



Living a healthy life.

2011 ANNUAL REPORT



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Krka, d. d., Novo mesto

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INTRODUCTION

Statement by the President of the Management Board

Dear shareholders, business partners and employees,

In the past year our operations were successful despite demanding economic conditions. We invested into new products and production capacity, recruited new employees and maintained Krka's traditional financial stability.

Over the past five-year period, which has been one of the most challenging from the business perspective because it was marked by the economic and financial crisis, we have demonstrated our focus on results. Increasing sales almost by 40%, we launched 95 new products, founded nine subsidiaries in high potential markets, and hired close to 2,200 new employees, which has strengthened Krka's status as one of the world's leading generic pharmaceutical companies.

Krka Group sales increased by 6% to EUR 1,076 million in 2011, resulting in EUR 163 million of net profit. We obtained marketing authorisations for 19 new products, while 550 of our research and development staff are currently working on another 130 new products, which we plan to launch in the coming years. With investments worth EUR 108 million, we completed two important investment projects and started two new ones. We employed new staff both in Slovenia and in our subsidiaries abroad, coming close to 9,000 employees.

Our largest sales region in 2011 was Central Europe, where sales amounted to EUR 288 million. Especially in Poland, Krka's largest individual market in the Region, market conditions became increasingly difficult at the end of 2011. However, we managed to generate high sales growth in other markets of the Region, such as the Czech Republic and Hungary, despite difficult conditions.

With EUR 285 million worth of sales and an 8% sales growth, Region East Europe remains Krka's second largest sales region. In the Russian Federation, the largest individual market in the Region as well as the Group's largest individual market in general, we sold EUR 195 million worth of products. Sales to distributors were up 2%, while the distributors' sales to pharmacies were higher. The highest sales growth among large markets in the Region was recorded in Ukraine and Kazakhstan.

The third largest region in terms of sales is Region West Europe and Overseas Markets, where the Group sold EUR 254 million worth of products, up 22% compared to 2010. Contributing over EUR 73 million to sales revenue, the most important market in the Region is Germany, where sales increased by 41%. A double-digit sales growth was also recorded in France, the UK, Italy and Spain, where we expect good results to continue in the coming years.

In South-East Europe we sold EUR 146 million worth of products, up 6%. The largest and fastest growing sales market in the Region is Romania, which contributed nearly EUR 49 million to overall sales, while high sales growth was also recorded in Serbia.

In Slovenia the Group sold EUR 102 million worth of products and services. This slight decrease relative to 2010 was due to prescription pharmaceuticals generating a smaller sales value, which, in turn, was due to price decrease in the domestic market.

Krka's most important group of products is prescription pharmaceuticals. This group contributed EUR 887 million to total sales in 2011, up 7%. The sales of non-prescription products generated EUR 114 million, which is a slight decrease from 2010, while animal health products contributed EUR 38 million, an increase of 25%. The sales of health-resort and tourist services accounted for almost EUR 35 million, up 13%.

At the end of 2011 Krka's production capacity was approximately 10 billion tablets, film-coated tablets and capsules per year, which is expected to increase by a half over the following few years. In 2011 the production started in the new solid dosage forms production plant, which has the capacity of 2.5 billion tablets and capsules per year. Worth EUR 91 million, it has been Krka's largest investment in the last three years. In February 2011 construction of a new production and distribution centre in the Russian Federation started. With the target capacity of 1.8 billion tablets per year, the entire investment is worth EUR 135 million.

We invested EUR 93 million into research and development in 2011. In order to expand our research and development infrastructure, a new development and control centre, worth EUR 22 million was opened. This will further consolidate Krka's research and development work and quality assurance. Together with partners we founded Farma GRS, an API development centre, worth EUR 45 million. The project is partly funded by the European Union.

We expect the challenging situation to persist in all our markets in the coming years. We will therefore need to invest in our staff, new products, marketing and sales, and the production capacity. In November 2011 we adopted a new development strategy for the Krka Group, outlining our objectives for the five-year period from 2012 to 2016. The strategy rests on the following key pillars: maintaining an annual sales growth of 6% on average, having new products account for at least one third of sales growth, and pursuing the model of vertical integration from the development to production of finished products. In 2012 we plan to increase sales by 6% to EUR 1.134 billion and report EUR 170 million of net profit. Investment spending is planned in the amount of EUR 200 million, and we intend to increase the number of employees by 5%. Provided that conditions in international capital markets are favourable, one of Krka's main projects in the first half of 2012 will be our dual listing on the Warsaw Stock Exchange.

I would like to thank all our employees and the members of the Supervisory Board for their hard work and dedication in reaching the company's objectives, and our customers, shareholders and other stakeholders for the trust they have placed in Krka. I am convinced that our new products, successful marketing and sales activities and the efforts of our employees will continue to provide a sound platform for Krka's future growth.



Jože Colarič

President of the Management Board and Chief Executive

2011 Report of the Supervisory Board

Dear shareholders,

At the six Supervisory Board meetings and nine Committee meetings in 2011, the Supervisory Board diligently and responsibly monitored Krka's operations throughout the year, evaluated the work of the Management Board, and performed other supervisory tasks pursuant to legislation, good practice and internal acts.

The Krka Supervisory Board consisted of nine members in 2011. Shareholder representatives on the Board included Jože Lenič, the President of the Supervisory Board MSc, Matjaž Rakovec, Deputy President of the Supervisory Board, Prof. Julijana Kristl PhD, Vincenc Manček, Mojca Osolnik Videmšek and Assoc. Prof. Sergeja Slapničar PhD. Employee representatives on the Board included Franc Šašek, Deputy President of the Supervisory Board, Mateja Vrečer PhD and Tomaž Sever MSc.

The work of the Supervisory Board

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

Members of the Supervisory Board include four women and five men, aged 41 to 69, who are experts in pharmacy, chemistry, economics, engineering, organisational science and management. Their diverse professional experience facilitates efficient discussions and decision-making.

Members regularly attend meetings. Apart from one member, who was absent twice and both times on justifiable grounds, all members attended all Supervisory Board meetings in 2011. Twice we were joined by the certified auditors of KPMG Slovenija, while usually our meetings are only attended by the members of the Supervisory Board and Management Board and by the Secretary to the Supervisory Board.

Through 50 items on the agenda in 2011 the Supervisory Board discussed Krka's past operations, future plans, corporate strategy and investments. It monitored financial and regulatory risks, was informed of the operations in the major areas of business, and was kept up to date with novelties in the company as well as its business environment.

The topics that the Supervisory Board members discussed most in 2011 include:

Annual Report. Within the statutory time frame the Supervisory Board thoroughly examined the 2010 report of the Company and the Group, and discussed the auditor's report. The auditing company KPMG Slovenija found the financial statements, which form a part of the Annual Report, to give a true and fair view of the financial position of Krka and the entire Group, their operations results, profit and loss account, and changes in equity. We held an interview with the auditor and had no comments to their work and the report. We also drew up and adopted a report on our work in 2010, and together with the Management Board compiled the Krka's Statement of Compliance with the Corporate Governance Code.

Interim results. The Supervisory Board regularly discussed the quarterly reports and the half-yearly report of the Krka Company and the Group, and was kept up to date with current trends and business opportunities.

Supervising the operations of subsidiaries in the Krka Group. The Supervisory Board was informed about the business model of all large subsidiaries, their results and other relevant aspects of their operations in 2010.

Long-term and short-term business plans of the Krka Group. The Supervisory Board discussed the Krka Group Development Strategy 2012 to 2016, which includes strategic goals and strategies for reaching them in production, research and development, investments, finances, human resources and other areas of the Krka Group's business. We also discussed the Krka Group and Krka Company business plan for 2012.

Convening and holding the Annual General Meeting. The Supervisory Board drew up the proposal to appoint a certified auditor and consistent with good practice proposed to the AGM to adopt an updated remuneration model for the

Supervisory Board. Together with the Management Board the Supervisory Board drew up a proposal for the distribution of accumulated profit, and proposed that the AGM discharge the Management and Supervisory Boards from liability for 2010.

Investments. The Management Board regularly informs the Supervisory Board about all the Group's major investments. In 2011 we thus discussed several large ongoing investments and their expected results, such as the solid dosage forms production plant OTO, the development and control centre RKC 3, Krka-Rus II, Farma GRS and Noto1 2.

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

Business trends in the pharmaceutical industry. Twice a year, the Supervisory Board was informed of the results of business analyses of Krka performed by investment banks. They mainly included forecasts, operations analyses and fair value of Krka as estimated by market analysts. Twice we also discussed comparisons of operations results: Krka's against selected international pharmaceutical companies.

Supervision of business processes. The Supervisory Board discussed the operations and work of the more important areas of business at Krka. In 2011 we learned about research and development at the Group level and about human resource management.

The work of the Management Board. The Supervisory Board regularly monitored the work of the Management Board. Pursuant to the rules, the Supervisory Board set the performance bonus to the members of the Management Board – for their performance in 2010 and the first half of 2011.

Shares and shareholding structure. The Supervisory Board was informed of Krka's planned dual-listing on the Warsaw Stock Exchange, which is anticipated in the first half of 2012. Each quarter we reviewed the report on the acquisition and disposal of treasury shares, the current shareholding structure and the company's share price. We also adopted the revised Rules on Trading in Financial Instruments, which stipulate trading for persons with access to insider information, and were acquainted with the calendar of closed trading windows for 2011.

Implementing new supervisory board good practice recommendations. At the beginning of 2011 the Supervisory Board examined its compliance with good practice recommendations, and adopted decisions on relevant improvements during the year accordingly. We introduced regular self-assessments according to the methodology stipulated by the Directors' Association of Slovenia, and adopted an action plan. Consistent with good practice, members filled out a questionnaire on the conflicts of interests, as stipulated by the Corporate Governance Code. Krka posted their statements on its website.

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

Krka's events. The members of the Supervisory Board attended several events organised by Krka in 2011, e.g. the Annual General Meeting, opening ceremonies for large investment projects, such as the solid dosage forms production plant OTO and the development and control centre RKC 3. They also participated in events of cultural or professional nature as are the opening of the Krka Hall, the ceremony celebrating 40 years of Krka's Culture and Arts Society, and the traditional 41st annual Krka Prizes ceremony honouring undergraduate and postgraduate student research work.

The work of Supervisory Board committees

The Supervisory Board members meet within committees to discuss specialised areas of business. Pursuant to the legislation and good practice, the Supervisory Board established the Audit Committee and the Human Resource Committee, which deal in detail with accounting and financial issues, and human resource issues, and report and advise to the Supervisory Board. All decision-making regarding committee meetings remains within the powers of the Supervisory Board.

Audit Committee

The Audit Committee is presided over by Mojca Osolnik Videmšek. In 2011 the Committee met five times and discussed 26 agenda items.

The Committee invited the President of the Management and the President of the Supervisory Board as well as the member of the Management Board responsible for accounting and controlling and Head of Internal Audit, to each meeting. One meeting was attended by Director of Finance, who acted as rapporteur, while three representatives of KPMG Slovenija participated in two other Committee meetings..

The issue which the Audit Committee discussed most in 2011 include:

Annual Report. The Audit Committee considered the Krka Company and the Krka Group 2010 Annual Report, the auditor's report and the Supervisory Board report for 2010, and proposed the Supervisory Board to adopt them. The Committee was also informed of the external auditor KPMG's findings from its pre-audit for 2011.

Accounting policies and audit. The Audit Committee was informed in detail about the accounting policies of the Krka Company and the Krka Group. Consistent with good practice, the President and the member of the Committee met with the auditors from KPMG and proposed the areas of business which should be closely examined in the regular operations audit for 2011.

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

Internal auditing. The Audit Committee closely considered internal auditing. In 2011 the Committee discussed and gave its consent to the report on the work of the Internal Audit in 2010, the report on the work of the Internal Audit for January–June 2011, the Internal Audit plan for 2012, and the Internal Audit midterm plan for 2012–2016. The Committee also took note of the Internal Audit's self-evaluation report for 2010.

Co-operation with the external auditor. The Audit Committee was informed about the planned course of the 2011 audit (the audit team composition and their methods of work, planned activities and schedule), and proposed to the external auditor KPMG which areas should be audited in more detail within the regular audit of business operations in 2011. Further on, the Audit Committee regularly monitored the procedures of external auditing.

Risks. The Audit Committee gained an insight into the management of financial risks at the Group level, and discussed the Risk Register. It reported on both matters to the Supervisory Board.

Annual General Meeting. The Audit Committee discussed the appointment of the auditor for financial year 2011 and suggested to the Supervisory Board to propose KPMG Slovenija to the Annual General Meeting.

Human Resource Committee

The Human Resource Committee is presided over by Mateja Vrečer. In 2011 the Committee met four times and discussed 14 agenda items. The President of the Management Board and the President of the Supervisory Board were invited to all meetings, as was the Management Board member in charge of accounting and controlling.

Management Board remuneration. The Human Resource Committee examined the Management Board performance bonus model and proposed it be updated according to the revised Krka strategy and international trends. The Committee also proposed to the Supervisory Board the amount of the performance bonus that the Management Board members be awarded for their work in 2010 and the first half of 2011.

Supervisory Board remuneration. The Human Resource Committee drew up a proposal for the AGM concerning the remuneration model which, based on good practice, introduced the payment for their function as Supervisory Board members.

Assessment of the work of the Management and Supervisory Boards

In 2011 the Supervisory Board and its committees worked pursuant to the legislation and good practice, particularly the Corporate Governance Code, the guidelines by the Slovenian Directors' Association and the Ljubljana Stock Exchange, as well as other Slovenian and international good practice.

The Supervisory Board comprehensively monitored Krka's management and operations of the company throughout 2011. The entire Management Board attended all Supervisory Board meetings and, particularly the President, reported each agenda item in great detail. The Management Board, most frequently the President, answered questions from Supervisory Board members and prepared additional materials for them, if required.

Supervisory Board members had at their disposal all the data, reports and information they required during the course of their work. Materials for meetings were distributed early enough to provide sufficient time for them to prepare for discussions. Krka's specialist services assisted in the organisation of meetings, promptly introduced improvements and provided due support.

The Supervisory Board evaluated the performance of the Management Board every time it discussed interim results for the past period, particularly twice a year when it set the amount of performance bonuses. All Management Board members were fully committed to fulfilling the annual business plan and reaching the company's strategic objectives, while Krka's performance results were good.

Mutual communication and relations between the Management Board and the Supervisory Board were positive and in the best interest of the company throughout the year. The communication between the two presidents was particularly good during the meetings.

The self-assessment performed by the Supervisory Board found that it had performed in line with the highest standards in nearly all areas. Members saw the self-assessment as a positive process, allowing reflection on the soft issues of the actions of the Supervisory Board.

The Supervisory Board also followed any potential conflicts of interests. In 2011 no conflicts arose over any agenda item. Consistent with the recommendations of the Corporate Governance Code, members established that the Supervisory Board is independent, as the dependence could not occur with at least one half of the members. Should a conflict of interests nevertheless be identified, the Rules of Procedure of the Supervisory Board stipulate that the Supervisory Board may resolve the matter by preventing that particular member to vote on an agenda item.

Pursuant to good practice, the Krka Supervisory Board members invested their efforts into professional growth. In 2011 we separately attended the events organised by the Directors' Association of Slovenia.

Of the EUR 136,347 set aside in the annual plan for the work of the Supervisory Board and its committees, EUR 136,323 was spent. With respect to the area of supervision, Krka paid EUR 7,000 for the 2011 membership fee at the Slovenian Directors' Association, but no other expenses, for example for outsourcing, were incurred.

Approval of the Annual Report and proposal for the appropriation of the 2011 accumulated profit

The Supervisory Board discussed the 2011 Annual Report at two meetings and additionally at the meeting of the Audit Committee. Auditors of the certified auditing company KPMG presented their reports at all the aforesaid meetings.

The Supervisory Board first considered **the draft of the Annual Report** at their 11th regular meeting of 29 February 2012, when certified auditors described the auditing procedure in detail, answered the questions of the Supervisory Board members, and informed them that no significant deviations were found during the audit.

On 14 March 2012 the Supervisory Board members received **the proposed clean copy of the Annual Report** and discussed it at their 12th regular meeting of 21 March 2012. On the same day all the materials related to the Annual Report

were discussed also by the Audit Committee. Certified auditors presented their report to the Audit Committee and to the Supervisory Board.

After having considered the draft and proposal of the Annual Report, the report by the auditing company KPMG, and the review by the Audit Committee, the Supervisory Board established that the Management Board's Annual Report offers a true reflection of events and comprehensive information on operations in 2011, and supplements and further develops the information the Supervisory Board was regularly submitted during the business year. Since it had no comments or reservations, it unanimously approved the Annual Report at its meeting of 21 March 2012. **With this, the Annual Report was formally adopted in accordance with Article 282 of the Companies Act and Krka's Articles of Association.**

By approving the Annual Report, the Supervisory Board also confirmed the proposal for the appropriation of accumulated profit. In 2011 the Krka Company recorded a net profit of **EUR 150,391,487.43** of which **EUR 20,835,400.68** was appropriated to reserves for treasury shares, **EUR 2,815,807.04** to statutory reserves and **EUR 15,000,000.00** to other revenue reserves. The remaining **EUR 111,740,279.71** of net profit and **EUR 60,972,252.99** of retained earnings together comprise accumulated profit, which on 31 December 2011 amounted to **EUR 172,712,532.70**.

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

- EUR 1.50 gross per share, totalling EUR 50,018,979.00 for dividends,
- EUR 61,346,776.85 for other revenue reserves,
- EUR 61,346,776.85 for retained earnings.

This proposal has been drawn up considering the number of treasury shares on 21 March 2011, when the Krka Supervisory Board confirmed the 2011 Annual Report and together with the Management Board drafted a proposal for the distribution of accumulated profit. Since the number of treasury shares is subject to change, the exact number of ex-dividend shares will be declared on the day of the Annual General Meeting. The total amount to be allocated for dividends, other revenue reserves and retained earnings will be adjusted accordingly.

Conclusion

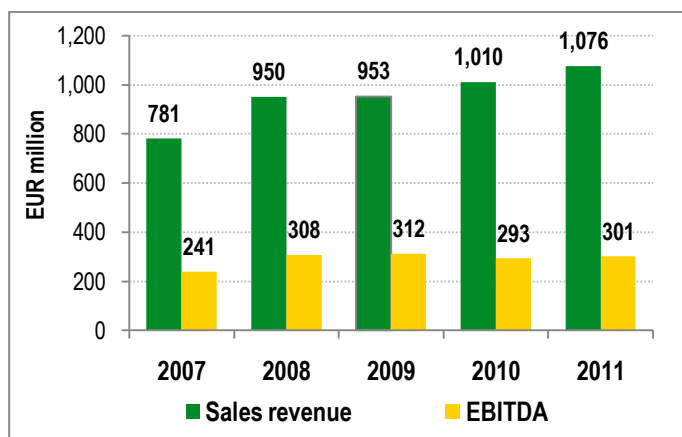
The members of the Supervisory Board monitored the operations of the Krka Company with precision and responsibility in 2011 and thus contributed to its business success. In our work we enjoyed Krka's support and cooperation, which formed the basis for thorough supervision. I therefore consider the work of the Krka Supervisory Board and Management Board, as well as the Company's operations in 2011, to have been trustworthy and successful.



Jože Lenič MSc
President of the Supervisory Board

Krka Group highlights

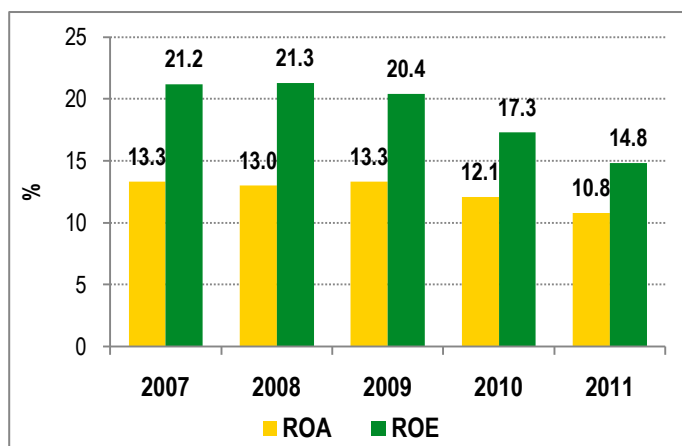
Sales revenue and Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)



Sales revenue increased by 6% in 2011.

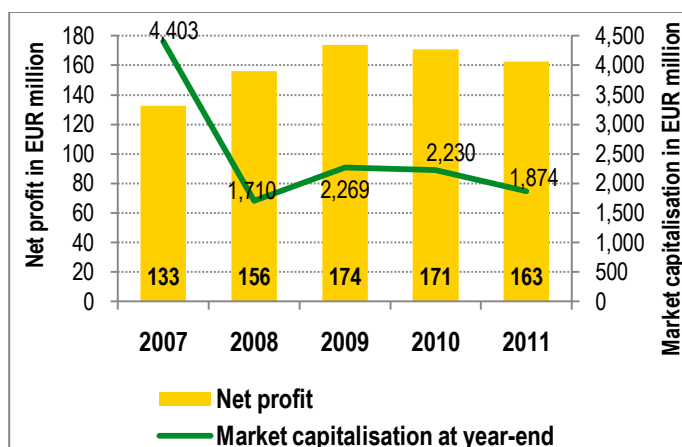
EBITDA was EUR 301 million, an increase of 3%.

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



ROE was 14.8% and ROA 10.8%.

Net profit and market capitalisation



Net profit and market capitalisation decreased by 5% and 16%, respectively, compared to 2010.

