquidity risk was very

low in 2014 as the Company recorded only a single item of non-current borrowings from a subsidiary and a few low-value current borrowings.

MATURITY OF FINANCIAL LIABILITIES

Financial liabilities in terms of maturity are outlined in the tables below.

Financial liabilities maturity as at 31 Dec 2014

In EUR thousand	Carrying amount	Contractual cash flows				
		Total	Up to 6 months	From 6 to 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Other non-current borrowings	2,000	2,032	22	22	1,988	0
Current borrowings from banks	38,019	38,269	20,214	18,055	0	0
Other current borrowings	64,001	64,147	63,643	504	0	0
Payables to suppliers	137,406	137,406	137,406	0	0	0
Total non-derivative financial liabilities	241,426	241,854	221,285	18,581	1,988	0
Total derivative assets/liabilities	0	0	0	0	0	0
Total	241,426	241,854	221,285	18,581	1,988	0

Financial liabilities maturity as at 31 Dec 2013

In EUR thousand	Carrying amount	Contractual cash flows				
		Total	Up to 6 months	From 6 to 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
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

Currency risk

Krka is exposed to currency risks due to its extensive international operations. The emphasis is 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.

In 2014, the currency exchange rates had negative effect on the business performance of the Krka Company.

The largest portion of negative foreign exchange differences presented in the income statement was accrued due to the exposure of the Company to the Russian rouble. The exchange rate of the Russian rouble fluctuated widely in 2014. At the end of the first quarter, a 7% depreciation in the exchange rate was recorded in comparison to the beginning of the year. At the end of the second quarter, the exchange rate increased and almost completely neutralised the drop recorded in the first quarter. In the third quarter and at its end,

the value of the rouble was 9% lower than at the beginning of the year. The fall was most notable in November and December. Only in the last quarter, its value dropped by 31%. Since the last quarter of the year is the most important in terms of the Company sales, the drop affected the Company's performance even more notably.

From the beginning to the end of 2014, the Russian rouble lost 37% of its value against the euro. The rouble-related exchange rate losses were affected by extended payment terms for customers and investment in additional production and distribution capacities of Krka-Rus. These were financed by loans of the controlling company to the subsidiary in the Russian rouble.

The gradual depreciation of the Russian rouble in 2014 was caused by the Ukrainian crisis and tightening of the sanctions that followed. In the second half of the year, the impact of sanctions was followed by the pronounced negative effect of falling oil prices, which resulted in destabilisation and loss of confidence in the Russian economy. The measures applied by

the Russian Central Bank and government managed to slow the uncontrolled drop in the value of the Russian rouble, but its exchange rate remained unsteady.

Substantial exchange rate losses resulting from the depreciation of the Russian rouble were accrued in part due to the received payments, the majority of these being due to the revaluation of receivables due by buyers in the Russian rouble and business relations between the controlling company and its subsidiaries.

The instability of the exchange rate, increasing interest rate differences of the rouble against the euro and insufficient supply of financial instruments caused a sharp increase in the cost of hedging by derivatives. At the end of the year, hedging costs were additionally increased as a result of measures taken by the Central Bank to regulate exchange rates, in particular the increase in key interest rate.

Due to all this, the Krka Company did not hedge its financial position in the Russian rouble by derivatives, but tried to mitigate the depreciation effect by adjusting sales prices and purchases made in the rouble.

The value of the Ukrainian hryvnia fell by 41% against the euro in 2014. The Krka Company invoices Ukrainian buyers in the euro, so the depreciation of the hryvnia had no obvious negative effect on the performance of the Company. However, the crisis caused a decline in the purchasing power in Ukraine as well, which affected our performance.

The Krka Company generated foreign exchange losses due to the decrease in the Hungarian forint (6%), Serbian dinar (5%) and Polish zloty (3%), but they represent a small proportion in total foreign exchange differences recognised in the income statement. Other foreign currencies had no effect on our performance.

CURRENCY RISK EXPOSURE

In EUR thousand	31 Dec 2014				
	EUR*	PLN	HRK	RUB	RON
Trade receivables from subsidiaries	0	0	0	14,091	
Loans	48,348	0	0	26,992	0
Trade receivables	204,027	37,993	0	142,814	56,713
Borrowings	-104,020	0	0	0	0
Trade payables	-95,282	-11,693	0	-9,166	-5,495
Financial position exposure	53,073	26,300	0	174,731	51,218

* EUR is the functional currency and does not represent exposure to foreign currency risk.