Krka Group financial highlights

EUR thousand	2011	2010	2009	2008	2007
Revenue	1,075,627	1,010,021	953,038	949,920	780,918
EBIT	214,006	211,471	234,992	236,781	183,642
EBITDA	301,192	293,192	311,667	308,390	240,586
Net profit	162,735	170,918	173,685	155,891	132,853
Non-current assets	859,468	846,506	808,022	809,074	745,735
Current assets	674,559	641,698	533,010	461,962	375,683
Equity	1,139,754	1,053,327	920,369	783,296	680,913
Non-current liabilities	155,092	202,709	237,834	257,526	252,379
Current liabilities	239,181	232,168	182,829	230,214	188,126
R&D costs	92,932	90,924	88,283	84,746	59,071
Investments	107,656	115,172	91,488	147,061	112,977
RATIOS	2011	2010	2009	2008	2007
EBIT margin	19.9%	20.9%	24.7%	24.9%	23.5%
EBITDA margin	28.0%	29.0%	32.7%	32.5%	30.8%
Net profit margin (ROS)	15.1%	16.9%	18.2%	16.4%	17.0%
ROE ¹	14.8%	17.3%	20.4%	21.3%	21.2%
ROA ²	10.8%	12.1%	13.3%	13.0%	13.3%
Liabilities/Equity	0.346	0.413	0.457	0.623	0.647
R&D costs/Revenue	8.6%	9.0%	9.3%	8.9%	7.6%
NUMBER OF EMPLOYEES	2011	2010	2009	2008	2007
Year-end	8,948	8,569	7,975	7,602	6,777
Average	8,789	8,328	7,816	7,294	6,209
SHARE INFORMATION ³	2011	2010	2009	2008	2007
Total number of shares issued	35,426,120	35,426,120	35,426,120	35,426,120	35,426,120
Earnings per share in EUR ⁴	4.85	5.06	5.14	4.61	3.92
Dividend per share in EUR	1.40	1.10	1.05	0.91	0.80
Closing price at end of period in EUR	52.90	62.95	64.04	48.27	124.29
Price/Earnings ratio (P/E)	10.91	12.44	12.46	10.46	31.71
Book value in EUR ⁵	32.17	29.73	25.98	22.11	19.22
Price/Book value (P/B)	1.64	2.12	2.46	2.18	6.47
Market capitalisation in EUR thousand (31 December)	1,874,042	2,230,074	2,268,689	1,710,019	4,403,112
EXCHANGE RATES	2011	2010	2009	2008	2007
USD (average)	1.392	1.326	1.395	1.471	1.370
USD (31 December)	1.294	1.328	1.434	1.392	1.472

¹ Net profit/Average equity balance over period

² Net profit/Average total assets balance over period

³ To aid comparison, the data per share were calculated using the new number of shares, which followed the 1:10 share split from early September 2007.

⁴ Net profit attributable to equity holders of the parent/Average number of shares issued in the period, excluding treasury shares

⁵ Equity as at 31 Dec./Total no. of issued shares

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 07 331 21 11
Fax	+386 07 332 15 37
E-mail	info@krka.biz
Website	www.krka.si
Core business	production of pharmaceutical preparations
Business clarification code	21.200
Year established	1954
Registration entry	1/00097/00, District Court of Novo mesto
VAT number	82646716
Company ID number	5043611
Share capital	EUR 59,126,194.28
Total number of shares issued	35,426,120 ordinary registered no-par value shares

On 1 January 2012 the Krka Group consisted of the controlling company, Krka d. d., Novo mesto, two subsidiaries in Slovenia and 23 subsidiaries outside Slovenia. The Group is engaged in the development, production, marketing and sale of human health products (prescription pharmaceuticals and non-prescription products), animal health products and health-resort and tourist services.

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

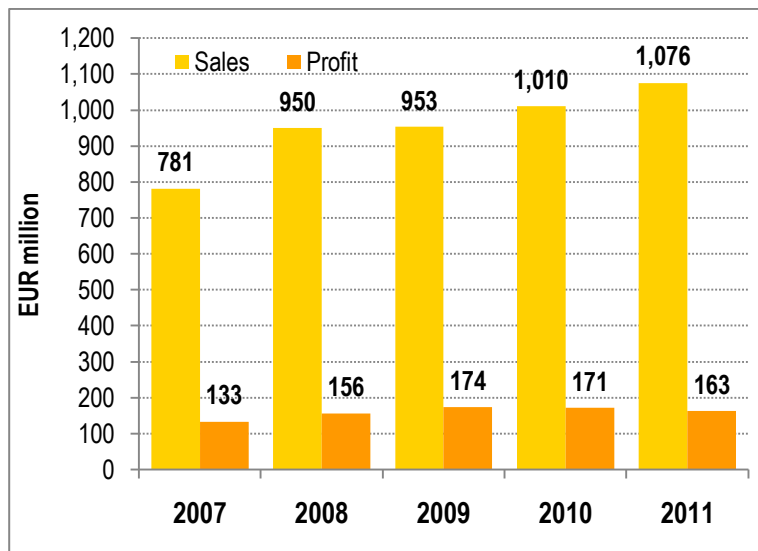
Terme Krka d. o. o., Novo mesto is engaged in health-resort and tourist services. It operates through the following branches, all spa resorts: Terme Dolenjske Toplice, Terme Šmarješke Toplice, Hoteli Otočec, Hotel Krka in Novo mesto, and Talaso Strunjan. Terme Krka d. o. o. is also the majority owner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

In a project aimed at advancing the pharmaceutical industry, Krka and partners founded in January 2011 Farma GRS, d. o. o. New research and development and production capacity is thus being currently set up at Krka's location in Ločna, Slovenia.

Krka Group business model

Krka is one of the world's leading generic pharmaceutical companies. It is headquartered in Slovenia and has 58 years of experience in the industry.

Sales revenues and net profit in EUR million



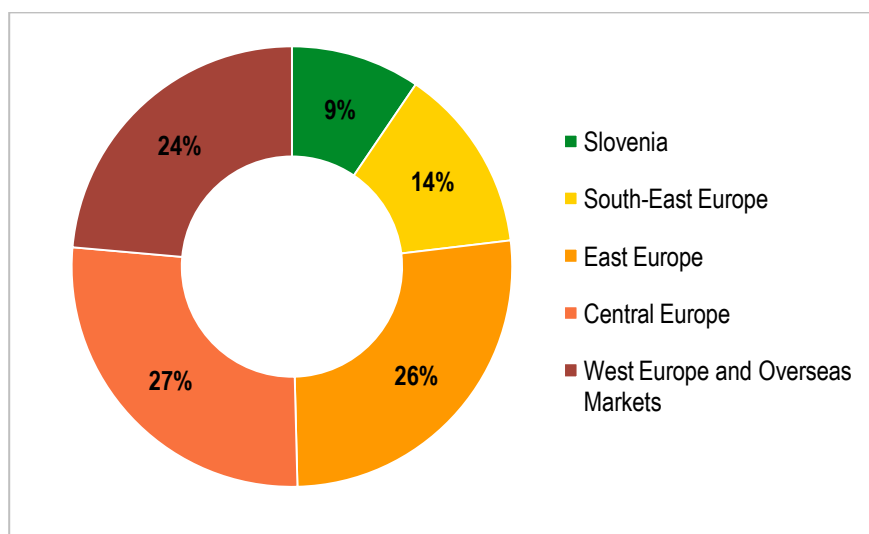
Krka has a leading position on its domestic market and a strong presence on generic pharmaceuticals markets in:

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

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

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

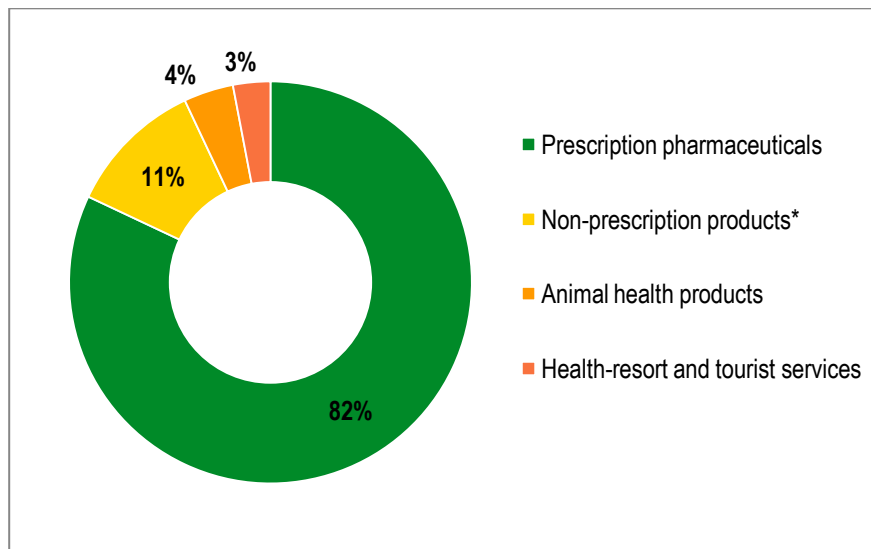
Sales by region in 2011



Operational focus

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

Sales by product group in 2011



* Non-prescription products include sales figures for the former self-medication products and cosmetic products.

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

In order to increase the competitive advantage of our product portfolio and maintain a high proportion of vertically integrated products, Krka has allocated 9% of its sales revenues to research and development. Over 45% of sales revenues was generated from the sales of new products, i.e. products launched on different markets over the past five years. We will continue to invest in research and development, as there are over 130 new Krka products in the pipeline.

Pharmaceutical industry trends

The market value of pharmaceuticals, both originator and generic together, is estimated at USD 875 billion with average annual growth rate of 3–6% over the next five years. The generic market is worth approximately one sixth of the global pharmaceuticals market.

Trends in the originator industry

- Entirely new molecules are becoming increasingly rare, therefore companies are extending their products' life cycles by launching new pharmaceutical forms, introducing advanced delivery systems and making minor changes to existing products, while at the same time making use of regulatory mechanisms to prolong their market position, such as with authorised generics, data exclusivity and similar. Biologic pharmaceuticals are becoming relatively more important, but due to the expensive development, trials and the required specialised production facilities they represent a considerable risk. The majority of the market will therefore remain rooted in traditional pharmaceutical products.

- According to originator prices, the leading original products that have their patents expire in 2016 are worth approximately USD 120 billion. Despite price pressures causing this value to drop when patents expire, this presents an inviting opportunity for generic producers.
- On account of financing limitations, the merger and acquisition activity has slowed down, however it will continue in the coming years as companies are striving towards higher growth, expansion into new markets, the implementation of new technologies and increasing their economies of scale.
- Originators are increasingly working towards entering the generic pharmaceuticals market.
- Ethical marketing is becoming more and more reputable.
- Prices are increasingly converging towards the prices of generic products so as to diminish the price advantage of generic producers.

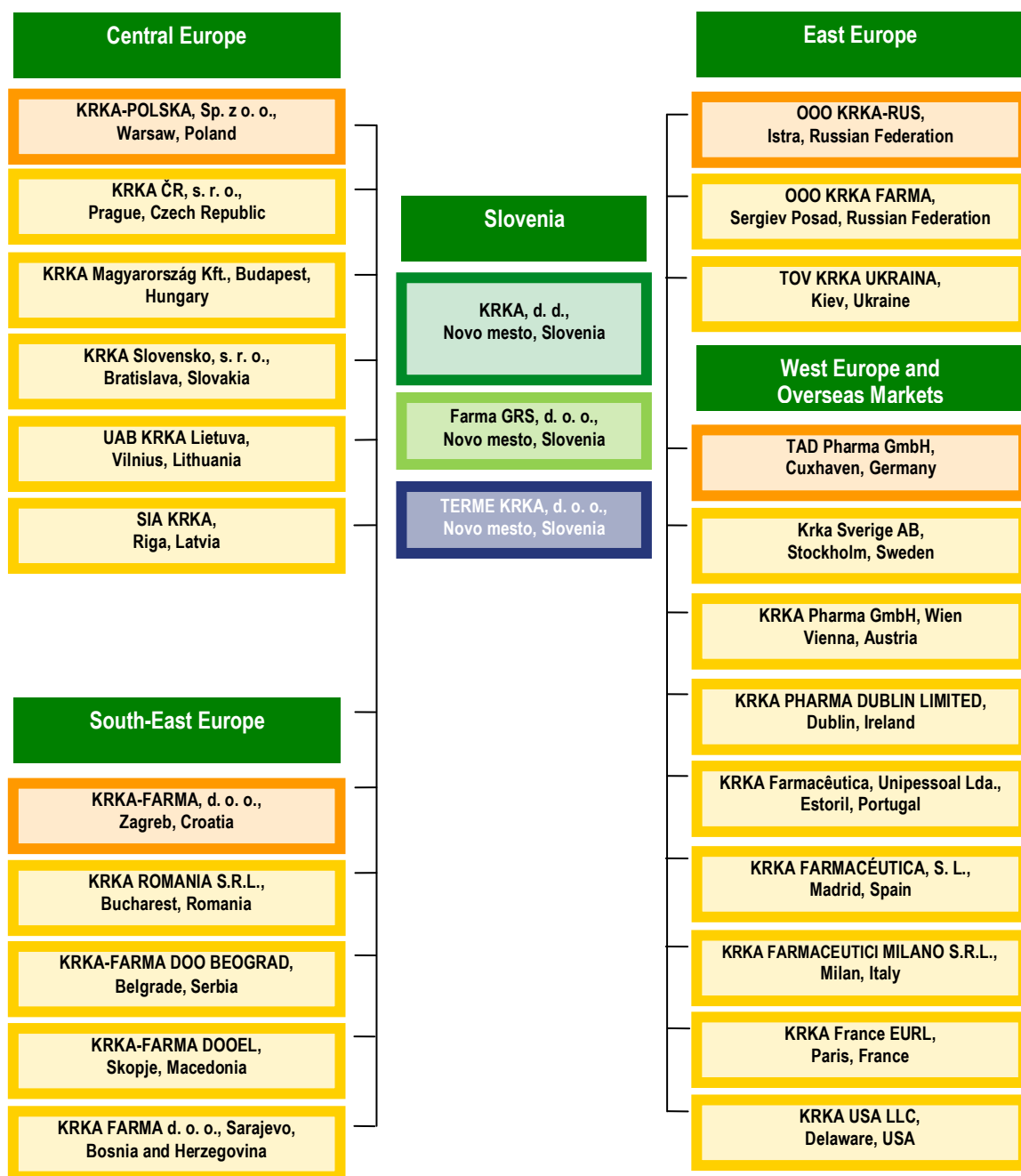
Trends in the generic industry

- Countries implementing general saving measures will slow down market growth and decrease margins. Saving measures will strengthen the position of generic suppliers but their prices will decrease.
- The reforms and saving measures implemented by certain European countries are placing pressure on others to do the same. Price decreases in countries whose prices serve as the benchmark are immediately reflected in numerous other markets, causing a spillover effect.
- The competitive pressures coming from international generic producers based in Asia that are expanding their operations into Europe, as well as those coming from the current local suppliers that are expanding their markets, will increase.
- In the past three years price pressures in the European Union have caused annual sales growth value to decrease by 6 to 7 percentage points, which companies compensated mainly with higher sales volumes, and less with new products. We expect sales growth in the coming years to be fuelled by higher sales as well as by new products, which will contribute an estimated 60% to total sales growth. Fast-growing markets will contribute an estimated 30% to total sales growth, with mature markets contributing 10%.
- Centralised procedures will become the main marketing authorisation procedures for all new products in the European Union in the mid-term. Centralised and decentralised marketing authorisation procedures for generic products are characterised by increasingly complex marketing authorisation documentation and procedures, which constitutes an advantage for generic companies who have their own research and development as well as regulatory know-how.
- Patent disputes are expected to centralise at the EU level since approximately one third of all disputes are currently being solved in several EU countries. The centralisation of patent disputes would save time, cut expenses and increase transparency in the area of intellectual property disputes.
- Consolidation in the generic industry is ongoing, although at a slower pace and with fewer significant transactions. Mergers and acquisitions are currently still prevalent within the generic industry, although generic targets are becoming increasingly appealing to originators as well. Consolidation is ongoing not only among manufacturers but in wholesale and retail pharmacy chains as well. Wholesalers are gaining strength, which is making them a more important part of the supply chain decision-making.
- There is a rising number of providers selling marketing authorisation documentation, technology and know-how, setting the condition that the customer purchases the finished product as well. Such bundled packages are only available with time delays, which puts producers with their own know-how at an advantage.

- Competition is increasing. Companies are seeking to compete by offering more sophisticated products and advanced technologies, such as delivery systems, combinations of ingredients and similar, and by increasing pressure by making commercial offers.

Krka Group organisation chart

The chart includes companies in operation on 1 January 2012.



Production-distribution companies

Health-resort and tourist services company

Other subsidiaries outside Slovenia

EU project: research and development company

Map of companies and representative offices abroad



Overview of significant events and awards in 2011

JANUARY

- In a project aimed at advancing the pharmaceutical industry, Krka establishes, together with its partners, Farma GRS, d. o. o. Its main objective is to set up the infrastructure for developing new products and technologies from the areas of pharmaceutical chemistry and technology. It will focus on sophisticated active ingredients and pharmaceutical processes. The project is co-funded by the European Regional Development Fund.
- After having examined Krka's plants Notoi and Tablets, and the central warehouse at the company's main location, the Agency for Medicinal Products and Medical Devices of the Republic of Slovenia (JAZMP) once again confirms that Krka complies with the principles of good manufacturing practice and meets the criteria applicable to holders of wholesale licence.
- Krka begins building a new solid dosage forms production plant and distribution centre in the Russian Federation worth EUR 135 million.

FEBRUARY

- Krka receives a bronze 2010 Effie award for the successful business, marketing and communication strategy implemented for its brand Nalgesin S in Slovenia.
- At the Logistika 11 logistics congress, an annual event held by the Celje Faculty of Logistics at University of Maribor, Krka's Assistant Director in Product Supply is declared Slovenia's 2010 Logistics Expert.
- The Krka's Volunteer Industrial Fire Brigade, which ensures fire safety and thus indirectly enables continuous business operations of the company, celebrates 40 years of operations.

MARCH

- Krka receives a recognition award for becoming a finalist of the 2010 edition of the Zlata nit (Golden Thread) media research project and the Slovenian employer-of-the-year campaign.
- Impact Rating, a research conducted in 35 Russian regions and eight federal districts, ranks Krka the third most influential foreign pharmaceutical company in the Russian Federation.

APRIL

- Krka's plants Sinteza 2, Sinteza 4, Fermentation and API Development Pilot Plant at the company's central location in Slovenia successfully pass a JAZMP inspection.

MAY

- The research conducted by marketing agency Kline & Partner ranks Krka one of the most renowned Slovenian companies, a title Krka has been winning for several years in a row. Krka's President of the Management Board and Chief Executive, Jože Colarič, becomes the Most Renowned Slovenian CEO.
- On the TOP 101 list of Slovenia's largest and best companies compiled by Slovenian business and financial daily Finance, Krka is placed first among the largest companies and third among the best Slovene companies.
- Deputy Director in Sales for the Russian Federation and Director of the Key Market Russian Federation, Miran Bevec, becomes Manager of the Year in Sankt Petersburg at the all-Russian 2010 Platinum Ounce competition.
- Director of Krka-Polska, David Bratož, becomes the Pharmacy Enthusiast at the Polish Pharmacy Day conference in Warsaw, organised by the pharmacy journal Gazeta Farmaceutyczna and the Polish Pharmaceutical Chamber.
- At the eighth consecutive Polish Złoty Otis (Golden Otis) competition, Krka's non-prescription products Bilobil forte and Fitoval win the 2011 Golden Otis award of trust in the categories of self-medication products and cosmetics.
- Krka's new solid dosage forms production plant OTO in Ločna successfully passes the JAZMP inspection.

JUNE

- Krka receives three golden awards from the Chamber of Commerce of Dolenjska and Bela Krajina for innovations in 2010: for development of new synthesis and isolation processes and solid dosage form of candesartan cilexetil, development of the technology for production of the active ingredient esomeprazole and its formulation, and development of pharmaceutical products with irbesartan hydrochloride.
- Krka-Polska receives the 2011 Forbes Diamond for being one of the fastest growing companies in the category of large companies presented by the editorial board of the Polish edition of the Forbes magazine.
- In Ukraine, Krka's brand Septotele is conferred the 2010 Favourite of Success Award among 48 other competitive sore throat self-medication products. The award reflects the customers' favourite choice.
- Krka's internal magazine Utrip wins three Papyrus awards at the competition: two first awards – for highest communication value and best photography – and third prize for the best printed newsletter.
- Krka as the first company in Slovenia achieves the status of a known consignor. Based on this status, all air shipments are exempt from the airport security controls.

JULY

- Krka's 16th Annual General Meeting takes place.

AUGUST

- Together with our partner, a leading process technology provider in Slovenia, Krka successfully completes the European FBD (fluid-bed dryer) project. The fluid-bed dryer is used in the pelleting and granulating processes. The project was worth EUR 6.5 million, of which Krka and its partner received EUR 2.2 million of grants.

SEPTEMBER

- At the 41st Krka Prizes ceremony for secondary school students, they receive rewards for their research projects.
- The Chamber of Commerce and Industry of Slovenia presents the developers of the technology for the production of the active ingredient and formulation of esomeprazole with a golden award in the category of innovations.

OCTOBER

- Krka successfully passes the U.S. Food and Drug Administration inspection of the compliance of its production conditions and work in the development, production, quality control and assurance in API and finished products production.
- Krka opens two new plants at its central location in Ločna, Slovenia: the solid dosage forms production plant OTO, and development and control centre RKC 3.
- At the 41st Krka Prizes ceremony for graduate and postgraduate students, young researchers receive awards for their research projects.

NOVEMBER

- At the competition for the best annual report in Slovenia held by business daily Finance, Krka's 2010 Annual Report is declared to have the best business operations analysis and plans.
- At the Slovenian career fair Moje delo (My Work) 2011, Krka receives the prestigious employer-of-the-year award already for the third time. The all-Slovenian research conducted by employment portal MojeDelo.com reaffirms that job seekers hold Krka in high regard.
- At the corporate education and training conference Izobraževalni management 2011 (Managing Education and Training) Krka becomes the TOP 10 company for the seventh consecutive time.

DECEMBER

- The Krka Culture and Arts Society, founded to promote the arts and enrich the cultural life of the Krka team, celebrates 40 years of operations.
- Krka is declared the most transparent company in Slovenia and receives the Golden Portal prize for excellence in corporate governance and investor relations over the past five years.

Events after the accounting period

After the accounting period until 29 February 2012, another event occurred as follows.

In the period from 1 January 2012 to 29 February 2012, the controlling company re-purchased 35,535 treasury shares on the Ljubljana Stock Exchange. At the end of February 2012, Krka held 2,060,652 treasury shares, or 5.8% of the share capital.

BUSINESS REPORT

Corporate Governance Statement

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

The company's governing bodies are:

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

Annual General Meeting

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

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

All shareholders entered in the shareholder register on the date of record published in the notice have the right to attend the Annual General Meeting and vote, as do their representatives and proxies.

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

The 16th AGM of the Krka Company was held on 7 July 2011, where shareholders:

- Received information about the 2010 Annual Report, including notification of the remuneration of Management Board and Supervisory Board members, and report of the Supervisory Board on its verification and approval of the Annual Report
- Decided about the appropriation of accumulated profit
- Discharged the Management Board and Supervisory Board from their duty in 2010
- Adopted a resolution on payments to Supervisory Board members
- Adopted a supplemented authorisation for the Management Board to continue acquiring treasury shares
- Appointed the auditor for 2011.

The resolutions adopted by the 16th AGM were published in the Delo newspaper, in the SEOnet information dissemination system and on the Krka website (<http://www.krka.biz/en/finance/info/skupscine/skupscina16/>).