In EUR thousand	31 Dec 2013				
	EUR*	PLN	HRK	RUB	RON
Trade receivables from subsidiaries	0	0	0	14,018	0
Loans	83,430	0	0	20,071	0
Trade receivables	165,140	29,927	0	167,564	51,544
Borrowings	-72,190	0	0	0	0
Trade payables	-110,244	-11,506	-77	-14,952	-2,330
Financial position exposure	66,136	18,421	-77	186,701	49,214

* EUR is the functional currency and does not represent exposure to foreign currency risk.

Significant foreign exchange rates

	Average exchange rate*		Final exchange rate*	
	2014	2013	2014	2013
PLN	4.18	4.20	4.27	4.15
HRK	7.63	7.58	7.66	7.63
RUB	50.93	42.33	72.34	45.32
RON	4.44	4.42	4.48	4.47

* 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 10% (or 1%) percent change of stated currencies exchange rate in respect of the euro as at 31 December 2014 or 31 December 2013 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. The calculation of the above-stated exchange rates volatility impact took into account the balance of receivables, liabilities and borrowings denominated in the local currencies.

In EUR thousand	Effect on profit or loss before tax			
	2014		2013	
Currency fluctuation	+10%	-10%	+10%	-10%
RUB	17,473	-17,473	18,670	-18,670
Currency fluctuation	+1%	-1%	+1%	-1%
PLN	263	-263	184	-184
HRK	0	0	-1	1
RON	512	-512	492	-492

Any additional 10% change of the Russian rouble value or any additional 1% change of the Polish zloty, the Croatian kuna or the Romanian leu in respect to the euro value, would result in

additional change in the profit or loss before tax in the above-stated amounts.

Interest rate risk

In 2014 the reference interest rate changes had no impact on Krka's interest rate exposure as the only non-current borrowings from a subsidiary in Portugal, were raised in the euro at a fixed rate of interest.

EXPOSURE TO INTEREST RATE RISK

In EUR thousand	2014	2013
Financial instruments at the fixed interest rate	-44,538	-10,208
Financial assets	36,192	61,842
Financial liabilities	-80,730	-72,050
Financial instruments at the variable interest rate	15,702	41,165
Financial assets	38,870	41,212
Financial liabilities	-23,168	-47

ANALYSIS OF THE CASH FLOW'S SENSITIVITY BY APPLYING THE VARIABLE INTEREST RATE

An increase of the interest rate by 100 basis points would increase the profit or loss for 2014 by EUR 157 thousand (a decrease of the interest rate by 100 basis points would decrease the profit or loss by EUR 157 thousand). An increase of the interest rate by 100 basis points would increase the profit or loss for 2013 by EUR 412 thousand (a decrease of

the interest rate by 100 basis points would decrease the profit or loss by EUR 412 thousand). The analysis, prepared in the same manner for both years, assumes that all other remaining variables, in particular the foreign exchange rate, remain unchanged.

A detailed schedule of non-current and current borrowings is presented below.

Non-current borrowings

In EUR thousand	31 Dec 2014	31 Dec 2013
Non-current borrowings	2,000	2,000
– thereof current portion	0	0
Average balance of non-current borrowings	2,000	14,150
Interest paid in the financial year	46	440
Other expenses for non-current borrowings	0	0
Average effective cost of non-current borrowings (financial year)	2.30%	3.11%
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%	0%
– fixed	100%	100%

Current borrowings

In EUR thousand	31 Dec 2014	31 Dec 2013
Current borrowings inclusive of current portion of non-current borrowings	101,898	70,097
– from banks	38,000	0
– other	63,898	70,097
Current borrowings exclusive of current portion of non-current borrowings	101,898	70,097
Average balance of current borrowings (financial year)	85,998	57,968
Interest paid in the financial year	1,168	1,065
Other cost of raising current borrowings	14	15
Average effective cost of current borrowings (financial year)	1.37%	1.86%
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

Krka reduced its share capital by withdrawing 2,632,672 treasury shares, accounting for 7.431% of all shares issued, in accordance with resolution adopted at the 19th Annual General Meeting on 3 July 2014. After the withdrawal of treasury shares, the share capital of Krka in the amount of EUR 54,732 thousand is represented by 32,793,448 ordinary 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.

Krka'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.

Krka follows the changes in the economic environment by managing and adjusting its equity structure. Dividends are paid out on an annual basis. Up to 50% of consolidated profit of the majority owners generated in the preceding year will be appropriated to dividends in line with the applicable development strategy for the 2014-2018 period. In setting the amount of profit to be allocated to dividends, the Group's financial needs in terms of its investments and major takeovers are also considered. Krka has no specific goals as regards the ownership share held by employees, as well as no share option plans.

There were no changes in the Company's approach to capital management in 2014 or 2013.

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.

In EUR thousand	31 Dec 2014	31 Dec 2013
Borrowings	104,020	72,190
Trade and other current liabilities	192,692	195,198
Cash and cash equivalents	-8,203	-49,417
Net indebtedness	288,509	217,971
Equity	1,381,313	1,332,246
Equity and net indebtedness	1,669,822	1,550,217
Gearing (debt/equity) ratio	17.3%	14.1%

Fair value

In EUR thousand	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade receivables from subsidiaries	14,091	14,091	14,018	14,018
Non-current loans	27,588	28,675	31,009	30,521
Available-for-sale financial assets	7,386	7,386	5,022	5,022
Current loans	47,752	47,752	72,492	72,492
Current investments	575	575	792	792
– shares and interests held for trading	157	157	131	131
– other current investments	418	418	661	661
Trade receivables	460,652	460,652	426,195	426,195
Cash and cash equivalents	8,203	8,203	49,417	49,417
Non-current borrowings	-2,000	-2,302	-2,000	-1,957
Current borrowings	-102,020	-102,020	-70,190	-70,190
Trade and other liabilities excluding amounts owed to the state and employees and advances	-157,867	-157,867	-160,580	-160,580
Total	304,360	305,145	366,175	365,730

In terms of fair value, investments are classified in three levels

- level 1 – assets at market price;
- level 2 – assets not classified within level 1 and the value of which is determined directly or indirectly based on observable market data;
- level 3 – assets the value of which cannot be determined using observable market data.

Assets at fair value

In EUR thousand	31 Dec 2014				31 Dec 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at fair value								
Available-for-sale financial assets	6,025	0	1,361	7,386	3,657	0	1,365	5,022
Shares and interests held for trading	157	0	0	157	131	0	0	131
Other current investments (mutual funds and assets in management)	418	0	0	418	661	0	0	661
Total assets at fair value	6,600	0	1,361	7,961	4,449	0	1,365	5,814
Assets for which fair value is disclosed								
Trade receivables from subsidiaries	0	0	14,091	14,091	0	0	14,018	14,018
Non-current loans	0	0	28,675	28,675	0	0	30,521	30,521
Current loans	0	0	47,752	47,752	0	0	72,492	72,492
Trade receivables	0	0	460,652	460,652	0	0	426,195	426,195
Cash and cash equivalents	0	0	8,203	8,203	0	0	49,417	49,417
Total assets for which fair value is disclosed	0	0	559,373	559,373	0	0	592,643	592,643
Total	6,600	0	560,734	567,334	4,449	0	594,008	598,457

Liabilities at fair value

In EUR thousand	31 Dec 2014				31 Dec 2013			
	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								
Non-current borrowings	0	0	2,302	2,302	0	0	1,957	1,957
Current borrowings	0	0	102,020	102,020	0	0	70,190	70,190
Trade and other liabilities excluding amounts owed to the state and employees and advances	0	0	157,867	157,867	0	0	160,580	160,580
Total liabilities for which fair value is disclosed	0	0	262,189	262,189	0	0	232,727	232,727
Total	0	0	262,189	262,189	0	0	232,727	232,727

The fair value of non-current loans and borrowings is calculated by applying the discounted cash flow of the principal and interest. The discount interest rate for 2014 was computed based on the 2% annual interest rate, while a 5% annual interest rate was applied in 2013.

The fair value of securities held for trading is computed on the basis of the stock exchange quotation of the respective securities as at the reporting date, and it is not decreased by any costs that may arise upon the sale or purchase of securities.

30. Related party transactions

Intragroup transactions

Transactions with subsidiaries in 2014 are presented below.

In EUR thousand	Sales	Purchases	Borrowings	Loans
TERME KRKA, d. o. o., Novo mesto, Slovenia*	204	801	0	11,870
Farma GRS, d. o. o., Novo mesto, Slovenia**	471	14,090	156	5,131
KRKA-FARMA d. o. o., Zagreb, Croatia	53,562	30,913	0	0
KRKA ROMANIA S.R.L., Bucharest, Romania	4	24,529	0	0
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	11,027	2,318	0	0
KRKA-FARMA DOOEL, Skopje, Macedonia	14,344	1,399	0	0
KRKA FARMA, d. o. o., Sarajevo, Sarajevo, Bosnia and Herzegovina	4	267	0	0
KRKA Bulgaria EOOD, Sofia, Bulgaria	19	1,833	0	0
KRKA-RUS LLC, Istra, Russian Federation	84,880	1,536	0	0
KRKA FARMA LLC, Sergiev Posad, Russian Federation	106,086	81,010	0	0
KRKA UKRAINE LLC, Kiev, Ukraine	125	12,019	0	0
LLC "KRKA Kazakhstan", Almaty, Kazakhstan	484	4,715	0	0
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	30,126	37,651	0	0
KRKA ČR, s. r. o., Prague, Czech Republic	20	13,944	0	0
KRKA Magyarország Kft, Budapest, Hungary	2	12,908	0	0
KRKA Slovensko, s.r.o., Bratislava, Slovakia	5	6,854	0	0
UAB KRKA Lietuva, Vilnius, Lithuania	5	4,842	0	0
SIA KRKA Latvia, Riga, Latvia	0	2,510	0	0
TAD Pharma GmbH, Cuxhaven, Germany	59,487	12,727	52,000	0
KRKA Sverige AB, Stockholm, Sweden	20,207	106	0	0
KRKA Pharma GmbH, Vienna, Austria	1,742	1,572	0	0
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	9,050	727	0	0
KRKA FARMACÉUTICA, S.L., Madrid, Spain	25,377	1,190	13,110	9,600
KRKA FARMACEUTICI MILANO, S.R.L., Milan, Italy	2,318	1,976	0	0
Krka France Eurl, Paris, France	2,634	1,400	0	0
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	1,536	3	577	0
KRKA Belgium, SA, Brussels, Belgium	187	346	0	0
KRKA USA, LLC, Wilmington, USA	0	7	0	0
Total	423,906	274,193	65,843	26,601