According to the financial calendar for 2012, the AGM will take place on 5 July. The call for the AGM, along with the proposed resolutions, location of the meeting and eligibility conditions will be published in the Ljubljana Stock Exchange SEOnet system, in the Delo newspaper and on the Krka website.

Supervisory Board

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

Its **composition** is stipulated by the company's Articles of Association. It is composed of nine members, six are elected by the AGM, and three employee representatives are elected by the Krka Workers Council. The President of the Supervisory

Board is always elected from the board members, who are appointed by the AGM. Supervisory Board members are appointed for a five-year term and may be reappointed. Since the term-in-office of the previous Board came to a close, the 15th Annual General Meeting elected a new Supervisory Board for a term-in-office of five years, starting on 21 June 2010.

The **Supervisory Board** complies with good practice recommendations, especially the Slovenian Corporate Governance Code, with which Krka complies in full.

The new Supervisory Board with a five-year term was elected in 2010.

The **salaries, reimbursement and other benefits** of Supervisory Board members are not directly dependent on the company's performance and are set out in the financial report, in the note entitled Transactions with Related Parties. The 16th AGM passed a resolution introducing fixed payments to Supervisory Board members for performing a function, in addition to meeting attendance fees.

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

Members of the Supervisory Board pursue the Company's objectives in their operations, and must subordinate any personal interests or interests of any third parties to those objectives. All members of the Krka Supervisory Board have completed the C3 survey from the Slovenian Corporate Governance Code. The conduct of Supervisory Board members in the case of **conflicts of interest** is defined in the amended Rules of Procedure for the Supervisory Board, which is available on the company website (<http://www.krka.biz/en/finance/druzba/dokumenti/>).

The composition and operations of the Supervisory Board and its committees in 2011 are presented in the Supervisory Board report.

Shareholder representatives

Jože Lenič MSc

President of the Supervisory Board

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

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

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

Matjaž Rakovec

Deputy President of the Supervisory Board

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

In 2007 he passed the standard certification for supervisory board members. Since 2010 he has been president of the board of directors for Lovćen osiguranje a. d., Podgorica, Montenegro and president of the Supervisory Board of Triglav BH Osiguranje, d. d. He is also a member of the Managers' Association, a member of the managing committee of the

Slovenian Chamber of Commerce and Industry and president of the Supervisory Board of the GIZ Nuclear Insurance and Reinsurance Pool. He is also a member of a number of sports societies and social organisations.

Mojca Osolnik Videmšek

President of the Supervisory Board's Audit Committee

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

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

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

In 2008 she assumed the role of deputy president of the management committee of the Slovenian Directors' Association. She has been a supervisory board member for Kapitalska Družba for one term-in-office and a supervisory board member for Krka. She is the chairperson or a member of supervisory bodies and audit committees in several companies of the NLB Group.

Assoc. Prof. Sergeja Slapničar PhD

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

She is an independent member of the auditing committees of NLB Banka and Telekom and president of the report committee required by Art. 609 of the Companies Act to examine the exchange rates used in ownership transformations of companies. She is a lecturer for the Slovenian Directors' Association on director training programmes and a member of the committee for extension of directors' licences. She is also a member of the European Accounting Association and the American Accounting Association (EAA and AAA). She has also published numerous scientific and academic works.

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

Vincenc Manček

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

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

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

Prof. Julijana Kristl PhD

Born in 1953, from Ljubljana. Graduated in 1977, completed her master's degree in 1981 and doctorate in 1988 in pharmaceutical science at the University of Ljubljana, where she is employed. During her 33 years of service she has

successfully carried out numerous scientific, teaching and management tasks. She was head of a chair before serving as dean of the Faculty of Pharmacy for two terms, and is now vice-rector of the University of Ljubljana for first and second cycle study programmes and enrolment.

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

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

Employee representatives

Franc Šašek

Deputy President of the Supervisory Board

Born 1967. A graduate in organisational science he started working for Krka in 1984. Until 2000 he worked as a technologist, as head of the Technical and Technological Preparations Department and as head of Section. Since 2001 he has been a senior specialist staff member within the Engineering and Technical Services, working on maintenance and project management. As project group leader for maintenance, in 2004 he actively participated in the implementation of the business process management system (SAP) and was later appointed process owner for maintenance in Krka, responsible for system implementation, development and optimisation. He had the same role for implementation in Krka's subsidiaries. Since 1999 he has also worked on quality assurance, as a certified quality officer, quality trainer and registered internal quality auditor. He is jointly responsible for the development and maintenance of the integrated quality system. He underwent training for supervisory board and management board members at the Slovenian Directors' Association in 2009.

He was elected as president of the Krka Works Council for the 2009-2013 term and took office as a member of the Supervisory Board on 21 June 2009.

Mateja Vrečer PhD

President of the Supervisory Board's Human Resource Committee

Born in 1966. She has worked for Krka since 1990, starting as a pharmaceutical engineering graduate, before going on to pass her professional specialisation exam for pharmaceutical engineering, and a master's and doctorate in pharmaceutical science. She first worked in Research and Development, where she prepared technical documentation for proposed new products, and after approval led the whole project in Slovenia from marketing authorisation to launch. From 1997 she worked in quality management as deputy director of Quality Management, and since 2007 she has been head of International Quality Assurance. In September 2011 she assumed the management of the Quality Management Division.

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

Tomaž Sever MSc

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

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

Management Board

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

- To manage the company and make independent and direct business decisions
- To adopt the company's development strategy
- To ensure risks are handled and managed adequately, and
- To act with the care of a conscientious and honest manager and protect the business secrets of the Company.

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

- The President of the Management Board
- Three members, and
- The Worker Director, who represents the interests of employees in relation to human resource and social issues, but is not authorised to represent the company.

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

The Management Board's operational function and separation of duties is defined by the Management Board Rules of Procedure. Its prevailing approach is to coordinate opinions, and make decisions by consensus rather than on the basis of votes. In line with the Rules of Organisation and the Rules of Procedure of the Management Board, Management Board members also have executive management tasks. Every member is in charge of a number of organisational units, which enables direct cooperation between the Management Board and the company's executive directors.

The company has the following bodies to support the work of the Management Board:

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

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

The payment, reimbursement and other benefits for Management Board members are defined in work contracts drawn up between the Supervisory Board and individual Management Board members. Rules defining the Bonus Element of Management Board Remuneration is adopted by the Supervisory Board, which also defines the remuneration for Management Board members. In line with the Corporate Governance Code, the Supervisory Board adopted a Management **Board Remuneration Policy** in 2010.

Krka Management Board members are remunerated **in cash**. All payments to Management Board members are presented in the financial report, in the notes entitled Transactions with Related Persons, where also **shareholdings** of Management Board members are disclosed.

Members of the Management Board and persons related to them report any acquisition or disposal of shares in the company or associated companies to the company and competent institutions. Krka makes this information public.

Management Board members must disclose the existence of any **conflicts of interest** to the Supervisory Board and also notify other members of the Management Board. Nobody from the Krka Management Board is a member of the supervisory bodies of companies outside the Krka Group.

Members of the Management Board

Jože Colarič

President of the Management Board and Chief Executive

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

Aleš Rotar PhD

Member of the Management Board and Director of Research and Development

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

Zvezdana Bajc

Member of the Management Board and Director of Economics and Information Processing

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

Vinko Zupančič PhD

Member of the Management Board and Director of Product Supply

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

Danica Novak Malnar

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

Born in 1957 in Kremen, near Krško. In 1982 she graduated from the Faculty of Natural Sciences and Engineering in Ljubljana. She started work for Krka in 1982 as an intern in pharmaceutical production, before becoming a technologist. In 1986 she was made Head of The Pharmaceutical Division in Ljutomer, and two years later on her return to Novo mesto,

Head of the Division for Operative Production Planning. In 1994 she was placed in charge of the Production Planning Division. She has been Head of Pharmaceutical Production since 1999. She was first appointed to the Management Board in 1998 as worker director and was reappointed in 2003. She was elected as worker director for a third term in 2007, due to her positive personal qualities, the results she has produced and the great trust and respect she has earned from her colleagues. Her latest five-year term-in-office began on 1 January 2008.

Governance of the Krka Group

Krka's development is based on its business in Slovenia and international markets. Krka expands its operations through organic growth and acquisitions. The Krka Group consists of the controlling company Krka d. d. and subsidiaries in Slovenia and abroad. In principle, all subsidiaries are 100%-owned by Krka. Krka's companies operate in compliance with the local legislation and mandatory internal rules, and operating instructions adopted by the controlling company's Management Board.

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

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

Internal auditing

Internal auditors carry out their mission within the Krka Group on the basis of medium-term and annual work plans and in line with the International Standards for the Professional Practice of Internal Auditing (the Standards), which has been certified by an independent external assessment.

In compliance with the annual plan, 13 regular internal audits were carried out in 2011 under the **COSO ERM** methodology (Committee of Sponsoring Organisations Enterprise Risk Management). Internal audit work plans and reports are adopted and approved by the Management Board and the Audit Committee of the Supervisory Board.

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

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

Internal audits were carried out according to the aforesaid methods in the areas of sales, marketing, technological preparation of production, health and safety at work, and information technology. Regular internal audits were also carried out in three subsidiaries and three representative offices abroad. Consultancy work was also carried out in line with the Standards.

We are strengthening our consulting services.

Internal auditors were able to give assurance that the audited fields had a functioning and effective internal control system in place to achieve objectives in those fields. Improvements, however, were possible, and a series of recommendations were made, categorised by individual level of risk, and their realisation was verified regularly.

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

Internal controls and risk management related to financial reporting

Internal controls are guidelines and procedures that the Krka Group has put in place and implements at every level of operation to manage risk relating to financial reporting. The purpose of the internal controls is to ensure the reliability of financial reporting, and compliance with applicable legislation and other internal and external regulations. Implementing standard information systems in subsidiaries and the development of business information increases the efficiency of accounting data exchange between subsidiaries and the controlling company, and hence also control of that information.

Accounting controls are based on the principles of veracity and separation of responsibility, transaction controls, ensuring records are up-to-date, reconciling the balance disclosed in ledgers and the actual balance, separation of recording-keeping from payments, professionalism of the accounting staff and independence. Accounting controls are closely linked to information technology controls, which ensure, *inter alia*, restrictions and supervision of access to networks, data and applications, and the completeness and accuracy of data capture and processing. Authorised external agents also verify the compliance of operations and the existence of the requisite controls within information systems on an annual basis.

External auditing

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

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

Transactions between the Krka Company and the auditing company KPMG Slovenija, podjetje za revidiranje, d. o. o., as well as transactions between Group companies and other auditing companies are disclosed under Transactions with Audit Firms in the Notes to the Financial Statements.

Statement of compliance with the Corporate Governance Code

The Management Board and Supervisory Board of Krka, tovarna zdravil, d. d., Novo mesto hereby state that in 2011 individual members of the Management Board and Supervisory Board, as well as the Management Board and the Supervisory Board as bodies of a public limited company, complied with the principles of corporate governance for listed companies and worked to ensure their implementation within the company.

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

Novo mesto, 21 March 2012

A blue ink signature of Jože Colarič, consisting of a large, stylized 'C' followed by a horizontal line.

Jože Colarič
President of the Management Board and Chief Executive

A black ink signature of Jože Lenič, featuring a large 'J' and 'L' with a stylized 'nič' at the end.

Jože Lenič MSc
President of the Supervisory Board

The Krka Group development strategy

Mission, vision and values

MISSION

Living a healthy life.

VISION

We are continually consolidating our position as one of the leading generic pharmaceutical companies in the world.

VALUES

Speed and flexibility

Partnership and trust

Creativity and efficiency

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

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

Key strategic objectives to 2016

Report an average annual sales growth of at least 6%.

In addition to organic growth, expand through mergers and acquisitions and long-term partnerships.

Have new products account for at least one third of total sales.

Strengthen the competitive advantage of the product portfolio by maintaining vertical product integration and by launching selected products as the first generic pharmaceuticals on selected key markets.

Increase cost efficiency in products.

Improve asset efficiency.

Strengthen innovation across all business functions.

Maintain independence.

Key strategies to 2016

Prioritise focus on European markets and the markets of Central Asia.

Strengthen pharmaceutical and chemical activities, especially prescription pharmaceuticals for the three key therapeutic areas (pharmaceuticals for cardiovascular diseases, pharmaceuticals to treat alimentary and metabolic diseases, and pharmaceuticals for diseases of the central nervous system) and non-prescription products for the selected therapeutic areas.

Develop generic pharmaceuticals and prepare their marketing authorisation documentation prior to the expiry of the product patent for the original medicine.

Strengthen competitiveness in the markets of Western Europe by establishing our own marketing companies.

Strengthen the professional and cost synergy within the Krka Group, and maximise the competitive advantages offered by the business environments of Krka companies outside Slovenia.

Secure a permanent supply of input materials and optimise supply to continually drive down costs.

Strengthen the internationalisation of all business functions by implementing English and Russian as the key communication tools in the Krka Group.

Maintain a sense of responsibility with respect to the surroundings in which we operate, in an economic and social sense as well as in relation to preserving the environment.

Reduce the impact of financial risk and economic threats on the operations of the Krka Group.

Pursue the policy of moderate dividend increases.

Operate in line with the principles of business excellence and thereby strengthen the visibility and positive public profile of the Krka Group.

Business objectives of the Krka Group for 2012

With a growth rate of 6%, the product and service sales target is EUR 1,134 million.

Central Europe will remain Krka's largest sales region and the Russian Federation its most important individual market.

Sales outside Slovenia are expected to account for 90% of total sales.

With the expected sales growth of 5%, prescription pharmaceuticals will remain the most important product group, accounting for over 81% of total sales.

The planned net profit is EUR 170 million.

At the end of 2012 the Group will employ close to 9,700 staff (up 5%), 50% outside Slovenia.

EUR 200 million has been set aside for investments, to be spent mainly on expanding and modernising production and research and development capacity, and infrastructure.

Macroeconomic forecast for 2012

In 2012 we anticipate the majority of European countries to implement austerity measures, which will have unfavourable effects on demand in the short-term but will set up a good platform for mid-term and long-term economic growth. With regard to our planned marketing and sales activities, we expect the conditions in the markets where we operate to facilitate meeting the set business objectives.

Macroeconomic forecasts for 2012 in figures

Country	Pharmaceuticals market growth (%)	Pharmaceuticals market value (EUR million), wholesale	FX rate (currency/EUR)
Slovenia	–2	500	euro area
Croatia	–3	700	7.5
Romania	5	2,600	4.35
Russian Federation	5–10	11,500	43.0
Ukraine	5–10	2,000–2,200	10.6
Poland	0	5,160	4.30
Hungary	–8	1,970	300
Czech Republic	–2	2,190	24.7
Western Europe	–0.2	178,000	euro area

Source for pharmaceuticals market forecasts: internal estimates.

Source for FX rate forecasts: bank reports.

Macroeconomic forecasts are set out below which are mainly summarised from the forecasts of the European Commission.

Slovenia

Like many other European countries Slovenia too is looking for a way to enhance its public finances, especially its current expenditure, while its total public debt remains below the Maastricht threshold. Challenges for 2012 include public saving, solving the persistent liquidity crunch, stimulating foreign investment, and introducing reforms to unburden and stimulate the economy. With an economic growth of presumably 1%, economic activity will reflect the further shrinking of the construction industry, the uncertain business climate and the thus limited investment and spending.

In 2012 we expect the value of the Slovenian pharmaceuticals market to decrease by 2%, to approximately EUR 500 million.

In 2012 we expect most markets to implement austerity measures.

Croatia

One of Croatia's key economic and social challenges for 2012 is the high unemployment rate, which has been increasing since the onset of the financial crisis and which settled at just below 14% in 2011. The government and central bank especially are announcing that it is urgent to implement decisive saving measures, raise the VAT rate and cut public spending by at least an annual EUR 800 million, or 1% of gross domestic product (GDP). The economy is expected to grow by 1%, with the exchange rate remaining unchanged, at 7.5 kuna per euro.

The value of the Croatian pharmaceuticals market is expected to decrease by 3% in 2012 to around EUR 700 million.

Romania

Numerous austerity measures that Romania implemented with the financial support of the European Union, International Monetary Fund and World Bank have yielded results. Over the past two years budget deficit has dropped from nearly 10% to less than 4% of GDP. Similar measures will continue in 2012, when we expect, *inter alia*, an additional reform of the public health care system, which will provide a new definition of compulsory health insurance rights, focusing on generic medicines but making conditions for suppliers stricter. We expect the annual economic growth in 2012 to be just over 2%,

which is approximately 0.5 of a percentage point higher than in 2011. The exchange rate is expected to be stable, at 4.35 lei per euro.

The value of the Romanian pharmaceuticals market is expected to increase by 5% in 2012 to around EUR 2.6 billion.

Russian Federation

The high single-digit growth in investments, the construction industry and domestic demand, as well as the lowest inflation rate since 1992, have created a good economic platform in 2011 for future years. In addition, the Russian Federation is one of the few countries with a current-account surplus and a good public finances outlook in general, its public debt representing less than 12% of GDP. By comparison, public debt amounts to 88% of GDP in the euro area. Forecasts for the Russian Federation for 2012 expect more than 4% economic growth, while the most optimistic ones talk of a growth of even up to 7%. The exchange rate will be influenced by volatile oil prices, the EU debt crisis, which has substantially cut capital resources, and the rising country risk as perceived by investors. After the Russian Federation becomes a member of the World Trade Organisation in mid 2012, its relations with international investors as well as its commercial trade will grow stronger.

The pharmaceuticals market is expected to grow most, by 5–10%, in the Russian Federation, Ukraine and Romania.

The Russian pharmaceuticals market is forecast to grow 5–10% in 2012 to around EUR 11.5 billion and thus be one of Krka's fastest growing markets.

Ukraine

The economic conditions and forecasts for 2012 have deteriorated, but with the expected 3–4% economic growth they nevertheless remain favourable. One of Ukraine's foremost challenges is pushing onward reforms, which are the condition for the country's receiving the full EUR 15 billion bailout loan from the International Monetary Fund, which had been stopped in 2011 due to Ukraine's non-compliance with the related commitments. The exchange rate is forecast to remain stable, at around 10.6 hryvnia per euro.

We expect the Ukrainian pharmaceuticals market to be one of the fastest growing markets in 2012. On a growth rate of 5–10% it could be worth EUR 2.0–2.2 billion.

Poland

The freeze of the public sector wage fund, public spending limits, the VAT rate increase and general saving reforms across the pension and health care budgets will reduce budget deficit by 2013 from the high, around 7% down below the Maastricht threshold. At the same time these measures will slow down economic growth, which is forecast to drop by nearly one half in 2012. The exchange rate is forecast to remain at the level of 4.30 zloty per euro.

The value of the Polish pharmaceuticals market is expected to remain unchanged in 2012, being worth around EUR 5.2 billion.

Hungary

The high single-digit interest rate for public debt, the international community's uncertainty about the country's fiscal sustainability, and the rating agencies' negative credit ratings and forecasts have cooled the expectations about Hungary's economy in 2012. The proposed changes to its central banking and financial stability legislation, which experts warn will decrease the central bank's independence, further make any additional bailout borrowings from the International Monetary Fund and the European Union uncertain. The exchange rate is forecast to stay at just above 300 forint per euro, but will not deteriorate further.

Estimates say that the Hungarian pharmaceuticals market will drop below the EUR 2 billion mark, thus down around 8%.

Czech Republic

The Czech Republic has experienced stable economic growth since the end of 2009; however, economic activity has begun to slow down. The country's increasing the VAT rate by 4 percentage points in 2012, and their cutting wages by 10% and staff in the public sector, as well as the slow rebound of the labour market and the forecast increase in inflation due to the higher VAT rate, together with slowing exports, dampened business expectations and fewer investments, will pull

economic growth back. The economy is expected to grow by 0.7% in 2012, which is less than one half of its growth rate in 2011. We expect the Czech krona's exchange rate to remain stable.

The Czech pharmaceuticals market will decrease by 2% in 2012 to around EUR 2.2 billion.

Euro area

The debt crisis in 2011 was one of the most important tests for the European Union in its entire history. As the majority of EU countries, even the most financially strong ones, are facing public debts considerably above the Maastricht criteria, most economies have already announced or began implementing strict saving measures, especially in the public sector, and in the pension and health care budgets. After the euro area witnessed a nearly 2% economic growth in 2011, it is expected to slow down in 2012 by over a half, to around 0.5%. The exchange rate against the dollar is expected to remain rather unfavourable, at 1.30 dollars per euro.

The pharmaceuticals market is estimated to amount to EUR 178 billion in 2012, forecasts announcing market stagnation on average.

Risk management

Effective risk management provides a basis for business security and returns, and is one of the most important elements of business success.

Managing diverse risks demands taking diverse approaches. At Krka, operational risks are managed by the organisational units whose work is related to specific types of operational risk, while financial risks are managed centrally by the controlling company. We manage risk comprehensively throughout the entire Krka Group by applying the principle of functional leadership, where the business function in the controlling company manages and supervises the same business function in all subsidiaries.

Our risk management at the Group level is based on the Risk Register, a complete list of risks and corrective measures, and on the business continuity management system, which was set up in 2011 and which includes scenarios of unexpected circumstances and extraordinary events along with the solutions for maintaining our key processes operational and uninterrupted.

In 2011 Krka managed to further reduce the impact or risks on its operations, and introduced continual improvements to its risk management strategy.

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

BUSINESS CONTINUITY			
Risk area	Description of risk	Risk management method	Exposure
Availability of critical resources to provide for the production and sale of key products	Unplanned halts and unavailability of key resources to provide for the production and sale of key products (employees, buildings and equipment, materials, utilities, information)	Business continuity management system, business impact analysis, requirement for availability of critical resources and services, risk analysis for each area; measures to reduce consequences and improve process resilience against disturbance	Moderate
Product supply	Risks related to the timely supply of finished products and effective utilisation of production capacity	Diligent supply chain planning, and provision of adequate production capacity	Moderate
Technical services	Risks related to the adequate supply of production utilities to processes, and adequacy of technical maintenance	Back-up power supply plans, robust demand planning for utility supply, redundant capacity, and planned maintenance processes	Moderate
Information	Risk of business process disruption due to	Independent security checks and preventive	Moderate

technology	disruption in information resources	measures to rectify disruption; threat assessment and security plan	
Employees	Risk of accident or injury in the workplace, risks related to unplanned longer absences	Measures based on workplace risk assessments, staff interchangeability	Moderate
Protection of property	Danger of alienation and destruction of property	Threat assessments and security plan	Moderate

FINANCIAL RISK

Risk area	Description of risk	Risk management method	Exposure
Foreign exchange risk	Risk of losses due to unfavourable exchange rate movements	Tracking financial markets, managing open positions, hedging with appropriate financial instruments if required	Moderate
Interest rate risk	Risk of losses due to unfavourable interest rate movements	Monitoring interest rate changes, negotiations with credit institutions, hedging with appropriate financial instruments	Low
Credit risk	Risk of customers defaulting on payment	Calculating credit ratings, restricting maximum exposure to individual customers, active management of receivables	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

Operational risk

Research and development risk

Krka's finished products need to offer high quality, safety and efficacy, and have the requisite properties as confirmed by relevant studies and data. We mitigate the related research and development, technological, and technical risks by introducing new, updated development processes and methods, and by utilising in-house as well as acquired knowledge and experience in the research and development field.