* Including the subsidiary Golf Grad Otočec, d. o. o.

** Including subsidiaries GRS TEHFARMA, d. o. o., GRS VIZFARMA, d. o. o., GRS PREK FARMA, d. o. o., GRS EKO FARMA, d. o. o., GRS TREN FARMA, d. o. o., and GRS VRED FARMA d. o. o.

The transactions between Krka and the above-mentioned Group companies were based on sales contracts, which included rendering of products and services at market prices.

The annual rate of interest agreed on the conclusion of loan contracts within the Group companies, is the rate of interest set by the Minister of Finance of the Republic of Slovenia in accordance with the *Corporate Income Tax Act* that defines the interest rate for related parties. In 2014, the interest rate ranged between 1.110% and 1.422%.

The balance of loans to Group companies is presented in Note 15, the balance of borrowings from subsidiaries is presented in Note 23, the balance of receivables due from Group companies is presented in Note 19 and the balance of short-term operating liabilities to Group companies is presented in Note 26.

Data on groups of persons

By the end of the year, Members of the Management Board of the Company held 37,050 of Krka shares, i.e. 0.1130% of total equity or 0.1136% 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. 0.0410% of total equity or 0.0412% of voting rights.

Equity stakes held by members of the Management and the Supervisory Boards of Krka and their shares of voting rights

	31 Dec 2014			31 Dec 2013		
	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	0.0686	0.0690	22,500	0.0635	0.0685
Aleš Rotar	12,770	0.0389	0.0391	12,770	0.0360	0.0389
Zvezdana Bajc	1,660	0.0051	0.0051	1,660	0.0047	0.0051
Vinko Zupančič	120	0.0004	0.0004	120	0.0003	0.0004
Danica Novak Malnar	0	0	0	0	0	0
Total Members of the Management Board	37,050	0.1130	0.1136	37,050	0.1046	0.1127
Members of the Supervisory Board						
Jože Lenič	180	0.0005	0.0006	180	0.0005	0.0005
Julijana Kristl	230	0.0007	0.0007	230	0.0006	0.0007
Vincenc Manček	11,543	0.0352	0.0354	11,543	0.0326	0.0351
Mojca Osolnik Videmšek	452	0.0014	0.0014	452	0.0013	0.0014
Matjaž Rakovec	0	0	0	0	0	0
Sergeja Slapničar	0	0	0	0	0	0
Franc Šašek	540	0.0016	0.0017	540	0.0015	0.0016
Tomaž Sever	500	0.0015	0.0015	500	0.0014	0.0015
Mateja Vrečer	0	0	0	0	0	0
Total Members of the Supervisory Board	13,445	0.0410	0.0412	13,445	0.0380	0.0409
Total	50,495	0.1540	0.1548	50,495	0.1425	0.1536

Krka reduced its share capital by withdrawing 2,632,672 treasury shares, accounting for 7.431% of all shares issued, in accordance with resolution adopted at the 19th Annual General Meeting on 3 July 2014. After the withdrawal of treasury shares, the share capital of Krka is represented by 32,793,448 ordinary no-par value shares and has been taken into account in the capital shares calculation as at 31 December 2014. Before the withdrawal of treasury shares,

the share capital of Krka was represented by 35,426,120 ordinary no-par value shares which was taken into account in the capital share calculation as at 31 December 2013.

Treasury shares were eliminated from the calculation of voting rights (173,279 treasury shares as at 31 December 2014 and 2,561,005 as at 31 December 2013).

Remuneration paid to groups of persons (gross)

In EUR thousand	2014	2013
Members of the Management Board	2,373	2,390
Members of the Supervisory Board	209	209
Total gross remuneration paid to groups of persons	2,582	2,599

Gross earnings paid to employees employed under individual employment contracts were in 2014 recorded at EUR 9,773 thousand (2013: EUR 14,303 thousand).

Remuneration paid to Members of the Management Board in 2014

In EUR thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net pay-out	Net fringe benefits and other earnings	Gross	Net	Gross	Net
Jože Colarič	381	148	13	377	147	758	308
Aleš Rotar	296	120	9	259	102	555	231
Zvezdana Bajc	271	109	9	235	92	506	210
Vinko Zupančič	218	88	11	185	73	403	172
Danica Novak Malnar	141	63	6	10	5	151	74
Total Members of the Management Board	1,307	528	48	1,066	419	2,373	995

In EUR thousand	Net fringe benefits and other earnings					
	Executive health insurance	Supplementary pension insurance	Other bonuses	Refund of work-related costs	Vacation bonus	Total
Jože Colarič	4.21	3.05	4.89	0.03	0.54	12.72
Aleš Rotar	3.37	3.05	0.82	0.91	0.54	8.69
Zvezdana Bajc	3.37	3.05	1.72	0.99	0.55	9.68
Vinko Zupančič	3.38	3.05	3.31	0.76	0.55	11.05
Danica Novak Malnar	1.47	3.05	0.02	1.01	0.64	6.19
Total Members of the Management Board	15.80	15.25	10.76	3.70	2.82	48.33

Remuneration paid to Members of the Management Board in 2013

In EUR thousand	Salary – fixed part			Salary – variable part		Total	
	Gross	Net pay-out	Net fringe benefits 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 Members of the Management Board	1,258	516	45	1,132	444	2,390	1,005

In EUR thousand	Net fringe benefits 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 Members of the Management Board	15.57	14.10	8.15	3.57	3.00	44.38

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 2014

In EUR thousand	Basic pay for exercising the function		Attendance fees		Commuting allowances		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Jože Lenič	23.25	17.00	3.36	2.45	0.00	0.00	26.61	19.45
Julijana Kristl	19.37	14.17	2.03	1.48	0.46	0.33	21.86	15.98
Vincenc Manček	19.37	14.17	1.76	1.28	0.00	0.00	21.13	15.45
Mojca Osolnik Videmšek	21.31	15.59	2.48	1.81	0.46	0.33	24.25	17.73
Matjaž Rakovec	20.93	15.30	2.20	1.61	0.36	0.26	23.49	17.17
Sergeja Slapničar	19.37	14.17	2.70	1.97	0.40	0.29	22.47	16.43
Franc Šašek	20.93	15.30	2.70	1.97	0.00	0.00	23.63	17.27
Tomaž Sever	19.37	14.17	2.70	1.97	0.46	0.33	22.53	16.47
Mateja Vrečer	21.31	15.59	2.03	1.48	0.00	0.00	23.34	17.07
Total remuneration paid to Members of the Supervisory Board	185.21	135.46	21.96	16.02	2.14	1.54	209.31	153.02

In accordance with the resolution adopted at the 16th Annual General 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 pay-outs on an annual level.

In addition to attendance fees, members of the Company's Supervisory Board receive on an annual basis also a basic pay for exercising the function in the amount of EUR 15,500 gross each. The President of the Supervisory Board is further entitled to an extra fee in the amount of 50% of the basic pay for

exercising the function of member of the Supervisory Board, whereas the Deputy President of the Supervisory Board is entitled to an extra fee of 10% of the basic pay for exercising the function of a member of the Supervisory Board. Members of the Supervisory Board Commission receive an extra fee for exercising the function in the amount of 25% of the basic pay for exercising the function of a member of the Supervisory Board. President of the Commission is further entitled to a bonus corresponding to 50% of the extra fee for exercising the function of a member the Supervisory Board Commission.

Members of the Company's Supervisory Board and members of the Supervisory Board Commission receive a basic pay and an extra fee for exercising the function, in proportionate monthly payments to which they are entitled during their mandate. The monthly payment amounts to one twelfth of the aforesaid annual amounts. Each member of the Supervisory Board Commission is in every financial year entitled – regardless of the above-mentioned or the number of commissions he is a member of or presides over – to receive bonuses until the total amount of these bonuses reaches 50% of the basic pay for exercising the function for each Supervisory Board member taking into account the actual pay-outs on an annual level.