By updating processes, introducing modern technologies and adjusting to requirements we reduce these risks in the early stages of development. An important factor is particularly the vertically integrated model of development and production, with which we control the entire development and production process from raw materials to the finished product.

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

Sales and marketing risk

Selling its products in over 70 countries around the world, Krka conducts business in a variety of different geopolitical and macro-economic conditions as well as legal and competitive environments. It is therefore exposed to different sales and marketing risks of varied intensities. Rapid responses to potential changes of business terms and alignment of our sales and marketing activities remain our key comparative advantages over the competition. With our in-house services and the use of independent data sources, we continually monitor market conditions (particularly competing generic producers and

the local pharmaceutical industry), the legal frameworks of pharmaceuticals marketing, systemic pricing arrangements and government reimbursements for pharmaceuticals.

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

We regularly evaluate the market potential of individual therapeutic groups and products within those groups. We use a range of external data sources to monitor global and regional trends, and conduct our own market research and analyses. The efficiency of our marketing strategies and tactics is regularly monitored with performance indicators, and marketing strategies are also overseen systematically. Cyclical planning and analyses of marketing activities and investments have been introduced, with a special focus on organising and supervising the work of employees in the marketing network. Our staff are regularly trained, and their knowledge, skills and being well-acquainted with working instructions are checked regularly. In marketing our products, we consistently abide by legal requirements and ethical norms.

Intellectual property risk

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

In cases where we assess that patents have been granted to third parties without grounds, meaning that the subject of a patent is not actually an invention (the solution is not new or does not include an inventive step), and where such patents represent a potential obstacle to our work, we use the legal remedies available to cancel such patents. This prevents holders of such patents from filing actions against us for infringement.

Krka has formed adequate provisions for potential damages in case a patent holder, despite the above measures, considers Krka to have infringed its rights and takes legal action against us.

If we assess that the results of our research work are new and innovative, we put patent protection on such solutions.

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

In order to adequately manage risks in this area, Krka employs intellectual property experts.

Quality assurance risk

Krka monitors the quality assurance risk across all production areas in the Group from three aspects: product quality risk, product safety risk, and risk to company operations. We use generally known methods to evaluate risk, and implement them in line with the requirements of Annex 20 to the EU Guidelines to Good Manufacturing Practice.

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

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

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

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

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

Investment project risk

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

Human resource risk

Specific attention is paid to our key staff, who are also targeted by competitors. Due to the lack of suitable staff on the labour market, we systematically educate and train our staff to acquire national vocational qualifications. We plan and regularly monitor their education and development while stepping up their responsibilities in the workplace and encouraging them to take on new duties and positions. Along with a range of other incentives these measures foster loyalty to the Group and reduce the possibility of these workers leaving.

The risks related to the lack of specialist staff members, which comes as a result of demographic changes and lower enrolment into universities, are managed by increasing the volume of study grants on offer. This approach provides us with the human resources we require to meet our strategic, developmental and sales plans.

Legal risk

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

Environmental protection risk

Certain incidents can have a negative impact on the environment, so it is important to reduce the risk of their occurrence and take effective action in case they occur. In order to reduce the environmental impact we use modern technology and technical measures, and have in place procedures to detect emergency incidents. All potential incidents are identified and evaluated, and actions and measures defined in case they occur.

The probability of incidents is reduced by preventive measures. Training and drills are used to ensure we respond correctly in case of an incident, and that any such incident has a minimum impact on the environment. In 2011 no incident was recorded at Krka that could have had a potentially adverse effect on the environment.

Business continuity

Availability of critical resources to ensure the production and sales of key products

Major incidents and catastrophes that would stop the production and sales of our products can compromise the existence of the Krka Group. Our business impact analysis assesses the critical nature of processes and the risks they are faced with. We take effective measures to protect people, property and other key resources, and to prevent incidents and catastrophes. For cases of incidents we have prepared plans of action and disaster relief measures as well as measures to decrease direct damage and plans to act under extraordinary circumstances until normal operations have been restored.

Product supply risk

In Product Supply we continually monitor the supply market, suppliers and prices of raw materials. By planning our inventories and keeping contingency stocks, we make sure that we have permanent access to the materials required for the production of finished products. We assess and select suppliers based on set criteria, and periodically examine them. Only second to quality standards, our main criterion in selecting contractual partners is competitive pricing and security of supply. We also conduct supplier audits and regular controls. For key raw materials we have at least two suppliers.

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

Good warehousing and manufacturing practice is followed in the warehousing of incoming materials, bulk products and finished products. To account for major disaster scenarios, our raw materials and finished products warehousing systems allow us to keep goods in several dislocated locations.

Good manufacturing practices are applied to production processes and a suitable production environment is ensured. We ensure the reliable and high quality operation of production equipment by means of regular and preventive maintenance. We plan for optimum utilisation of production capacity and measure production efficiency. This includes implementing continual process improvement measures. By purchasing new equipment and making new investments we are adapting to sales demand, increasing our production capacity, and producing key products across several facilities to account for potential major disasters.

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

Technical service risk

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

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

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

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

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

Risks related to the reliability and availability of technical systems are mitigated through our continual monitoring of operations, implementing preventive checks, servicing, making improvements to equipment and implementing modern approaches to maintenance. Failures and breakdowns are rectified according to planned procedures and instructions. In order to remedy breakdowns fast and effectively we have trained our own maintenance staff and have set up an inventory of spare parts, which is regularly checked and replenished. The staff that monitor and maintain technical systems undergo regular training and testing of their knowledge and expertise.

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

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

Information technology risk

A set methodology is used at Krka to define the criticality of information resources, based on assessments of the criticality of processes and of the criticality of an information resource. The main information resources are individual information services and applications. The criticality level is summarised from all infrastructural elements on which the information service or application depends. One method of threat detection is independent security inspections of our information infrastructure. Threats and risks have been identified for all critical information resources, whereby the Management Board has approved acceptable risk levels and the measures required to eliminate unacceptable risks. To account for major catastrophes we keep duplicate computer equipment at backup locations, in the Disaster Recovery Centre, where back-ups of all data are stored daily.

Employee risk

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

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

Protection of property

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

Financial risk

Foreign exchange risk

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

The Group statement of financial position shows a surplus of assets over liabilities in all these currencies, which we consider a long currency position. The key categories that make up a currency position are trade receivables, trade payables, and the parent company's receivables from and payables to its subsidiaries.

We ended 2011 reporting negative net exchange rate differences.

Our key currencies were volatile in 2011; in the first half of 2011 they gradually appreciated relative to the euro, resulting in positive net exchange rate differences on our books. The Russian rouble, Romanian leu, Croatian kuna and Polish złoty thereafter depreciated relative to the euro in the third quarter, thus we recorded negative net exchange rate differences. It is mainly due to this depreciation that the Group is reporting negative exchange rate differences for the entire year of 2011. More information on exposure to foreign exchange risk is provided under Financial Instruments in the Financial Statements.

The costs of foreign exchange hedges are high, therefore our currency positions in 2011 were not hedged.

Value and volatility and key exchange rates

	31 Dec 2010	2011					
		31 Dec 2011	Lowest value	Highest value	Average value	Standard deviation	Coefficient of variation (%) [*]
RUB	40.82	41.77	39.06	43.72	40.88	1.11	3
HRK	7.38	7.54	7.36	7.54	7.44	0.05	1
RON	4.26	4.32	4.07	4.37	4.24	0.08	2
PLN	3.98	4.46	3.84	4.56	4.12	0.21	5
CZK	25.06	25.79	24.02	26.03	24.59	0.47	2
HUF	277.95	314.58	263.08	315.60	279.37	15.25	5
UAH	10.61	10.34	10.22	11.84	11.12	0.37	3
RSD	105.50	104.64	96.70	106.49	101.98	2.01	2
USD	1.34	1.29	1.29	1.49	1.39	0.05	3

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

Interest rate risk

No new long-term loans were agreed in 2011. All existing long-term borrowings have been repaid to the extent where market interest rate changes no longer have a decisive impact on the increase of the Group's overall financial expense.

Interest rate changes have had little impact on financial costs.

Value and volatility of the 6-month Euribor

	31 Dec 2010	2011					
		31 Dec 2011	Lowest value	Highest value	Average value	Standard deviation	Coefficient of variation
Euribor 6-month	1.23%	1.62%	1.22%	1.83%	1.64%	0.00	11%

Credit risk

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

The trend for extending payment terms to final customers ceased in 2011, decreasing the accounts receivable to sales ratio. The value of receivables fluctuated during the year, with amounts being highest at the end of each quarter. Past due receivables have remained at a level that Krka considers normal and acceptable.

No major receivables were written off in 2011.

In 2011 we increased the share of insured receivables, so that on 31 December 2011 49% of our accounts receivable had insurance coverage. A proportion of our receivables also have bank guarantees and letters of credit for cover.

The quality of trade receivables in terms of maturity structure and assessed customer risk is estimated to have remained unchanged on average. On account of our active management of receivables and past due receivables, we have not written off any major receivables in 2011.

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

Liquidity risk

Liquidity risk is managed centrally, at the Group level. This makes the management of cash assets in the Group transparent and effective, and facilitates the most favourable possible conditions for financing. A strong cash flow from operations, a conservative capital structure with prevailing equity, and Krka's good results have in 2011 again ensured optimum liquidity for the controlling company and subsidiaries, and enabled favourable conditions for financing.

The controlling company organises effective cash management for the subsidiaries, plans their cash requirements and provides funds. Liquidity shortages are covered by agreed credit lines, while periodic cash surpluses are placed into safe and liquid deposits.

Due to low indebtedness, good results and numerous risk management measures, we consider the liquidity risk we are faced with to be low.

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

Liquidity ratios for the Krka Group

Liquidity ratios	2011	2010	2009	2008	2007	5-year average
Current ratio	2.82	2.76	2.92	2.01	2.00	2.50
Quick ratio	1.76	1.78	1.92	1.09	1.09	1.53
Acid test ratio	0.09	0.04	0.08	0.04	0.10	0.07
Receivables turnover ratio	2.93	2.74	3.31	4.47	4.54	3.60
Working capital/Sales ratio (%)	44.48	46.16	41.87	34.79	31.83	39.83

Current ratio = Current assets/Current liabilities

Quick ratio = (Current assets – Inventories)/Current liabilities

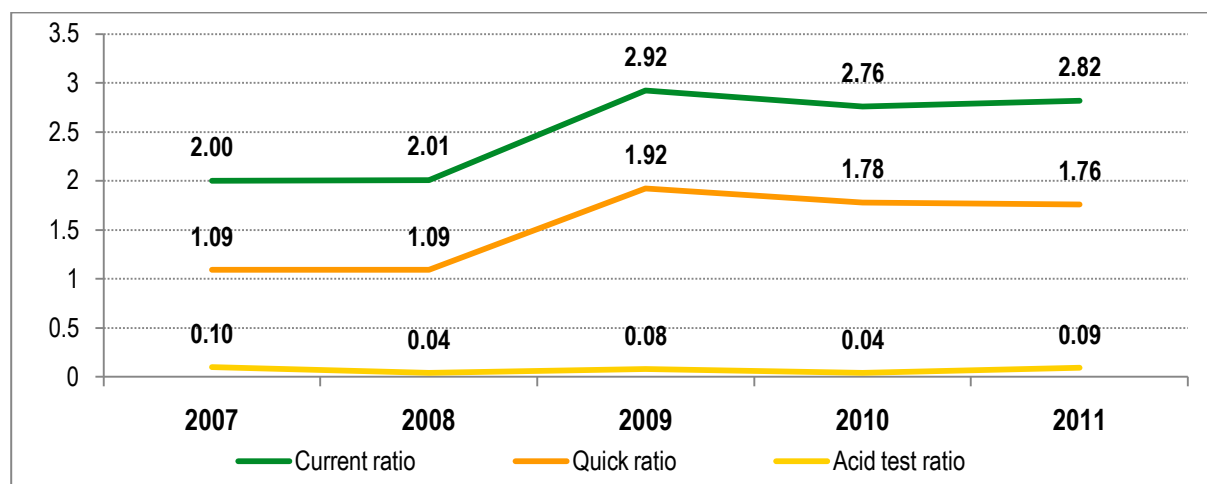
Acid test ratio = (Investments + Cash and cash equivalents)/Current liabilities

Working capital = (Current assets – Short-term loans) – (Current liabilities – Short-term borrowings)

Net indebtedness decreased in 2011, thus further strengthening the Group's financial security. The Group could use its EBITDA to pay off all its net debt within 0.16 of a year, while its operating profit is 72-times higher than interest expenses. Both are addressed into detail in the Business Operations Analysis. The values of contracted cash flows from financial liabilities are given by maturity under Financial Instruments (Liquidity Risk) in the Notes to the Financial Statements.

Due to low indebtedness, good results and numerous risk management measures we implemented, we consider the liquidity risks that we faced in 2011 to have been low.

Movement in liquidity ratios for the Krka Group



Property and business interruption insurance

In 2011, Krka extended and unified its instructions for the insurance of property, liability and business interruption, which facilitates clear guidelines for the implementation of its master insurance policy at the Group level. Over the reported period Krka integrated new companies into its insurance system: Farma GRS, d. o. o., Slovenija, KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal, and KRKA Farmacêutica, s.l., Madrid, Spain. Thus, Krka managed the risks and liabilities related to its investments into the development and control centre RKC 3, solid dosage forms production plant OTO and Krka-Rus II, and thus facilitated projects to be managed within the set deadlines and in line with objectives. In addition to its periodic annual insurance coverage, Krka also took out insurance on several clinical trials around the world, conducted an analysis of car insurance outside Slovenia and reviewed how local insurance in some countries is being taken out.

Supervision and insured loss management

We are aware that each loss event causes a slowdown or even halts a specific work process, whether this be a damaged company vehicle, fire, water leakage in the warehouse or other insured peril. This is why we strive to facilitate business continuity from the insurance perspective as well. Loss events are managed centrally at the Group level, which substantially cuts the time necessary to remedy any incurred damage. After buildings have been restored to their previous state following a loss event, and after all work processes have returned to normal, preventive measures are implemented with respect to the loss event. Their purpose is to reduce the possibility of the same damage reoccurring, to limit possible dangers, to train staff, to eliminate deficiencies in equipment, machines and processes, and to eliminate any other causes that resulted in the damage. In addition to increasing the availability and thus economical utilisation of our facilities, such measures improve access to quality insurance coverage and reduce insurance premiums.

Investor information

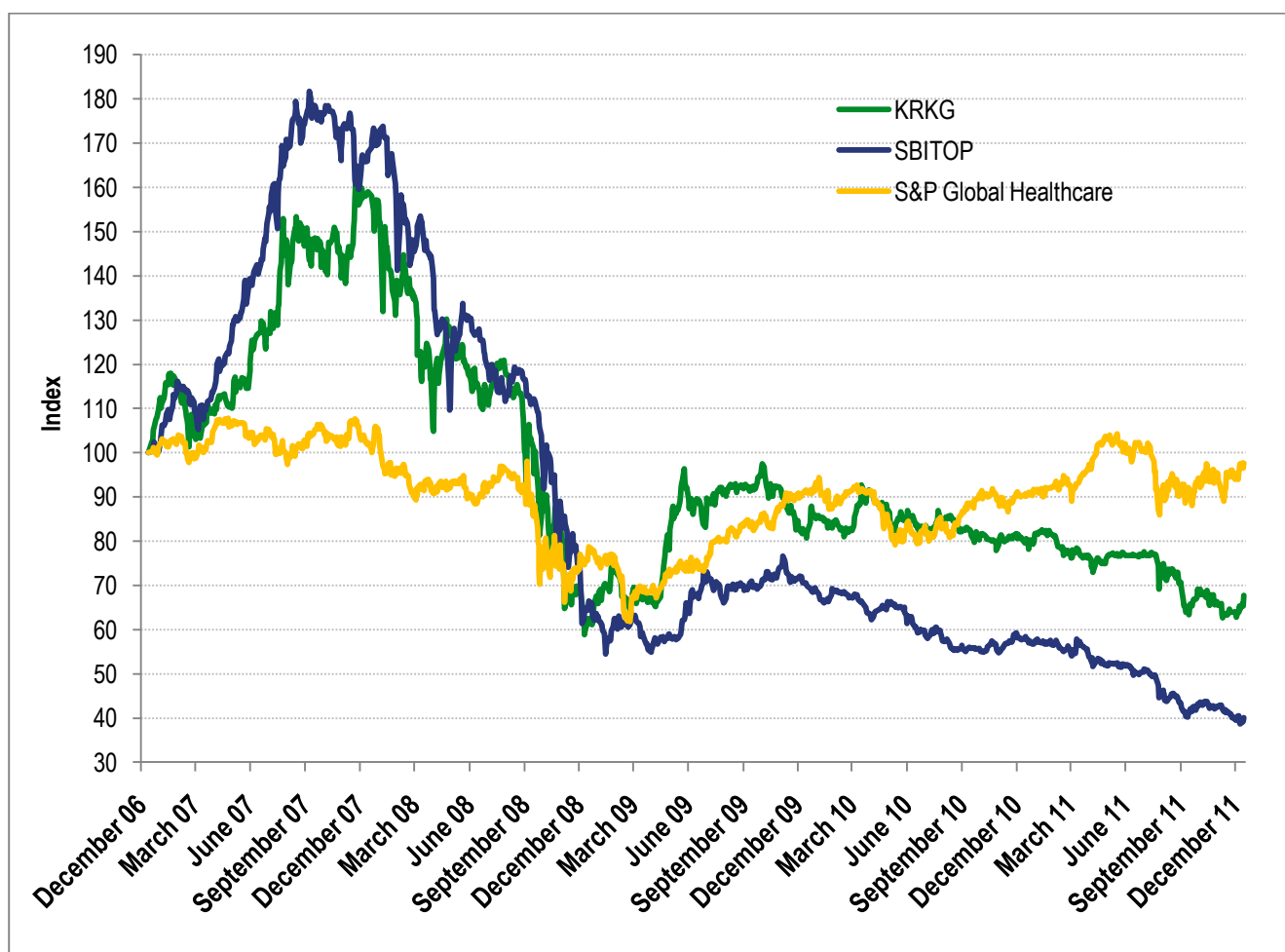
Shareholder return

Krka share price

EUR	2011	2010	2009	2008	2007
Year high	64.48	72.69	76.17	123.47	126.58
Year low	49.00	60.94	47.78	46.02	79.23
31 December	52.90	62.95	64.04	48.27	124.29
Annual increase (%)	-16	-2	33	-61	58

In 2011 the Krka share price decreased by 16%. The value of the Ljubljana Stock Exchange's blue-chip index (SBITOP) dropped by 31% over the same period.

Krka share price performance relative to selected share indices (start of 2007 = 100)



Over the past five years the advances of the Krka share price substantially outstripped the blue-chip index SBITOP. Over the initial four years Krka share grew faster than S&P Global Healthcare index. Since the end of 2010, however, the latter presented a higher growth than Krka share.

Dividend policy

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

In 2011 we changed our dividend policy by raising dividends for the 2010 financial year by more than 27%. In the past we used to appropriate 25% of profit for the period to dividends at the most, whereas now we intend to allocate up to one third of our entire profit for this purpose.

The changed dividend policy will bring higher returns to investors.

	2011	2010	2009	2008	2007
Earnings per share ¹ in EUR	4.85	5.06	5.14	4.61	3.92
Gross dividend per share ² in EUR	1.40	1.10	1.05	0.91	0.80
Dividend pay-out ratio ³ (%)	28	21	23	23	24
Dividend yield ⁴ (%)	2.6	1.7	1.6	1.9	0.6

¹ Net profit attributable to equity holders of the parent/Average number of shares issued in the period, excluding treasury shares

² Dividends paid for the previous period/Average number of shares issued in the period

³ Gross dividend per share/Earnings per share from the previous period

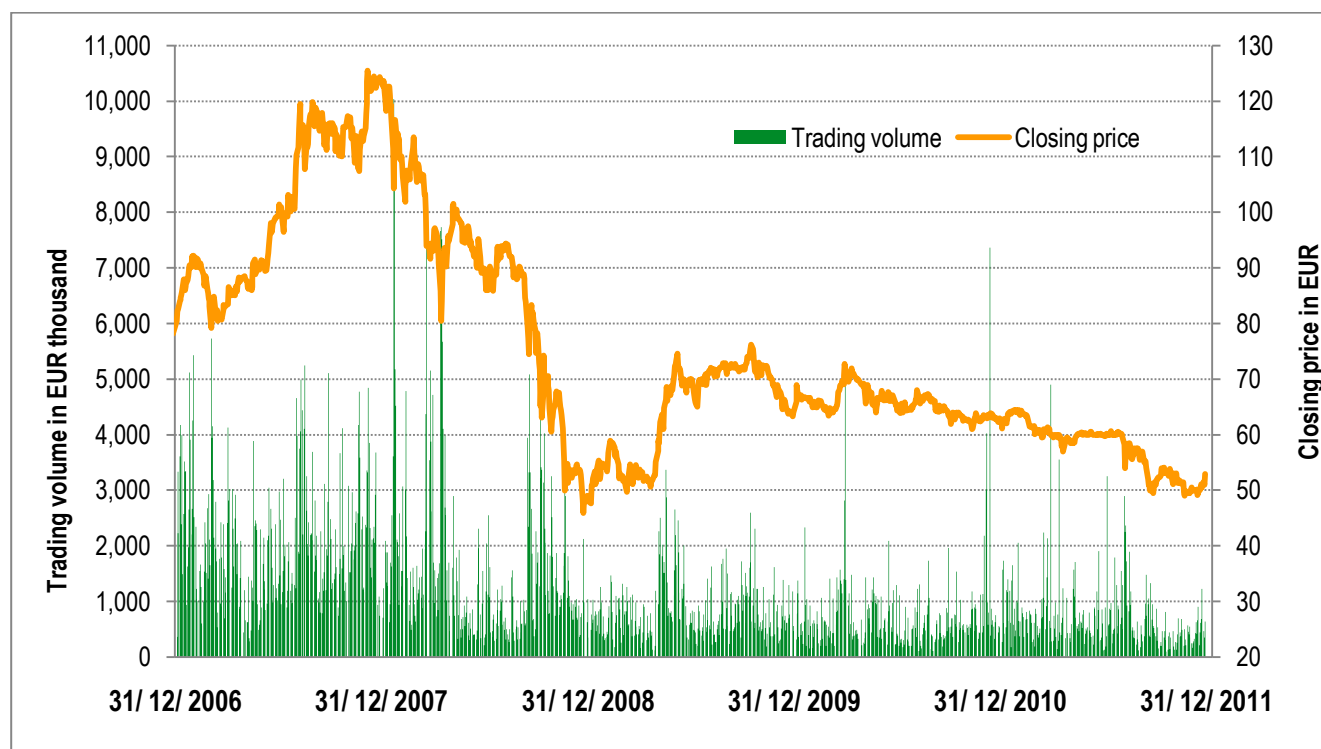
⁴ Gross dividend per share/Share price as at 31 December

The number of shares following the 1:10 share split was used for all periods.

Share trading and shareholding

Krka shares are listed on the Prime Market of the Ljubljana Stock Exchange under the trading code KRKG. All Krka shares are of the same class, ordinary and freely transferable. Each share (except treasury shares) represents one vote at the annual general meeting, Krka shares can be freely traded through brokerage firms and banks that are members of the Ljubljana Stock Exchange.

Trading in Krka shares over the past five years



Source: Ljubljana Stock Exchange

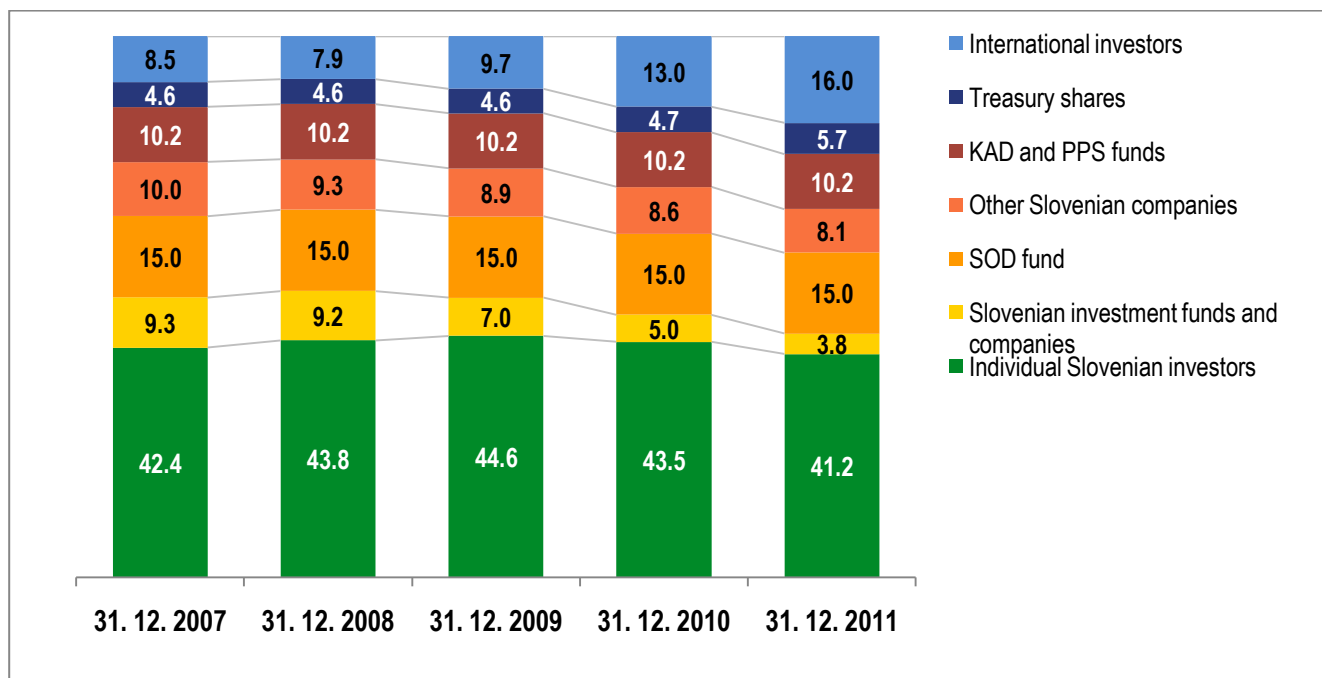
As in 2010, the average daily turnover in Krka shares on the Ljubljana Stock Exchange reached EUR 0.7 million in 2011. Krka share has remained the most frequently traded share at the Ljubljana Stock Exchange. In the first half of 2012 Krka intends to introduce its shares to dual listing on the Warsaw Stock Exchange

The 10 largest shareholders on 31 December 2011

	Shareholder	No. of shares	Stake (%)
1	SLOVENSKA ODŠKODNINSKA DRUŽBA, D. D.	5,312,070	14.99
2	KAPITALSKA DRUŽBA, D. D.	3,493,030	9.86
3	NEW WORLD FUND INC.	755,000	2.13
4	HYPO ALPE-ADRIA-BANK D. D.	645,896	1.82
5	SOCIETE GENERALE-SPLITSKA BANKA D. D.	462,547	1.31
6	LUKA KOPER, D. D.	433,970	1.23
7	ZAVAROVALNICA TRIGLAV, D. D.	388,300	1.10
8	UNICREDIT BANK AUSTRIA AG	387,387	1.09
9	TRIGLAV VZAJEMNI SKLADI	374,698	1.06
10	UNICREDIT BANK HUNGARY ZRT	332,279	0.94
	TOTAL	12,585,177	35.53

At the end of 2011 Krka had 72,720 shareholders, or 8% less than at the end of 2010, when there were 79,296. International investors increased their shareholdings the most reaching 16% of all issued shares. In 2011 the shareholdings of the domestic individual investors saw the sharpest decrease. Their number dropped by 6,429 to 71,249. The shareholdings of Slovenian state-owned funds, restitution fund Slovenska odškodninska družba and pension fund manager Kapitalaska družba with its PPS fund, remained unchanged.

Shareholder structure (%)

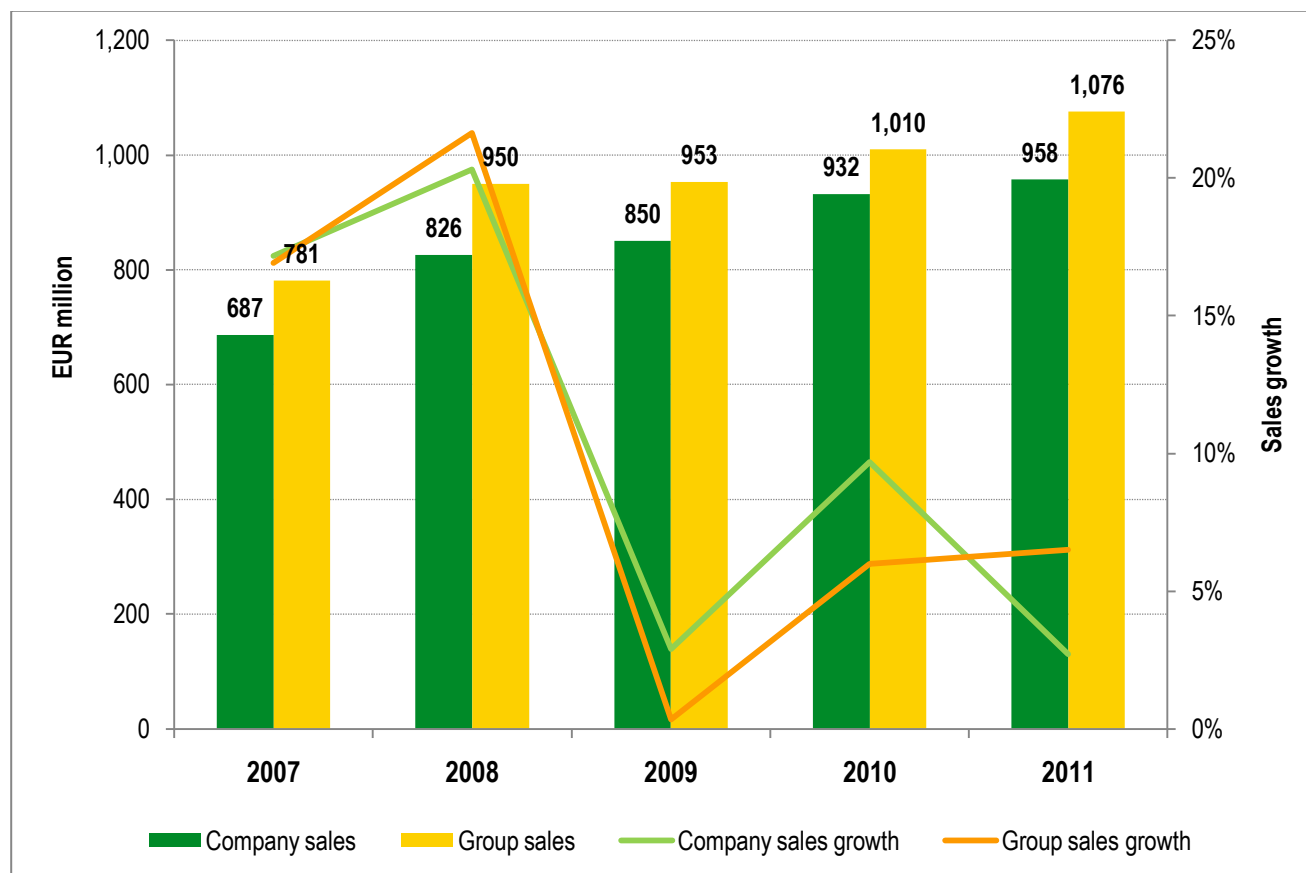


Business operations analysis

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

Sales

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



In 2011 Krka again recorded sales growth. The Group sold EUR 1,075.6 million worth of products and services, up EUR 65.6 million, or 6%, compared to 2010.

Over the past five years, average annual sales growth has been 10.0%.

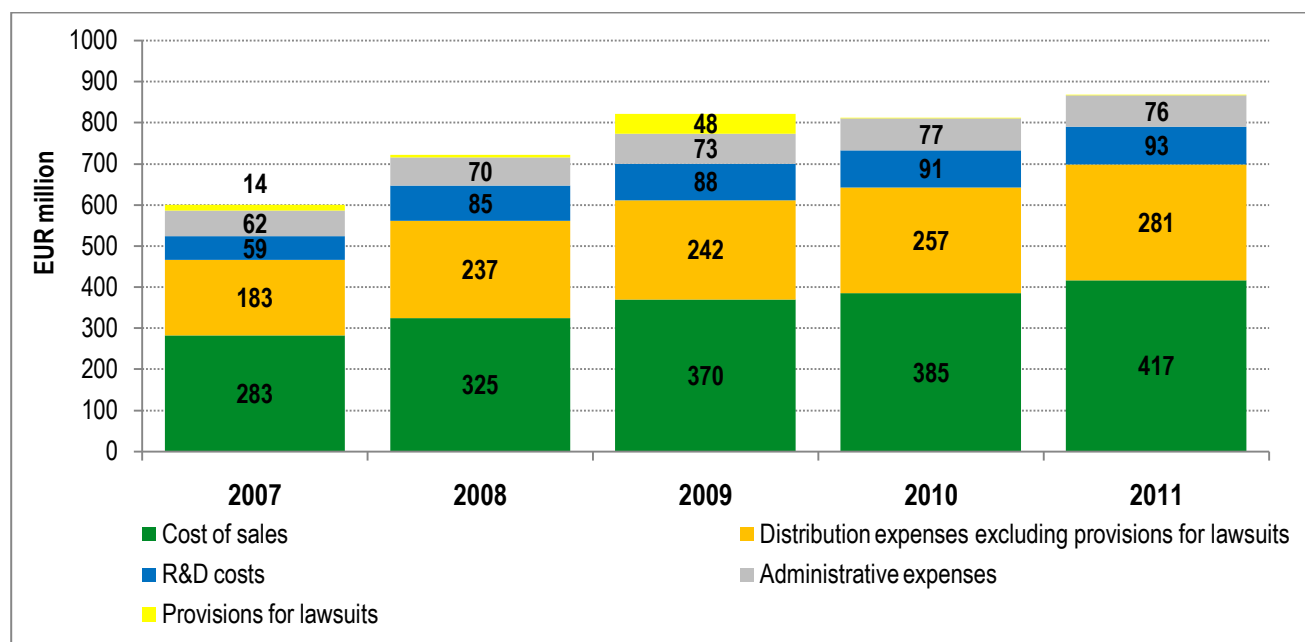
A more detailed analysis of the sales results by individual market and product and service group is given in the chapter Marketing and Sales.

Operating expenses

The Group incurred EUR 866.3 million of operating expenses, up 7% compared to 2010.

The Krka Group's operating expenses include cost of sales at EUR 416.7 million, distribution expenses at, EUR 281.2 million, EUR 92.9 million for R&D costs, and EUR 75.6 million for administrative expenses. Over the past five years, the operating expenses to sales ratio has ranged from 76% in 2008 to 86% in 2009, a figure caused in part by newly formed provisions. In the year 2011 the operating expenses to sales ratio was 81%.

Structure of Group's operating expenses by function in group sales



The largest operating expense item is cost of sales, which increased by 8% compared to 2010. Its ratio to sales is 39%. Cost of sales is influenced by changes in the inventories of finished products.

Distribution expenses represented 26% of sales in 2011, up 10% compared to the previous year. Distribution expenses are increasing due to our expanding our marketing and sales network.

The R&D costs amounted to 9%, and the administrative expenses reached 7% of total sales. R&D costs increased by 2% compared to the previous year, while administrative costs decreased by 2%.

Financial income and expenses

EUR thousand	Krka Group					Krka Company				
	2011	2010	2009	2008	2007	2011	2010	2009	2008	2007
Financial income	2,897	7,972	1,070	3,029	7,635	16,004	10,637	12,160	4,856	11,791
Financial expenses	-16,928	-8,071	-11,740	-34,177	-16,343	-15,928	-6,982	-10,139	-22,780	-16,265
Net financial result	-14,031	-99	-10,670	-31,148	-8,708	76	3,655	2,021	-17,924	-4,474

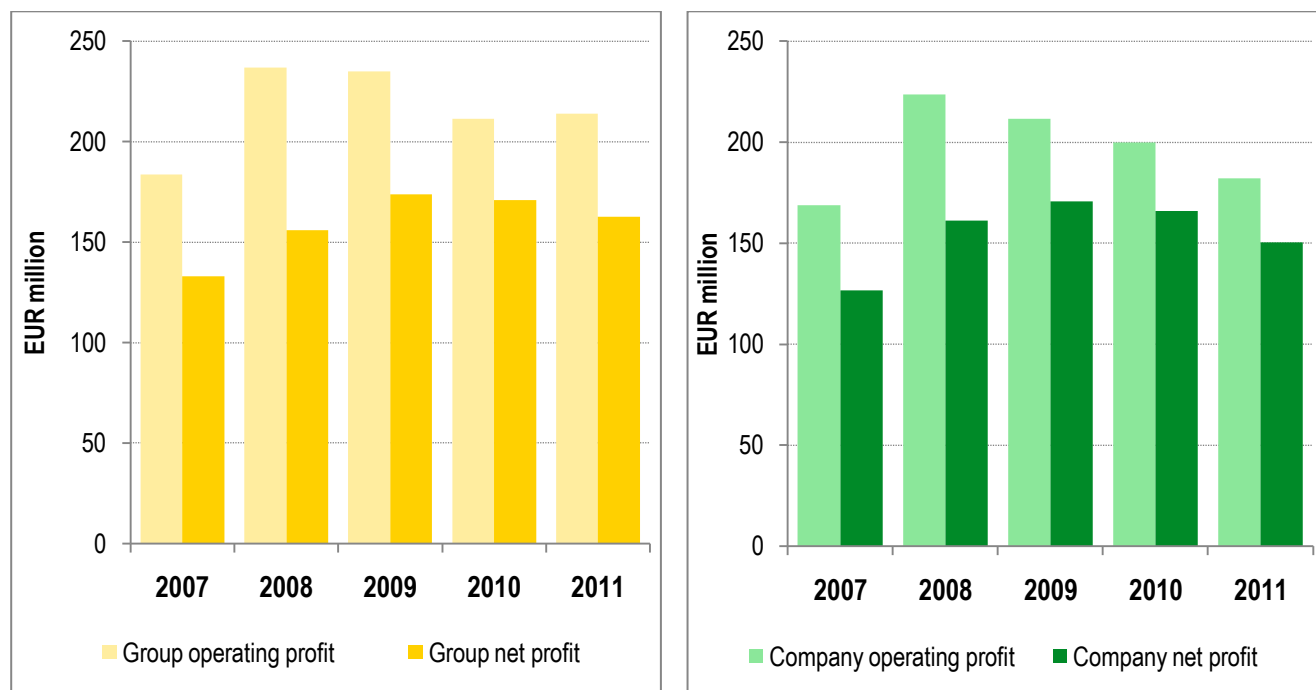
In 2011 the Group's net financial result decreased compared to 2010. The decrease was due to EUR 8.7 million of negative exchange rate differences. In 2010 Krka recorded EUR 6.3 million of positive exchange rate differences.

Financial income includes EUR 2.4 million of reversal of impairment, EUR 0.4 million of interest income, and EUR 0.1 million of dividend income.

Financial expenses include EUR 3.0 million of interest expenses for non-current and current borrowings, and EUR 4.8 million of impairments and receivable write-offs.

Operating result

Operating profit and net profit



The Group recorded EUR 214.0 million of operating profit, up EUR 2.5 million, or 1%, compared to 2010, while EBITDA reached EUR 301.2 million, up EUR 8.0 million, or 3%.

Profit before tax was down EUR 11.4 million or 5%, and amounted to EUR 200.0 million. The Group effective tax rate was 18.6%, down 0.5 of a percentage point compared to the year before.

The Krka Group reported net profit of EUR 162.7 million, down EUR 8.2 million, or 5%, compared to the year before.

Assets

EUR thousand	Krka Group					Krka Company				
	2011	Prop. (%)	2010	Prop. (%)	Index 11/10	2011	Prop. (%)	2010	Prop. (%)	Index 11/10
Non-current assets	859,468	56.0	846,506	56.9	102	809,065	55.3	807,409	55.8	100
Property, plant and equipment	703,112	45.8	686,461	46.1	102	520,929	35.6	513,683	35.5	101
Intangible assets	119,082	7.8	122,815	8.3	97	29,654	2.0	29,752	2.1	100
Investments and loans	9,765	0.6	9,550	0.6	102	239,750	16.4	244,644	16.9	98
Other	27,509	1.8	27,680	1.9	99	18,732	1.3	19,330	1.3	97
Current assets	674,559	44.0	641,698	43.1	105	654,383	44.7	638,902	44.2	102
Inventories	253,208	16.5	229,343	15.4	110	193,299	13.2	163,974	11.3	118
Receivables	399,512	26.1	402,686	27.1	99	399,250	27.3	423,042	29.2	94
Other	21,839	1.4	9,669	0.6	226	61,834	4.2	51,886	3.7	119
Total assets	1,534,027	100.0	1,488,204	100.0	103	1,463,448	100.0	1,446,311	100.0	101

At the end of 2011 Krka Group assets were worth EUR 1,534.0 million, up EUR 45.8 million, or 3%, compared to the end of 2010. Non-current assets grew primarily due to the increase in property, plant and equipment, which were up EUR 16.7 million. Among current assets, inventories were up 10%, with receivables down 1%. The proportion of non-current and

current assets is slightly different compared to the year-end of 2010, with non-current assets down 0.9 of a percentage point to 56.0% of total assets.

Non-current assets amounted to a total of EUR 859.5 million, up 2% compared to the previous year. The largest item under non-current asset is property, plant and equipment, worth EUR 703.1 million and representing 46% of the Group's total assets. Intangible assets represent 8% of total assets.

Current assets amounted to EUR 674.6 million, up 5%. The largest item under current assets is receivables, which amounted to EUR 399.5 million, down 1% compared to 2010. Inventories increased by 10% to EUR 253.2 million, due to increases in the inventories of materials (up 15%) and unfinished products (up 13%) on account of the planned increase in production in the future, as well as increased inventories of finished products (up 5%) on account of the projected sales in 2012. Total value of inventories and receivables increased by 3% compared to 2010. Among other current assets, cash and cash equivalents were up EUR 12.4 million.

Equity and liabilities

EUR thousand	Krka Group					Krka Company				
	2011	Prop. (%)	2010	Prop. (%)	Index 11/10	2011	Prop. (%)	2010	Prop. (%)	Index 11/10
Equity	1,139,754	74.3	1,053,327	70.8	108	1,140,485	77.9	1,058,154	73.2	108
Non-current liabilities	155,092	10.1	202,709	13.6	77	126,830	8.7	171,542	11.8	74
Current liabilities	239,181	15.6	232,168	15.6	103	196,133	13.4	216,615	15.0	91
Total equity and liabilities	1,534,027	100.0	1,488,204	100.0	103	1,463,448	100.0	1,446,311	100.0	101

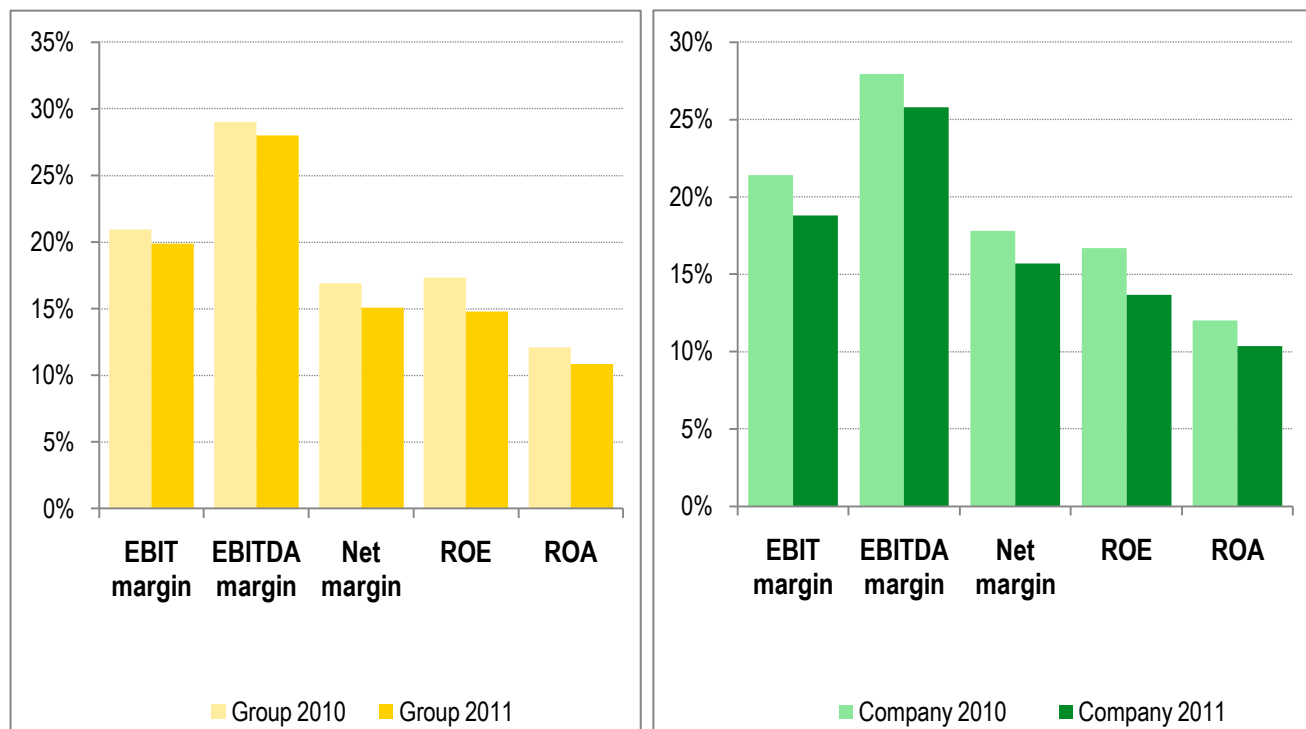
The Group's equity increased by EUR 86.4 million compared to 2010. The increase can be attributed to the Group profit in total of EUR 162.7 and deferred taxes resulting from a change in the fair value of financial assets available for sale in total of EUR 0.1 million. Equity was reduced by dividend payments totalling EUR 47.0 million, by the purchase of treasury shares worth EUR 20.8 million, by EUR 8.3 million of translation reserves, and by a change in the fair value of financial assets available for sale of EUR 0.3 million.