Loans to groups of persons

In EUR thousand	Balance		Repayments	
	31 Dec 2014	31 Dec 2013	2014	2013
Members of the Management Board	2	3	1	1
Members of the Supervisory Board (employee representatives)	0	0	0	0
Total loans to groups of persons	2	3	1	1

Loans granted to staff employed under individual employment contracts were as at 31 December 2014 recorded at EUR 84 thousand (EUR 97 thousand as at 31 December 2013). Repayments of loans to employees employed under individual

employment contracts were in 2014 recorded at EUR 20 thousand (2013: EUR 17 thousand). The loans granted to the above-mentioned persons were used for housing purposes.

31. Educational structure of employees

	2014		2013	
	Headcount (average)	Share (in %)	Headcount (average)	Share (in %)
PhD	92	2.0	84	1.8
MSc	207	4.4	207	4.5
University education	1,372	29.3	1,316	28.6
Higher professional education	512	11.0	460	10.0
Vocational college education	211	4.5	207	4.5
Secondary school education	1,232	26.3	1,243	27.0
Skilled workers	1,007	21.5	1,037	22.5
Unskilled workers	47	1.0	53	1.1
Total (average for the period)	4,680	100.0	4,607	100.0

32. Transactions with the audit firm

The agreed fee for the audit services performed in 2014 by the audit firm ERNST & YOUNG Revizija, poslovno svetovanje, d. o. o., amounted to EUR 129 thousand as did in 2013. In addition, the audit firm also provided translation of the 2013 Financial Report of Krka charging EUR 8 thousand translation fee.

33. Subsequent events

Below is the presentation of events that have taken place since the end of 2014 and up to 31 March 2015.

- At its meeting on Wednesday 21 January, Krka's Supervisory Board appointed the current President of the Management Board and Chief Executive, Jože Colarič, for a new six-year term of office. His latest term of office commences on 1 January 2016 and ends at the end of 2021.
- In the period from 1 January to 10 March 2015, after the certified auditors concluded the audit of 2014 operations, the Krka Group recorded more than EUR 15 million of foreign exchange gains related to the Russian rouble.
- From the beginning of 2015 to the end of January 2015 (followed by the closed period until the annual report is published), we acquired 41,065 treasury shares worth EUR 2,378,981. The balance of treasury shares totals 214,344 (i.e. 0.654% of total shares).

Independent Auditor's report



This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the shareholders 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, 2014, 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 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

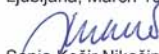
In our opinion, the financial statements present fairly, in all material respects, the financial position of Krka d.d., as of December 31, 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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, 2015


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Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1


Lidija Šinkovec
Certified auditor

ENCLOSURE 1

Repurchased treasury shares in 2014 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)
2 Jan 2014	54	59.17	3	10 April 2014	826	63.25	52	22 Aug 2014	360	64.60	23
3 Jan 2014	3,021	60.09	182	11 April 2014	675	63.26	43	25 Aug 2014	1,536	64.83	100
6 Jan 2014	1,365	59.70	81	14 April 2014	1,056	63.28	67	26 Aug 2014	29	64.52	2
7 Jan 2014	1,381	60.10	83	15 April 2014	1,144	63.83	73	27 Aug 2014	1,737	65.12	113
8 Jan 2014	2,443	60.46	148	16 April 2014	2,229	64.62	144	28 Aug 2014	1,146	68.77	79
9 Jan 2014	3,084	60.22	186	17 April 2014	1,490	64.29	96	29 Aug 2014	1,172	63.64	75
10 Jan 2014	1,678	60.65	102	25 April 2014	2,564	64.55	166	1 Sept 2014	453	63.72	29
13 Jan 2014	300	61.60	18	28 April 2014	1,153	62.61	72	2 Sept 2014	857	57.85	50
15 Jan 2014	3,369	62.60	211	29 April 2014	1,736	62.22	108	3 Sept 2014	1,671	65.11	109
16 Jan 2014	3,456	62.80	217	30 April 2014	2,203	63.70	140	4 Sept 2014	1,587	64.46	102
17 Jan 2014	3,414	62.75	214	25 July 2014	1,410	63.89	90	5 Sept 2014	387	64.17	25
20 Jan 2014	2,664	62.92	168	28 July 2014	3,246	63.92	208	8 Sept 2014	675	64.80	44
21 Jan 2014	3,395	62.96	214	29 July 2014	148	64.57	10	9 Sept 2014	1,355	65.99	89
22 Jan 2014	3,385	62.90	213	30 July 2014	2,436	64.44	157	10 Sept 2014	1,099	66.53	73
23 Jan 2014	3,325	62.51	208	31 July 2014	138	65.28	9	11 Sept 2014	1,612	66.32	107
24 Jan 2014	3,160	62.19	197	1 Aug 2014	3,684	65.73	242	12 Sept 2014	1,641	66.22	109
27 Jan 2014	2,630	61.95	163	4 Aug 2014	1,726	65.00	112	15 Sept 2014	734	66.08	49
28 Jan 2014	2,088	61.23	128	5 Aug 2014	3,434	64.57	222	16 Sept 2014	1,484	65.89	98
29 Jan 2014	2,655	61.07	162	6 Aug 2014	3,625	64.73	235	17 Sept 2014	1,794	66.11	119
30 Jan 2014	2,282	61.14	140	7 Aug 2014	2,718	64.29	175	18 Sept 2014	561	66.03	37
31 Jan 2014	2,446	61.11	149	18 Aug 2014	481	63.11	30	19 sept 2014	1,962	66.06	130
7 April 2014	2,197	63.67	140	19 Aug 2014	257	63.59	16	22 sept 2014	2,038	66.04	135
8 April 2014	1,080	63.54	69	20 Aug 2014	2,240	64.36	144	23 Sept 2014	650	65.92	43
9 April 2014	1,719	63.22	109	21 Aug 2014	2,255	64.55	146	24 Sept 2014	2,155	65.77	142