Long-term borrowings decreased by EUR 41.7 million, or 62%, with short-term borrowings down EUR 13.8 million, or 24%. Total borrowings decreased by 44%. Provisions decreased by EUR 4.1 million, or 4%, mainly on account of utilising the provisions for retirement benefits and anniversary bonuses.

Among current liabilities, operating liabilities decreased by EUR 0.5 million, or 1%, with income tax liabilities down EUR 8.5 million, or 87%. Other current liabilities increased by EUR 29.8 million, or 41%, mainly on account of the increase in accrued contractual discounts on products sold to other customers.

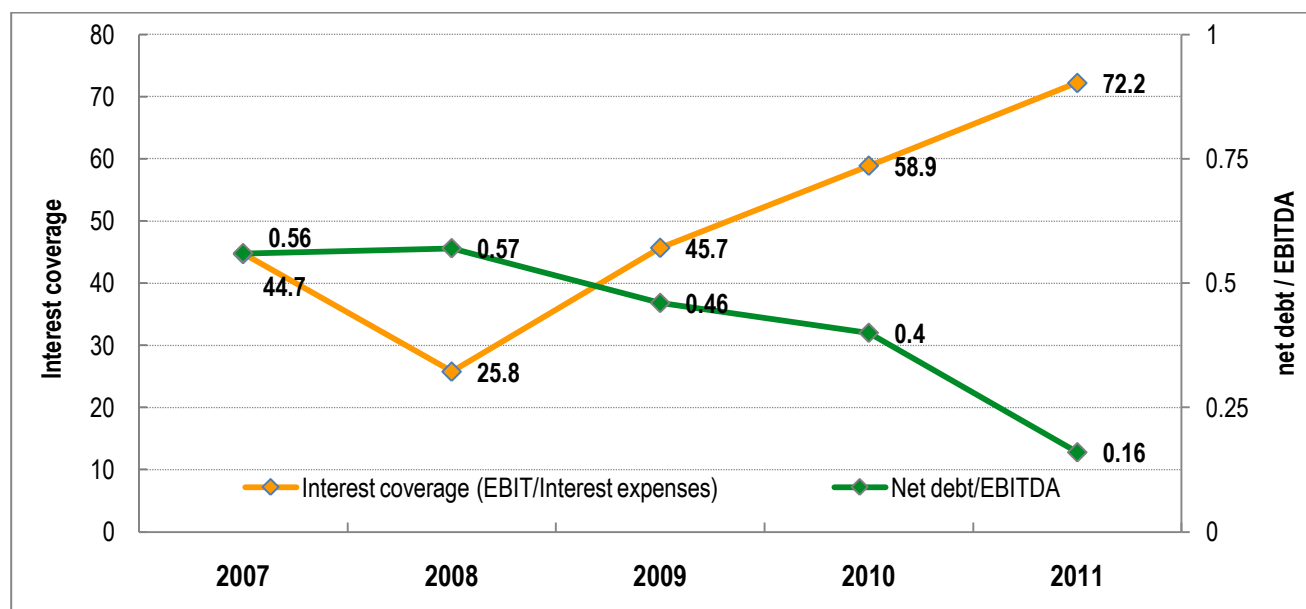
Performance ratios

Profitability ratios



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

Liquidity ratios



Interest coverage in 2011 was higher than in 2010 due to lower interest expenses and higher operating profit. The 2011 operating profit covered the interest liabilities of 72 years. An indicator value of around 13 years is enough in the United States for smaller, riskier companies to earn the top credit rating (AAA), while for larger, stable companies that figure is around 9.

The net debt to EBITDA ratio was 0.16, an improvement on 2010 due to the reduction in total borrowings and higher EBITDA. The ratio indicates that the Group could pay off its net debt in full in under two months.

Operating figures for the past five years

EUR thousand	Krka Group					Krka Company				
	2011	2010	2009	2008	2007	2011	2010	2009	2008	2007
Revenue	1,075,627	1,010,021	953,038	949,920	780,918	957,653	932,366	850,119	826,160	686,729
EBIT	214,006	211,471	234,992	236,781	183,642	180,298	199,742	211,635	223,642	168,672
– EBIT margin	19.9%	20.9%	24.7%	24.9%	23.5%	18.8%	21.4%	24.9%	27.1%	24.6%
EBITDA	302,191	293,192	311,667	308,390	240,856	246,712	260,477	270,430	275,371	213,055
– EBITDA margin	28.0%	29.0%	32.7%	32.5%	30.8%	25.8%	27.9%	31.8%	33.3%	31.0%
Net profit	162,735	170,918	173,685	155,891	132,853	150,392	165,920	170,812	161,130	126,521
– Net margin	15.1%	16.9%	18.2%	16.4%	17.0%	15.7%	17.8%	20.1%	19.5%	18.4%
Assets	1,534,027	1,488,204	1,341,032	1,271,036	1,121,418	1,463,448	1,446,311	1,312,939	1,224,392	1,057,258
ROA	10.8%	12.1%	13.3%	13.0%	13.3%	10.3%	12.0%	13.5%	14.1%	13.2%
Equity	1,139,754	1,053,327	920,369	783,296	680,913	1,140,485	1,058,154	932,010	797,203	672,010
ROE	14.8%	17.3%	20.4%	21.3%	21.2%	13.7%	16.7%	19.8%	21.9%	20.4%

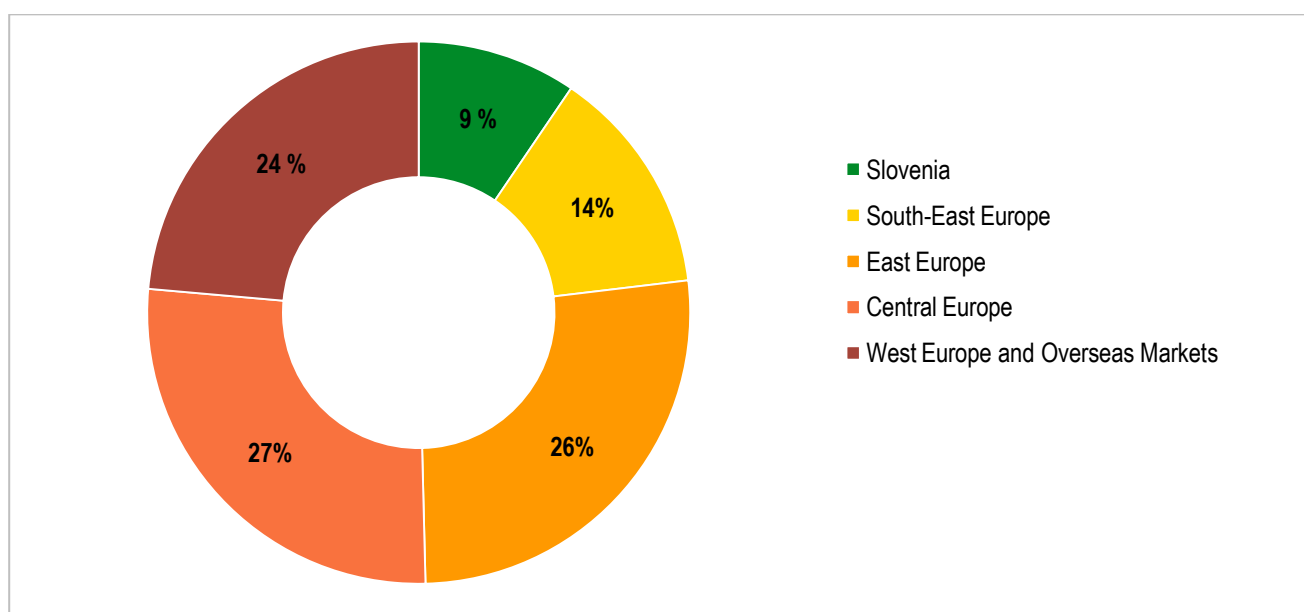
Marketing and sales

In 2011 the sales of both the Krka Company and the Krka Group exceeded the sales figures recorded in 2010. The Krka Group sold EUR 1,075.6 million worth of products and services, while Krka Company sold EUR 957.7 million.

Sales by Region

Krka's sales were the highest in Region Central Europe, where they amounted to EUR 288.2 million. This represents 27% of total Group sales. On EUR 285.2 million of sales revenue, a close second was Region East Europe, which represents 26% of total sales. The third largest area in terms of sales was Region West Europe and Overseas Markets, where Krka sold EUR 254.2 million worth of products, which is 24% of total sales. Sales in Region South-East Europe amounted to EUR 146.1 million and represent 14% of total sales. Sales in Slovenia totalled EUR 101.8 million, which is 9% of total Group sales.

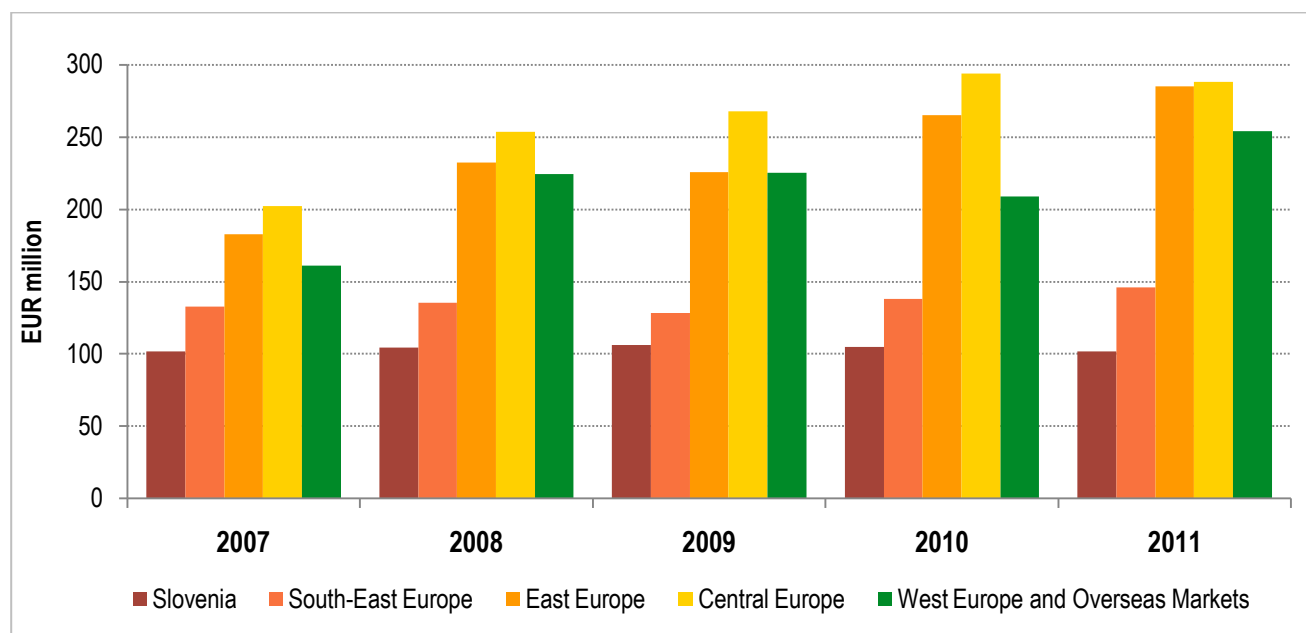
Krka Group sales by Region



Krka Group and Krka Company sales by Region

	Krka Group			Krka Company		
EUR thousand	2011	2010	Index 2011/2010	2011	2010	Index 2011/2010
Slovenia	101,827	104,640	97	67,888	76,569	89
South-East Europe	146,136	138,014	106	141,841	139,312	102
East Europe	285,226	264,897	108	242,698	253,163	96
Central Europe	288,217	293,675	98	276,760	287,291	96
West Europe and Overseas Markets	254,221	208,795	122	228,466	176,031	130
Total	1,075,627	1,010,021	106	957,653	932,366	103

Krka Group sales by Region



Slovenia

Sales in Krka's domestic market amounted to EUR 101.8 million in 2011, with as much as EUR 65 million coming from the sales of products, the majority from prescription pharmaceuticals. The rest came from the sales of non-prescription products and animal health products. The reduced sales totals of prescription pharmaceuticals, compared to 2010, were the result of strong pressures to lower the prices of pharmaceuticals. Our strategy here has been to offer our products to patients without co-payment.

Krka has remained the market leader in the Slovenian market.

Krka has remained the market leader in the Slovenian prescription pharmaceuticals market. Our best-selling prescription pharmaceuticals remain Prenessa (perindopril) and Prenewel (perindopril in fixed-dose combination with indapamide), Atoris (atorvastatin), Ultop (omeprazole) and Enap (enalapril and all fixed-dose combinations with diuretics). Our product portfolio was supplemented with new concentrations and fixed-dose combinations, especially in pharmaceuticals treating diseases of the heart and circulation, such as Amlessa (perindopril and amlodipine), and with new molecules, such as Galsya SR (galantamine) and Asolfena (solifenacin). We also increased our market shares in key therapeutic groups and consolidated our product portfolios, especially of pharmaceuticals treating dementia.

The spa resort group Terme Krka recorded sales growth as well, contributing EUR 34.8 million to total Group sales, up 13% compared to 2010.

Krka Group market position in Slovenia

Holding a market share of 11.7%, we are the leading pharmaceutical company.

Our products are the market leaders:

- in the statin group, with a market share of over 40%,
- in the group of medicines to treat high blood pressure, with a market share of over 40%,
- in the platelet aggregation inhibitor group, with a market share of over 45%, and in
- in the group of antipsychotics and antidepressants, with a market share of around 20%.

We are the leading supplier of medicines with active substances atorvastatin, simvastatin, perindopril (including fixed-dose combination with indapamide), valsartan, losartan (including fixed-dose combination with hydrochlorothiazide), carvedilol, pantoprazole, omeprazole, and sertraline.

Our top 10 best-selling prescription pharmaceuticals include Prenessa (perindopril) and Prenewel (perindopril in fixed-dose combination with indapamide), and Atoris (atorvastatin).

All Krka medicines on the list of interchangeable medicinal products with the highest recognised price are available to patients without co-payment.

South-East Europe

In 2011 we sold EUR 146.1 million worth of products in Region South-East Europe, an increase of nearly 6% compared to 2010. The highest sales growth was recorded in Romania and Serbia. Sales growth was recorded in other markets of the Region as well, apart from Croatia and Albania.

In **Croatia**, one of Krka's key markets, sales amounted to EUR 36 million in 2011. Krka has thus retained its position as the third-ranked generic pharmaceutical company in the market, immediately behind the two domestic producers, and ranked second in the country's animal health products market. Compared to 2010, sales decreased in all three product groups.

Our best-selling products were Zyllt (clopidogrel), Atoris (atorvastatin), Enap (enalapril), Helex (alprazolam) and Lanzul (lansoprazole). Sales growth was particularly strong for newer products, including Valsacor (valsartan), Valsacombi (valsartan and hydrochlorothiazide) and Elicea (escitalopram), as well as for Perineva and Co-Perineva (perindopril, including the fixed-dose combination with a diuretic), and Emanera (esomeprazole), which we launched in 2011. Sales growth in 2012 will depend on good sales results for the existing key products as well as for newly launched products.

Krka Group market position in Croatia

Holding a market share of 4.8%, Krka is the leading foreign generic pharmaceutical company.

Our products are the market leaders:

- in the fluoroquinolone antimicrobial group, with a market share of over 35%.

Our products are among the market leaders:

- in the statin group, with a market share of around 20%,
- in the group of angiotensin II receptor antagonists and their fixed-dose combinations with diuretics, with a market share of nearly 20%,
- in the platelet aggregation inhibitor group (ADP receptor antagonists), with a 30% market share,
- in the proton pump inhibitor group, with a market share of nearly 15%, and
- in the anxiolytic group, with a market share of over 20%.

We are the leading supplier of medicines with active substance enalapril in fixed-dose combinations with hydrochlorothiazide, and of medicines with active substances ciprofloxacin, lansoprazole and alprazolam.

We are among the leading suppliers of medicines with active substances atorvastatin, simvastatin, clopidogrel, amlodipine, and pantoprazole.

In **Romania**, the Region's leading market in terms of sales, we sold EUR 48.6 million worth of products. Sales increased by 22% compared to 2010, exceeding 20% sales growth for the second consecutive year. Sales were strong mainly on account of the successful launch of new products and the effective marketing and commercial activities related with established products. Due to their high quality and accessibility, our products are of great interest to the Romanian market. The best-selling products were Bilobil (ginkgo biloba), Enap (enalapril), Prenessa (perindopril, including fixed-dose combinations with a diuretic), Atoris (atorvastatin), Ciprinol (ciprofloxacin), Tolura (telmisartan) and Oprymeia (pramipexole).

We have recorded sales growth higher than 20% in the Romanian market for the second consecutive year.

Whether our sales targets for 2012 are reached will depend to a large extent on the products launched on the Romanian market in 2011, especially Atoris (atorvastatin), Roswera (rosuvastatin), and Zalasta (olanzapine).

Krka Group market position in Romania

Holding a market share of 2.6%, Krka is the third-ranked foreign generic pharmaceutical company.

The sales growth recorded by Krka in 2011 exceeded the growth of the entire market and was one of the highest growth rates recorded by any generic pharmaceutical company in Romania.

Our products are the market leaders:

- in the fluoroquinolone antimicrobial group, with a market share of over 30%, and
- in the cerebral and peripheral vasotherapeutic group, with a market share of over 25%.

Our products are among the market leaders:

- in the group of ACE inhibitors and their fixed-dose combinations with diuretics, with a market share of over 10%,
- in the monocomponent angiotensin II receptor antagonist group, with a market share of over 10%,

- in the macrolide and pyranoside antibiotic group, with a market share of over 10%,
- in the proton pump inhibitor group, with a market share of around 10%, and
- in the statin group, with a market share of over 5%.

We are the leading supplier of medicines with active substances enalapril, carvedilol, losartan, lansoprazole, ciprofloxacin, tramadol, mirtazapine, and ginkgo biloba.

We are among the leading suppliers of medicines with active substances atorvastatin, simvastatin, telmisartan, perindopril (including the fixed-dose combination with indapamide), amlodipine, esomeprazole, olanzapine, and pramipexole.

Sales in **Serbia** exceeded EUR 10 million. The sales growth of over 40% was mainly due to newer products. We also recorded good results in **Macedonia** and in **Bosnia and Herzegovina** with **Republika Srpska**, where we remain the number one foreign generic pharmaceutical company. Sales in Macedonia exceeded EUR 13 million, up 7%, while the sales growth recorded in the other two markets was 8%. Sales growth was also recorded in **Bulgaria**, where we sold over EUR 11 million worth of products, in **Montenegro** and in **Kosovo**. In **Albania**, on the other hand, sales were down, which was due to unfavourable macroeconomic trends.

East Europe

In 2011 we recorded sales growth in the Russian Federation as well as in all other markets in the Region, apart from Uzbekistan. We sold EUR 285.2 million worth of products in Region East Europe, up 8%.

Our launch of the medicine Perineva ranked one of the top 10 most successful launches in 2011 in the Russian Federation.

The **Russian Federation** is one of Krka's key markets as well as our largest individual market. With sales to distributors up 2%, we sold EUR 195.3 million worth of products in 2011, the majority of which were prescription pharmaceuticals. Our best-selling products over the reported period were Enap (enalapril), Lorista (losartan), including their combinations with diuretics, Herbion, Atoris (atorvastatin), Zyllt (clopidogrel), Orsoten (orlistat), Vasilip (simvastatin), Pikovit, Nolicin (norfloxacin) and Perineva (perindopril), including their fixed-dose combinations with diuretics. The highest sales growth in absolute terms was recorded for the products that were recently introduced to the market. Lorista (losartan), Nopaza (pantoprazole) and Perineva (perindopril) thus together

accounted for EUR 13 million of sales growth, while independent analyst Farmexpert ranked our launch of Perineva (perindopril) one of the top 10 most successful launches in 2011.

The best-selling animal health products were Enroxil (enrofloxacin), Floron (florfenicol) and Kokcisan (salinomycin), while we also launched Fypryst (fipronil), the first in a series of high potential animal health products for pet treatment.

According to market analysts, Krka's sales growth in 2011 outperformed the average pharmaceuticals market in the Russian Federation by 3–4%. Krka's good reputation in the Russian Federation was confirmed by an opinion poll, which ranked Krka the third most reputable pharmaceutical producer in the country.

The status of a domestic producer is important for the market position in the Russian Federation. We obtained this status due to our production and distribution centre Krka-Rus, where in 2011 we started with the expansion of its capacities.

Krka Group market position in the Russian Federation

Holding a market share of 1.6%, Krka is the fourth-ranked generic pharmaceutical company among mainly foreign pharmacists.

Krka outperformed the entire market with respect to sales growth in 2011.