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)
25 Sept 2014	2,131	65.28	139	22 Oct 2014	1,688	61.22	103	1 Dec 2014	671	59.40	40
26 Sept 2014	1,338	65.16	87	23 Oct 2014	252	57.39	14	2 Dec 2014	1,103	59.56	66
30 Sept 2014	2,024	66.02	134	7 Nov 2014	2,036	66.10	135	3 Dec 2014	3,576	59.60	213
1 Oct 2014	2,110	65.10	137	10 Nov 2014	2,075	60.08	125	4 Dec 2014	3,384	59.87	203
2 Oct 2014	2,201	65.39	144	12 Nov 2014	1,977	60.53	120	5 Dec 2014	2,523	59.80	151
3 Oct 2014	2,223	65.19	145	13 Nov 2014	2,081	55.26	115	8 Dec 2014	3,149	58.78	185
6 Oct 2014	582	65.14	38	14 Nov 2014	2,126	60.34	128	9 Dec 2014	3,399	58.34	198
7 Oct 2014	560	64.97	38	17 Nov 2014	2,124	60.19	128	10 Dec 2014	3,542	58.64	208
8 Oct 2014	1,293	65.05	84	18 Nov 2014	2,188	60.10	131	11 Dec 2014	850	58.50	50
9 Oct 2014	518	64.91	34	19 Nov 2014	1,126	60.29	68	12 Dec 2014	3,439	58.34	201
10 Oct 2014	2,115	64.49	136	20 Nov 2014	2,380	60.09	143	15 Dec 2014	3,028	58.24	176
13 Oct 2014	2,104	63.19	133	21 Nov 2014	2,317	60.00	139	16 Dec 2014	3,413	56.97	194
14 Oct 2014	2,071	63.00	130	24 Nov 2014	2,374	59.63	142	17 Dec 2014	3,594	53.09	191
15 Oct 2014	1,207	62.83	76	25 Nov 2014	2,394	59.09	141	18 Dec 2014	3,872	55.93	217
16 Oct 2014	1,863	62.60	117	26 Nov 2014	2,519	58.50	147	19 Dec 2014	4,004	56.86	228
17 Oct 2014	1,420	62.41	89	27 Nov 2014	2,924	58.22	170	22 Dec 2014	4,087	57.15	234
20 Oct 2014	1,816	61.61	112	28 Nov 2014	3,579	58.84	211	23 Dec 2014	3,831	57.77	221
21 Oct 2014	1,565	61.62	96					Total purchases in 2014	244,946	61.81	15,140

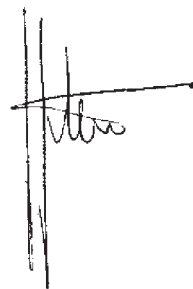
The broker's fee is included in the weighted average price of shares.

Acknowledgement of the 2014 Annual Report and its integral parts

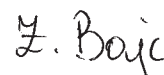
President and members of the Krka, d. d., Novo mesto Management Board are aware of the content of the integral parts of the Annual Report 2014 of the Krka Company and the Krka Group, and hence of the full Annual Report of the Krka Company and the Krka Group for the year 2014. We hereby acknowledge the Report by our signatures.



Jože Colarič, President of the Management Board
and Chief Executive



Aleš Rotar PhD, Member



Zvezdana Bajc, Member



Vinko Zupančič PhD, Member



Danica Novak Malnar, Member – Worker Director

Who's who in Krka

Jože Colarič

President of the Management Board and Chief Executive

Vinko Zupančič

Member of the Management Board and Director of Product Supply

Aleš Rotar

Member of the Management Board and Director of Research and Development

Zvezdana Bajc

Member of the Management Board and Director of Accounting and Controlling

Danica Novak Malnar

Member of the Management Board – Worker Director

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This Annual Report is printed on paper that meets the ecological standard FSC® CoC. The FSC CoC certificate protects the environment and contributes to sustainable development by enabling the traceability of raw materials from a forest to the end-the user and thus ensures responsible management of wood.



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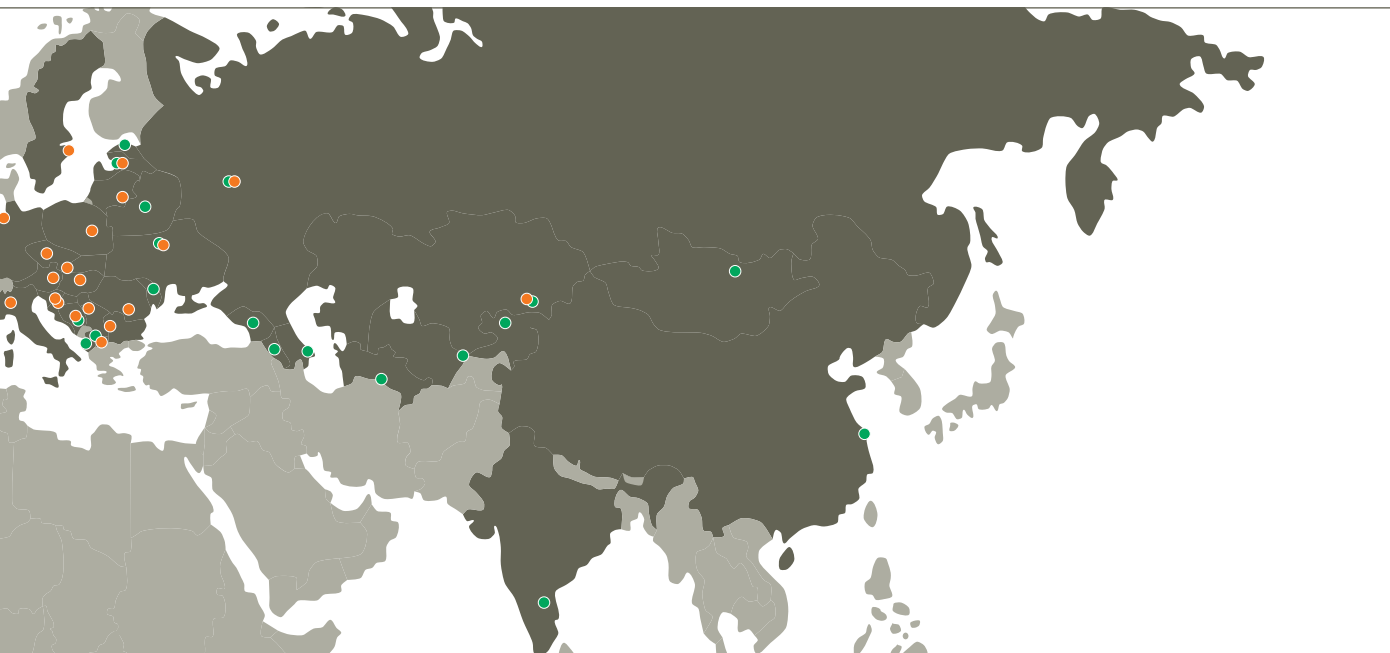
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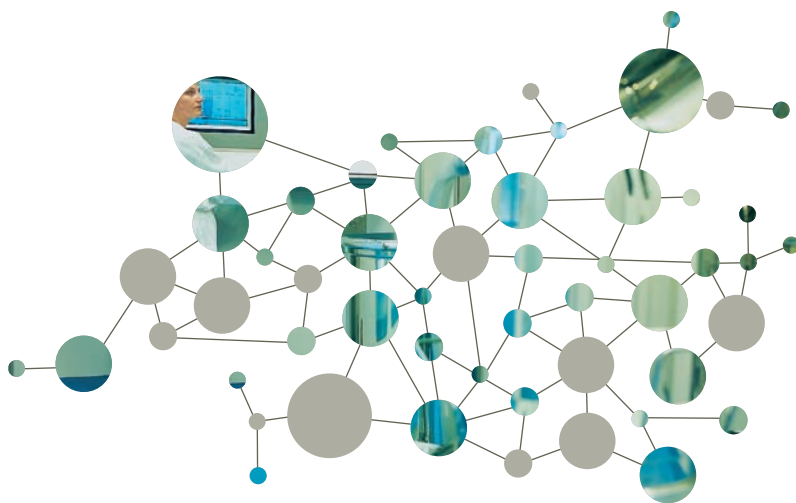
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