Our products are the market leaders:

- in the group of non-mineral multivitamins for pediatric use, with a market share of around 75%, and
- in the group of medicines to treat colds (Other medicines), with a market share of around 30%.

Our products are among the market leaders:

- in the statin group, with a market share of around 20%,
- in the group of ACE inhibitors and their fixed-dose combinations with diuretics, with a market share of around 20%,
- in the group of angiotensin II receptor antagonists and their fixed-dose combinations with diuretics, with a market share of around 20%,
- in the platelet aggregation inhibitor group (ADP receptor antagonists), with a market share of over 20%, and
- in the macrolide and pyranoside antibiotic group, with a market share of around 10%.

We are the leading supplier of medicines with active substances simvastatin, enalapril (including fixed-dose combinations with hydrochlorothiazide), ramipril, and pantoprazole.

We are among the leading suppliers of medicines with active substances atorvastatin, perindopril, losartan (including fixed-dose combinations with hydrochlorothiazide), clopidogrel, omeprazole, orlistat, clarithromycin, ciprofloxacin, multivitamins, and ginkgo biloba.

Sales in **Ukraine** increased by 29% compared to 2010, totalling EUR 50.1 million. The largest contributors were prescription pharmaceuticals, which were also the fastest growing product group in terms of sales. Our best-selling products in 2011 were Enap (enalapril), including its fixed-dose combinations with a diuretic, Herbion, Atoris (atorvastatin), Naklofen (diclofenac), and Coryol (carvedilol).

Krka Group market position in Ukraine

Holding a market share of 2.2%, Krka is the third-ranked foreign generic pharmaceutical company.

Our products are the market leaders:

- in the statin group, with a market share of over 35%,
- in the group of ACE inhibitors and their fixed-dose combinations with diuretics, with a market share of around 20%,
- in the group of anti-dementia medicines, with a market share of around 40%, and
- in the glucocorticoid group, with a market share of over 25%.

Our products are among the market leaders:

- in the group of angiotensin II receptor antagonists and their fixed-dose combinations with diuretics, with a market share of over 20%, and
- in the macrolide antibiotic group, with a market share of around 15%.

We are the leading supplier of medicines with active substances atorvastatin, simvastatin, enalapril (including fixed-dose combinations with hydrochlorothiazide), carvedilol, clarithromycin, ciprofloxacin, and ginkgo biloba.

We are among the leading suppliers of medicines with active substances enalapril and diclofenac.

Our sales in **Kazakhstan** amounted to EUR 10.3 million, up 31%, mainly on account of Enap (enalapril), including its fixed-dose combinations with a diuretic, Vasilip (simvastatin) and Zyllt (clopidogrel). We expect to record good sales results in the future with Nalpaza (pantoprazole), Repodiab (repaglinide), Roxera (rosuvastatin) and Orsoten (orlistat), which were launched on the market in 2011. Sales in **Uzbekistan** totalled EUR 8.7 million in 2011. On account of specific requirements for payment transactions there, we focused on cutting payment terms and reducing receivables. Our main challenge for 2012 in that market is recording sales growth. Sales in **Moldova** amounted to EUR 4.3 million, up 20% compared to 2010. By increasing our market share to 4.5% we have consolidated our position among the top three leading pharmaceutical suppliers. Despite the depreciation of the **Belarus** national currency and the resulting weaker purchasing power, our sales there increased by 4%. In **Mongolia** sales increased by more than 50%, mainly on account of the good sales results for prescription pharmaceuticals, among which the leader is still Enap (enalapril) with its fixed-dose combinations with a diuretic. Having implemented changes to our distribution patterns and strengthened marketing, our sales in **Azerbaijan** were up 41%, while sales in **Georgia** increased by a moderate 3%. In **Kyrgyzstan**, where we started marketing products through our own representation office, sales increased by 30% to EUR 1.3 million. The results were also encouraging in **Turkmenistan**, where sales were up 34%, in **Armenia**, where they were up 8%, and in **Tajikistan**, where they increased by 7%.

Central Europe

Region Central Europe, which includes the three key markets Poland, the Czech Republic and Hungary, was Krka's largest region in terms of sales in 2011. Total sales in the Region amounted to EUR 288.2 million, a decrease by 2% compared to 2010. The dominant share of sales came from prescription pharmaceuticals, followed by non-prescription products and animal health products.

Sales in **Poland** reached EUR 109 million in 2011, which is 38% of total sales in the Region.

A change in legislation, which had a significant impact on medicine prices and on the prescribing and dispensing of medicines, led to a 16% drop in sales compared to 2010. In mid 2011 Poland passed a new pharmaceutical reimbursement act which, among others, introduced fixed prices and margins. The new act required that applications for inclusion on the reimbursement lists be submitted for all products, i.e. repeatedly for those previously approved for reimbursement and for those intended for inclusion. It remained unclear which pharmaceuticals would be included in the new reimbursement lists.

until the last days of December. In the second half of 2011 this situation resulted in a marked reduction in the purchase and stocks, which was attributed to the potential removal of products from the reimbursement lists and the expected price lowering. Reimbursed prescription medicines constitute the greatest part of Krka's portfolio of medicines in Poland. After more than three years of reporting annual sales growth rates of over 10%, which is a growth rate higher than those recorded by most competitors, this year our sales in Poland were down.

The largest contributors to sales in Poland were prescription pharmaceuticals, especially Atoris (atorvastatin), Lorista (losartan), Nolpaza (pantoprazole), Valsacor (valsartan), Zalasta (olanzapine) and Prenessa (perindopril). A significant contribution came from products launched on the market in recent years: Doreta (paracetamol and tramadol), Nimvastid (rivastigmine), Elicea (escitalopram), Ultop (omeprazole), Cezera (levocetirizine), Emanera (esomeprazole) and Karbis (candesartan). The sales of non-prescription products, where the leading products in terms of sales value are still Septotele and Bilobil (ginkgo biloba), were down 16% compared to 2010.

Our subsidiary Krka-Polska received several awards in 2011, testifying to its business success. Trade journal Gazeta Farmaceutyczna awarded it for improving its market position. In addition, Krka-Polska received the Forbes Diamond for achieving the fastest increase of the company value.

Krka Group market position in Poland

Holding a market share of 2.4%, Krka is the fifth-ranked generic pharmaceutical company.

Our products are the market leaders:

- in the statin group, with a market share of over 15%,
- in the group of angiotensin II receptor antagonists and their fixed-dose combinations with diuretics, with a market share of around 30%, and
- in the SSRI antidepressant group, with a market share of over 10%.

Our products are among the market leaders:

- in the group of ACE inhibitors in fixed-dose combinations with diuretics, with a market share of around 20%,
- in the platelet aggregation inhibitor group, with a market share of over 10%,
- in the group of intestinal anti-inflammatory products, with a market share of around 30%, and
- in the oral fluoroquinolone antimicrobial group, with a market share of around 30%.

We are the leading supplier of medicines with active substances atorvastatin, losartan (including fixed-dose combinations with hydrochlorothiazide), valsartan, lansoprazole, and sertraline.

We are among the leading suppliers of medicines with active substances perindopril, valsartan in its fixed-dose combination with hydrochlorothiazide, simvastatin, clopidogrel, pantoprazole, gliclazide, olanzapine, venlafaxine, rivastigmine, donepezil, the fixed-dose combination of tramadol and paracetamol, clarithromycin, sildenafil, and ginkgo biloba.

The Czech Republic was the Region's fastest growing market in 2011.

Our sales in the **Czech Republic** amounted to EUR 64.3 million in 2011, up 18% compared to 2010. The Czech Republic was thus the second largest market in the Region in 2011 in terms of sales and the one that recorded the highest sales growth. The best-selling products were the prescription pharmaceuticals Atoris (atorvastatin), Lorista (losartan), Lexaurin (bromazepam), Prenessa (perindopril), including its fixed-dose combinations with a diuretic, Asentra (sertraline), Lanzul (lansoprazole) and Amprilan (ramipril). The sales of non-prescription products increased by 25%, with the most successful products in terms of sales being Nalgesin S (naproxen) and Septotele.

On account of changes in legislation to be introduced in 2012, competition as well as pressures to lower prices are expected to strengthen in the coming year. Even so, we plan to reach above-average sales growth and consolidate our position as the third largest generic pharmaceuticals producer in the market.

Krka Group market position in the Czech Republic

Holding a market share of 2.9%, Krka is the third-ranked foreign generic pharmaceutical company.

Our sales growth in 2011 surpassed the growth of the entire market.

Our products are the market leaders:

- in the monocomponent angiotensin II receptor antagonist group, with a market share of over 30%.

Our products are among the market leaders:

- in the group of angiotensin II receptor antagonists and their fixed-dose combinations with diuretics, with a market share

of nearly 30%,

- in the group of ACE inhibitors in fixed-dose combinations with diuretics, with a market share of around 25%,
- in the statin group, with a market share of around 15%,
- in the anxiolytic group, with a market share of around 40%, and
- in the proton pump inhibitor group, with a market share of around 15%.

We are the leading supplier of medicines with active substances valsartan, ramipril in its fixed-dose combination with hydrochlorothiazide, lansoprazole, and pantoprazole.

We are among the leading suppliers of medicines with active substances atorvastatin, losartan, (including fixed-dose combinations with hydrochlorothiazide), perindopril, ramipril, sertraline, quetiapine, clarithromycin, and tamsulosin.

In **Hungary**, the third largest market in the Region, our sales amounted to EUR 63.7 million, up 12% compared to 2010. The main contributors were prescription pharmaceuticals, especially Atoris (atorvastatin), Prenessa (perindopril), Nolpaza (pantoprazole), Lavestra (losartan), including its fixed-dose combinations with a diuretic, Tenox (amlodipine) and Emozul (esomeprazole), which we had launched on the market in 2010 and has become our sixth best-selling product there. The sales of non-prescription products decreased by 14% compared to 2010, while the sales of animal health products were up 18%.

Despite the uncertain economic situation we plan to increase our market share in 2012 as well as remain the third largest foreign generic pharmaceutical company in Hungary.

Krka Group market position in Hungary

Holding a market share of 2.7%, we are the third-ranked foreign generic pharmaceutical company.

Our sales growth in 2011 surpassed the growth of the entire market.

Our products are the market leaders:

- in the proton pump inhibitor group, with a market share of over 20%,
- in the monocomponent angiotensin II receptor antagonist group, with a market share of over 15%, and
- in the macrolide antibiotic group, with a market share of around 30%.

Our products are among the market leaders:

- in the statin group, with a market share of over 15%,
- in the group of ACE inhibitors and their fixed-dose combinations with diuretics, with a market share of around 15%, and
- in the calcium-channel blockers group, with a market share of around 15%.

We are the leading supplier of medicines with active substances atorvastatin, losartan (including fixed-dose combinations with hydrochlorothiazide), clopidogrel, lansoprazole, esomeprazole, clarithromycin, and mirtazapine.

We are among the leading suppliers of medicines with active substances perindopril (including the fixed-dose combination with indapamide), amlodipine, pantoprazole, and quetiapine.

In the rest of the Region sales growth was the highest in **Latvia** (up 7%). In **Lithuania** and **Estonia** sales increased by just over 1% and by 6%, respectively, while in Slovakia sales were down 6%.

West Europe and Overseas Markets

Despite increasing pressures to lower the prices of our products, our sales in Region West Europe and Overseas Markets reached EUR 254.2 million, up 22%, compared to 2010. Sales growth was mainly the result of newly launched products, especially those launched in the second half of the year. Sales were accelerated both through partners and our own sales network. We market products under our own brands in Germany, the Nordic countries, Portugal, Austria, and since the second half of 2011 we have marketed them in Ireland as well.

We are the leading generic producer in Western Europe of pharmaceuticals with esomeprazole, clopidogrel, perindopril, gliclazide SR, ropinirole SR and galantamine SR.

Sales increased for all three groups of products. The highest sales growth rate, of over 50%, was recorded in animal health products, while the sales of prescription pharmaceuticals increased by 21%. The sales of non-prescription products increased by 15% compared to 2010.

In Region West Europe and Overseas Markets our sales were up 22%, with sales growth recorded for all three groups of products.

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

Having contributed over EUR 73 million to total sales, an increase by 41% compared to 2010, **Germany** is the most important market in the Region. The most important products in terms of sales there were olanzapine, esomeprazole, pantoprazole, ropinirole in prolonged-release form, galantamine in prolonged-release form, and clopidogrel. The runner-up market in terms of sales in the Region is **France** on EUR 34.3 million of sales, an increase by 18%, compared to 2010. The strongest contributors to sales revenue there were again the newer prescription pharmaceuticals with clopidogrel, esomeprazole, gliclazide in prolonged-release dosage form, perindopril and its fixed-dose combinations, pantoprazole and olanzapine. Animal health products were also important in terms of sales, especially those with active substances enrofloxacin, florfenicol, and toltrazuril.

In the **UK** we sold EUR 26.2 million worth of products, an increase by 44%. We were successful in securing our position of market leaders for medicines with lansoprazole, perindopril, gliclazide in prolonged-release dosage form, pantoprazole, and venlafaxine in prolonged-release form. With new launches in 2011, we became the leading generic producer in terms of sales for medicines with active substances pioglitazone, galantamine in prolonged-release dosage form, and ropinirole in prolonged-release dosage form. Sales in the **Nordic countries** totalled EUR 25.7 million, which is a decrease from 2010; however, this is still our fourth most important market in the Region. The best sales results in this market were recorded for medicines with active substances losartan, enalapril, olanzapine, mirtazapine, donepezil, and lansoprazole.

In **Italy** we sold just under EUR 19 million worth of products, up more than 50% compared to 2010. Sales also increased in the **Benelux**, where they were up 29% to EUR 17.4 million. **Spain** is next on EUR 14.7 million of sales revenue, followed by **Portugal**, which contributed just under EUR 14 million to total sales. Sales in **Austria** amounted to EUR 4.6 million, an increase by 15%, of which nearly one half came from our subsidiary Krka Pharma Wien.

Our plans for the markets of Western Europe in 2012 include further sales growth for all three product groups, achieved both through partners as well as our own distribution network. Sales through our own distribution network will be extended to Spain, Italy and France, where we have founded our own companies.

Krka Group market position in West Europe

We are the leading generic supplier of medicines with active substances esomeprazole, clopidogrel, perindopril, gliclazide, ropinirole and galantamine, the last three in prolonged-release dosage forms.

We are among the leading suppliers of medicines with active substances olanzapine, lansoprazole, pantoprazole, and venlafaxine in prolonged-release dosage form.

Krka sells prescription pharmaceuticals under its own brand via subsidiaries in Germany, the Nordic countries, Austria, Portugal and Ireland, and via partners in the UK, Spain, Greece and the overseas markets.

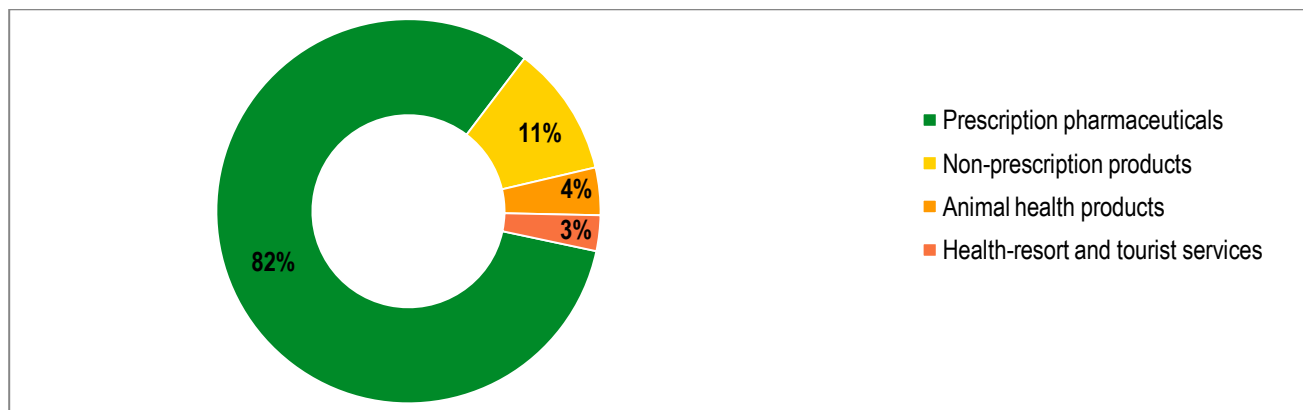
Our sales in the overseas markets increased by 10% compared to 2010, with the highest sales growth rates recorded in **Vietnam** and **Malaysia**, where sales increased by over 50%. We expect sales to grow in all overseas markets in 2012, with the highest growth expected for our sales office Arabian Peninsula and Iran, which in 2011 contributed most sales revenue to the total Krka Group sales generated in the overseas markets.

Product and service groups

Krka's main line of business is the production and sale of prescription pharmaceuticals, which represented 82% of Krka Group sales in 2011. They are followed in sales value by non-prescription products on 11%, animal health products on 4%, and health-resort and tourist services on 3% of total sales. Group sales in 2011 increased by 6% compared to 2010. The highest growth rate, of 25%, was recorded in the sales of animal health products, while in absolute numbers the largest contributor to the overall Krka Group sales was prescription pharmaceuticals.

Prescription pharmaceuticals represent over 80% of total Krka Group sales.

Krka Group sales by product group in 2011

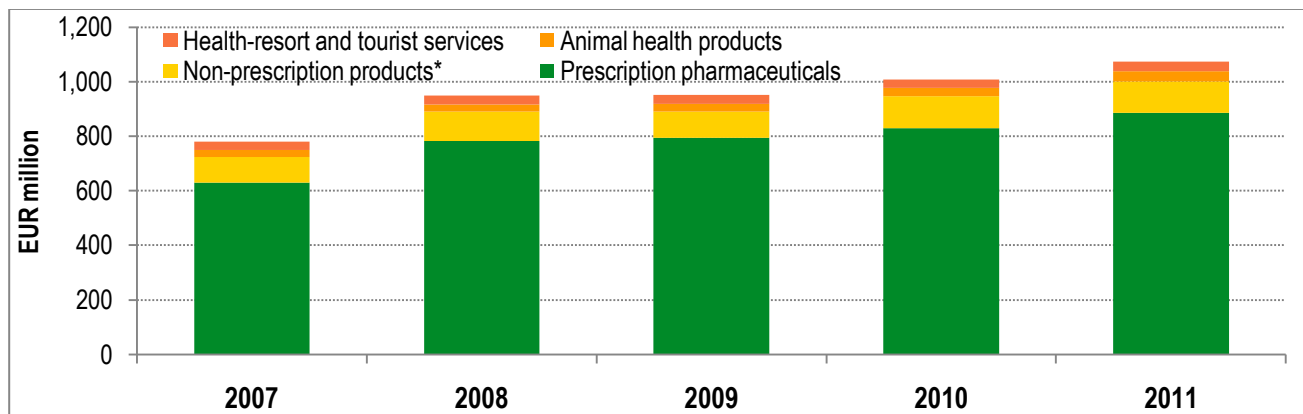


Krka Group and Krka Company sales by product and service group

EUR thousand	Krka Group			Krka Company		
	2011	2010	Index 2011/2010	2011	2010	Index 2011/2010
Human health products	1,001,020	947,621	106	916,759	897,903	102
– Prescription pharmaceuticals	886,920	830,328	107	814,396	784,908	104
– Non-prescription products*	114,100	117,293	97	102,363	112,995	91
Animal health products	38,059	30,473	125	38,289	30,607	125
Health-resort and tourist services	34,833	30,839	113			
Other	1,715	1,088	158	2,605	3,856	68
Total	1,075,627	1,010,021	106	957,653	932,366	103

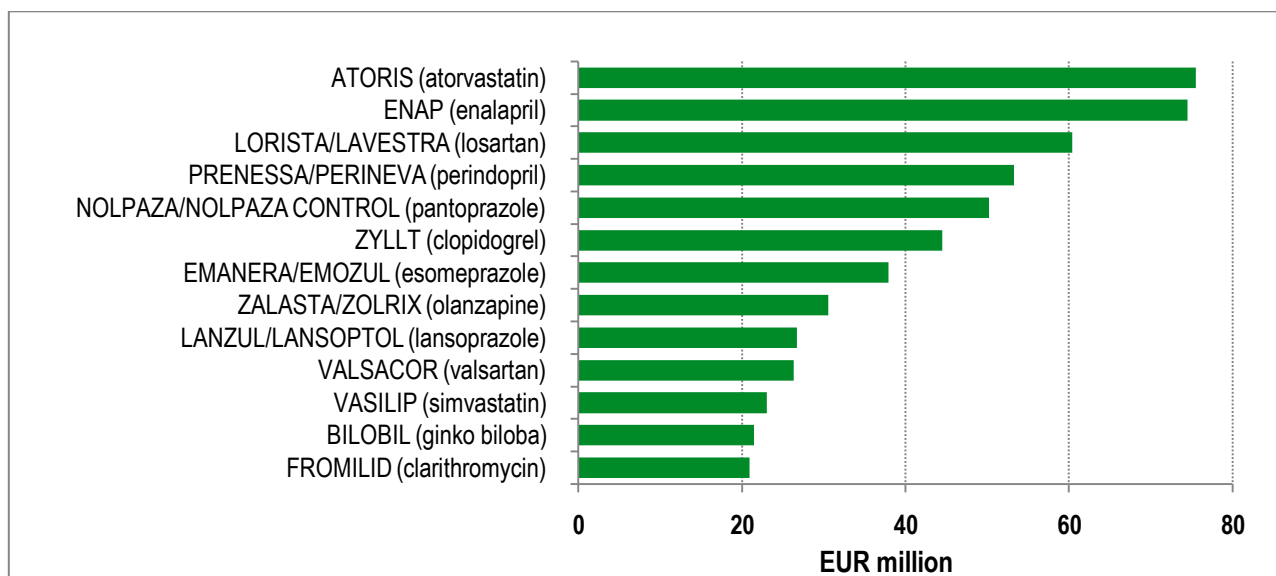
**In all tables and graphs, non-prescription products stand for the former groups of self-medication products and cosmetic products, both for 2011 and all comparable periods.*

Sales by product and service group



Leading products in terms of sales

Leading products in 2011



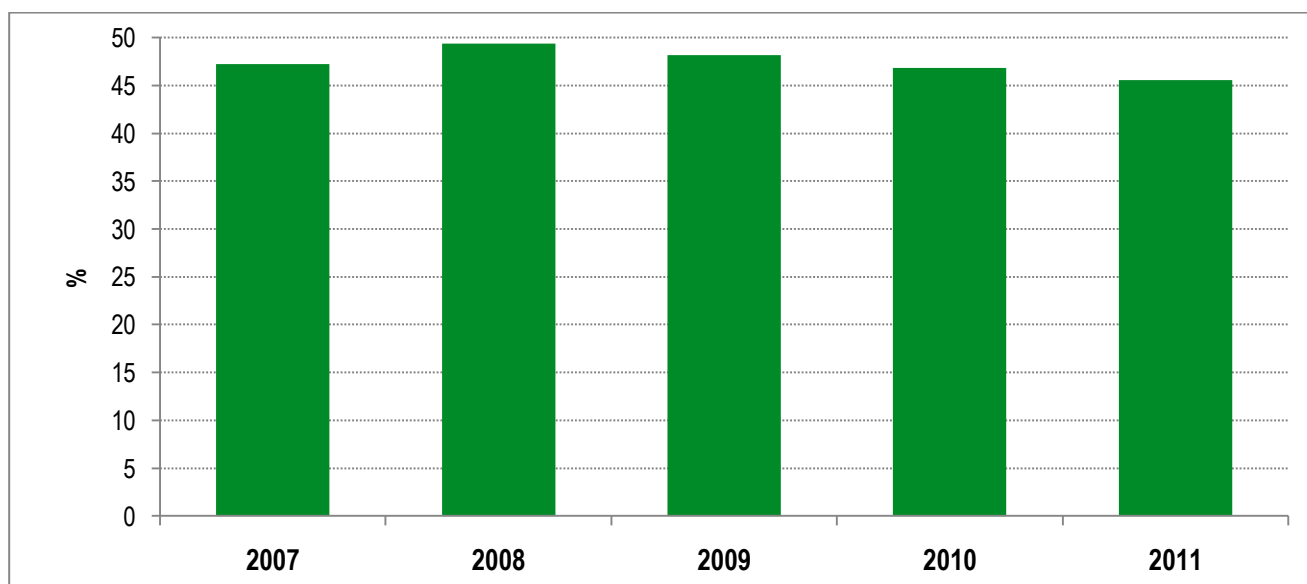
New products

Our sales in 2011 were again generated in a large part by new products, which is products first introduced to a specific market over the past five years. In 2011 new products accounted for over 45% of total sales. The leading new product in terms of sales was Emanera/Emozul (esomeprazole), which we had started marketing back in 2010 and which became a top 10 best-selling product in 2011. The most important new product in terms of absolute sales growth value was Rolpryna SR/Ralnea SR (ropinirole), which we started marketing in 2011 and which recorded one of the highest absolute sale value growths, exceeding EUR 10 million.

More than 45% of Krka's sales comes from new products.

We started marketing several new products in 2011, having added new active substances, new pharmaceutical forms, new strengths or new pack sizes, while our marketing of existing products was extended onto new markets.

Proportion of new products in Krka Group sales



* New products means products launched on an individual market in the past five years..

New products in 2011

Prescription pharmaceuticals

For the treatment of cardiovascular diseases	Amlessa/Dalnessa (fixed-dose combination of perindopril and amlodipine) Ifirmacombi/Co-Irabel (fixed-dose combination of irbesartan and hydrochlorothiazide) Karbicombi (fixed-dose combination of candesartan and hydrochlorothiazide)
For the treatment of diseases of the central nervous system	Rolpryna SR/Ralnea SR (ropinirole) Galsya SR/Galnora (galantamine) Yasnal (donepezil) in the form of orodispersible tablets levetiracetam
For the treatment of diseases of the alimentary tract and metabolism	pioglitazone
For the treatment of diseases of the urinary tract	Asolfena (solifenacin) Tanyz ERAS (tamsulosin) in the new prolonged-release dosage form

Non-prescription products

For coughs and colds	Septotele plus spray
For the treatment of diseases of the alimentary tract and metabolism	Nolpaza control/Nolpaza 20 mg (pantoprazole) Orsoslim
For hair and scalp treatment	Fitoval intensive dermatological anti-dandruff shampoo Fitoval maintenance dermatological anti-dandruff shampoo

Animal health products

Antimicrobial pharmaceuticals for food-producing animals	Quiflox/Marfloxin (marbofloxacin)
Non-steroidal anti-inflammatory medicines for companion animals	Rycarfa (carprofen)
Antiparasitic medicines for food-producing animals	Toltarox/Tolzesya (toltrazuril)

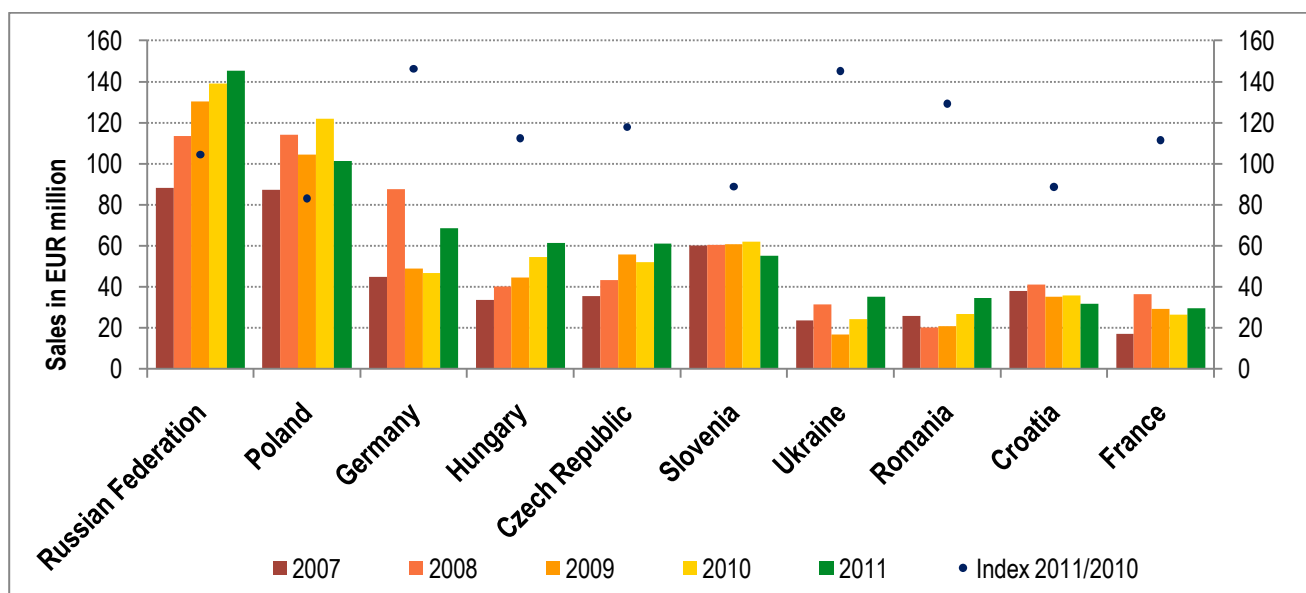
Prescription pharmaceuticals

In 2011 the Krka Group sold EUR 886.9 million worth of prescription pharmaceuticals, an increase by 7% compared to 2010.

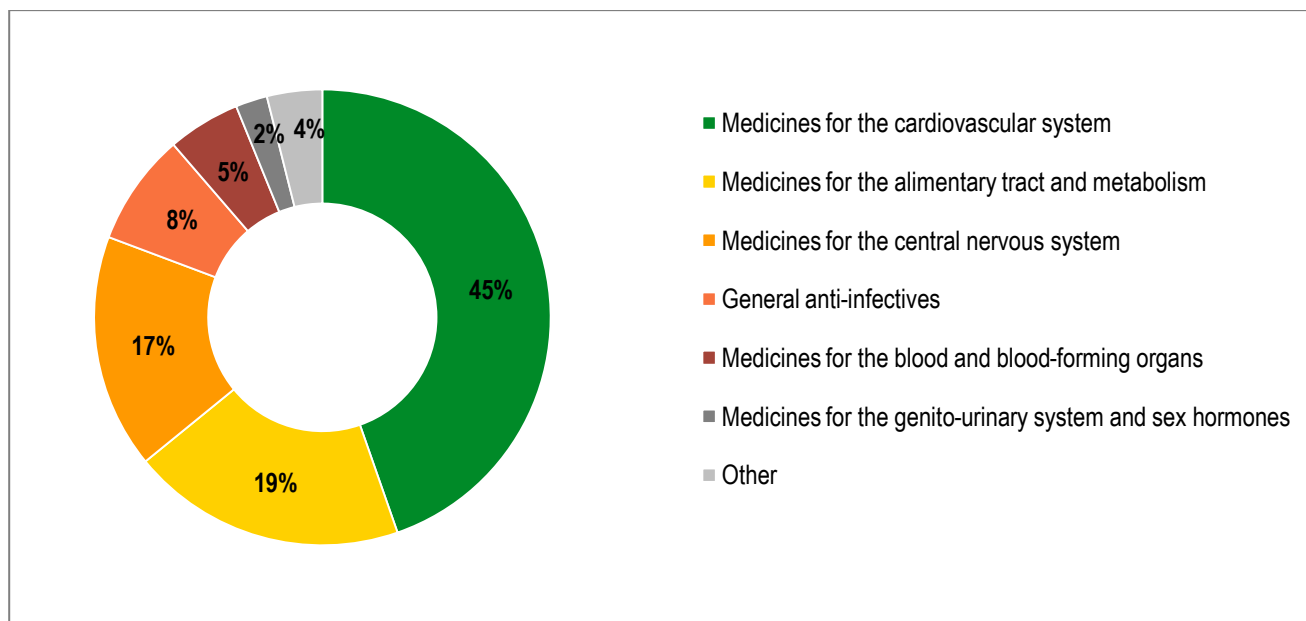
We market prescription pharmaceuticals under Krka's brands via our marketing and sales networks in Slovenia and in the markets of Central, Eastern and South-Eastern Europe, where we rank among the companies with the strongest marketing and sales networks. We have also set up our own marketing and sales networks in the selected markets of Western Europe, including Germany, Austria and Portugal, as well as Ireland and Finland since 2011. In 2012 we are adding Spain, Italy and France to the list. In the mentioned markets we market prescription pharmaceuticals under our own brands, while in the other markets of Western Europe and overseas markets we sell them as finished products via partners.

With respect to Krka's 10 largest markets, the sales of prescription pharmaceuticals increased the most in Germany, Ukraine and Romania, which recorded the highest sales growth rates in absolute terms as well. Among Krka's other markets, the highest sales growth was recorded in Spain, Serbia and Italy.

Sales of prescription pharmaceuticals in the 10 largest markets



Sales of prescription pharmaceuticals by therapeutic group in 2011



Medicines to treat cardiovascular diseases remained the key therapeutic group in 2011. They were followed in sales value by medicines to treat the alimentary tract and metabolism, while medicines for the central nervous system diseases, which increased in sales by three percentage points, came third.

As in 2010, Atoris (atorvastatin) and Enap (enalapril) were the leading prescription pharmaceuticals in terms of sales in 2011, followed by Lorista (losartan). The other top 10 best-selling products are Prenessa/Perineva (perindopril), Nolpaza (pantoprazole), Zyllt/Kardogrel (clopidogrel), Emanera/Emozul (esomeprazole), Zalasta/Zolrix (olanzapine), Lanzul/Lansoptol (lansoprazole) and Valsacor (valsartan). The highest sales growth in absolute terms was recorded by Emanera/Emozul (esomeprazole), followed by Zalasta/Zolrix (olanzapine) and Rolpryna SR/Ralnea SR (ropinirole).

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

Medicines for the treatment of cardiovascular diseases

Statins

With a market share of over 16%, Krka remained in 2011 the leading producer of statins in the markets of Slovenia, Central, Eastern and South-Eastern Europe. We are the leading statin producer in Poland, Slovenia and Ukraine, and among the top three in the Russian Federation, Hungary, Croatia and several smaller markets. In Slovenia and Ukraine Krka's market share among statin producers is close to 40%. Our highest statin sales are generated in Poland, the Russian Federation and Hungary. Sales increased the most in Romania, where we began marketing two new statins in 2011, as well as in Ukraine and the Czech Republic.

Krka has consolidated its position as the leading producer of statins and ACE inhibitors in the markets of Slovenia, Central, Eastern and South-Eastern Europe.

Krka statins

atorvastatin (Atoris)

rosuvastatin (Roswera/Roxera/Sorvasta)

simvastatin (Vasilip)

lovastatin (Holetar)

Atoris (atorvastatin) represents nearly 75% of our statin sales, being our leading product. In terms of sales value it is the leading atorvastatin in the markets of Slovenia, Central, Eastern and South-Eastern Europe, while in terms of sales volume it is the leader among all statins. In Slovenia and Ukraine, Atoris has a market share of over 25% in the statin group. In 2011 we began marketing Atoris in Romania, where it became one of the top five best-selling statins in terms of sales value during its first year already. In several countries we expanded our Atoris portfolio by launching the new 30 mg, 60 mg and 80 mg tablets, which enable a better adjustment of dosage to the patients' needs. In 2011 Krka's atorvastatin was used in the treatment of nearly 100,000 more patients than in 2010.

Roswera/Roxera/Sorvasta (rosuvastatin) is our most recent statin. We had started marketing it in Slovenia back in 2010, and launched it on more than 10 new markets in 2011. We were the first supplier to market rosuvastatin in the additional strengths of 15 mg and 30 mg. Roswera/Roxera/Sorvasta was the product that contributed most to the absolute sales growth of our statins.

ACE inhibitors

In the markets of Slovenia, Central, Eastern and South-Eastern Europe we consolidated our position in 2011 as the leading generic producer of angiotensin-converting enzyme inhibitors (ACE inhibitors). Our market share of over 10% was increased and we recorded the highest sales growth among the top five producers of ACE inhibitors. We hold the largest market share, of over 40%, in Slovenia and Ukraine, which is also where our sales increased most compared to 2010.

We expanded our wide range of ACE inhibitors and their fixed-dose combinations in 2011 with the fixed-dose combination of perindopril and amlodipine. We launched it as **Amlessa/Dalnessa** and were the first generic to market it in Poland, Hungary and Lithuania. In the future we intend to market it in numerous other markets as well. We are a generic producer with the widest range of medicines based on perindopril and its fixed-dose combinations with other substances.

Krka's ACE inhibitors and their fixed-dose combinations

perindopril (Prenessa/Perineva)
perindopril and indapamide (Co-Prenessa/Co-Perineva/Prenewel)
perindopril and amlodipine (Amlessa/Dalnessa)
enalapril (Enap)
enalapril and hydrochlorothiazide (Enap-H, Enap-HL, Enap-HL 20)
ramipril (Ampril/Amprilan)
ramipril and hydrochlorothiazide (Ampril HL, Ampril HD/Amprilan HL, Amprilan HD)
lisinopril (Laaven)
lisinopril and hydrochlorothiazide (Laaven-HL, Laaven-HL 20, Laaven-HD)
cilazapril (Cazaprol)
cilazapril and hydrochlorothiazide (Cazacombi)

Over 50% of our sales of ACE inhibitors still comes from **Enap** (enalapril), which is, together with its fixed-dose combinations with hydrochlorothiazide, our second best-selling product. In the Russian Federation Enap remains the most frequently prescribed ACE inhibitor, holding a 15% market share in terms of volume. Its highest sales growth, however, was recorded in Ukraine, and this in spite of being present there for several years now and holding a market share of over 10%.

Our sales driver in the ACE inhibitor group is **Prenessa/Perineva** (perindopril) and its fixed-dose combination with indapamide, **Co-Prenessa/Prenewel/Co-Perineva**. Prenessa/Perineva's sales increased by over 20% compared to 2010, which together with its fixed-dose combinations represents over 30% of Krka's sales in the ACE inhibitor group. In Slovenia and in the markets of Central, Eastern and South-Eastern Europe we are the number one generic supplier of perindopril, holding a market share of over 15% and having the highest sales growth index among the leading generics. Our perindopril and its fixed-dose combination with indapamide is the leading generic ACE inhibitor in the markets of Western Europe as well.

Sartans (angiotensin II receptor antagonists)

We are the leading sartan producer in the markets of Slovenia, Central, Eastern and South-Eastern Europe. Compared to the other leading producers, our sales advanced the most from 2010, by over 30%. Our sartans hold a market share of over 20% in these markets. The most important markets in terms of sales for our sartans are the Russian Federation, Poland and the Czech Republic, with the highest absolute growth rates recorded in the Russian Federation.

We are also the leader in terms of the number of sartan molecules in our product range, being the only producer in Europe that can offer doctors and patients as many as six different sartans. In the markets of Slovenia, Central, Eastern and South-Eastern Europe we are the leading supplier of generic valsartan, telmisartan, irbesartan and candesartan.

Krka is Europe's only pharmaceutical company with six different sartans in its product portfolio.

Krka's sartans and their fixed-dose combinations

losartan (Lorista/Lavestra)
losartan and hydrochlorothiazide (Lorista H, Lorista HL, Lorista HD/Lavestra H, Lavestra HL, Lavestra HD)
valsartan (Valsacor)
valsartan and hydrochlorothiazide (Valsacombi/Co-Valsacor/Valsacor H/Valsaden)
telmisartan (Tolura)
irbesartan (Ifirmasta/Irabel)
irbesartan and hydrochlorothiazide (Ifirmacombi/Co-Irabel)
candesartan (Karbis/Candecor)
candesartan and hydrochlorothiazide (Karbicombi)
olmesartan (Olimestra)

Over 60% of our sartan sales come from **Lorista/Lavestra** (losartan) and its fixed-dose combination with hydrochlorothiazide. In absolute terms, the sales of our losartan together with its fixed-dose combinations increased the most in the Russian Federation and Nordic markets, the Russian Federation being the most important market for our losartan. In Poland, Hungary, Slovenia, Romania and certain other smaller markets Lorista/Lavestra is the market leader in

losartans, holding large market shares. In Slovenia and Romania it holds a market share of around 70%, while in Poland, Hungary and numerous other markets it holds over 30%.

Valsacor (valsartan), together with its fixed-dose combination with hydrochlorothiazide, represents ca. 30% of Krka's sartan sales. In the markets of Slovenia, Central, Eastern and South-Eastern Europe it holds a 20% share of the market in valsartans and their fixed-dose combinations, and has recorded a 50% sales growth from 2010. In absolute terms the sales of our valsartan and its fixed-dose combination increased the most in the Russian Federation, Hungary and Spain. In 2011 we extended our range of fixed-dose combinations with two fixed-dose combinations with the highest valsartan dose (320 mg) and a lower or higher dose of the diuretic hydrochlorothiazide (12.5 mg or 25 mg).

Other medicines for the treatment of high blood pressure

Our range of ACE inhibitors and sartans is supplemented by additional medications for the treatment of high blood pressure, of which the most important ones are **Niperten** (bisoprolol), **Coryol** (carvedilol), **Rawel SR** (indapamide) and **Tenox/Hipres** (amlodipine).

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

Proton pump inhibitors

In 2011 we remained the leading producer of proton pump inhibitors in the markets of Slovenia, Central, Eastern and South-Eastern Europe. Holding a market share of over 10%, Krka's sales growth compared to 2010 was the highest among the top ten manufacturers in this sector. Our sales of proton pump inhibitors increased the most in the markets of Western Europe.

We market five different proton pump inhibitors, which include three of Krka's top ten best-selling products: pantoprazole, lansoprazole and esomeprazole. Krka's proton pump inhibitors have to date been used to treat nearly 100 million patients.

Nolpaza (pantoprazole) represents nearly 40% of Krka's sales of proton pump inhibitors. The highest sales growth was recorded in Poland, Germany, the Russian Federation, Hungary and Slovenia, where ours is a top three pantoprazole, while in Slovenia and the Russian Federation our pantoprazole is number one. In 2011 we launched Nolpaza on several new markets and supplemented the brand with a new product, Nolpaza control/Nolpaza 20 mg, available without prescription.

Krka's proton pump inhibitors have to date been used to treat nearly 100 million patients.

Emanera/Emozul (esomeprazole) is our newest proton pump inhibitor. We started marketing it in 2010, and by 2011 it came to represent 30% of Krka's sales of proton pump inhibitors. In 2011 we started marketing it in Ireland and were the first generic to launch it on the markets of the Czech Republic and Croatia. The sales of our esomeprazole increased the most in the markets of Western Europe, where it became the leading generic esomeprazole in 2011.

One fifth of the total Krka sales generated by proton pump inhibitors comes from **Lanzul/Lansoptol** (lansoprazole), which remained in 2011 the leading lansoprazole in the markets of Central, Eastern and South-Eastern Europe. It is also among the leading lansoprazoles in several individual markets, such as Poland, the Czech Republic, Croatia and the UK.

Krka's proton pump inhibitors

esomeprazole (Emanera/Emozul)

pantoprazole (Nolpaza)

rabeprazole (Gelbra/Zulbex)

lansoprazole (Lanzul/Lansoptol)

omeprazole (Ultop)

Oral antidiabetics

Krka's gliclazide prolonged-release tablets are marketed as **Gliclada/Glyclada**. As in previous years, it remained the leading generic gliclazide in prolonged-release tablet form in the markets of Western Europe, while we also started marketing it in Romania and Kazakhstan. Our second oral antidiabetic, **Enyglid** (repaglinide), became the first generic repaglinide marketed in the Czech Republic, and despite the large number of generics in Germany it is one of leading repaglinides there. We expanded our range of antidiabetics in 2011 with pioglitazone, which is currently available in the UK, where we were the first generic to launch it back in mid 2011.

Medicines for the treatment of obesity

We entered the therapeutic field of treating obesity in 2009, when we launched **Orsoten** (orlistat) in the Russian Federation. In 2011 Orsoten was still the only generic orlistat in the Russian market, having recorded high sales growth and increased its market share to as much as 30%. In 2011 we were the first generic to launch Orsoten in Kazakhstan, where it has already reached a market share of over 20% during the same year. Krka expanded its range of products for the treatment of obesity in 2011 by launching products available without prescription.

Medicines for the treatment of the central nervous system

Antipsychotics

In the markets of Slovenia, Central, Eastern and South-Eastern Europe we remained the leading generic producer of antipsychotics in 2011. Krka has as many as four of the world's five leading atypical antipsychotics in its portfolio. Our most important markets for antipsychotics are Germany, Poland and Slovenia. In absolute terms, sales growth in 2011 was the highest in Germany.

In the markets of Slovenia, Central, Eastern and South-Eastern Europe Krka remains the leading generic producer of antipsychotics and antidepressants.

Krka's atypical antipsychotics

olanzapine (Zalasta/Zolrix)
quetiapine (Kventiax)
risperidone (Torendo/Rorendo)
ziprasidone (Zypsilan/Zypsila/Ypsila)

Krka's leading antipsychotic in terms of sales is **Zalasta/Zolrix** (olanzapine). It generates nearly 70% of all sales of atypical antipsychotics and is one of Krka's top 10 best-selling products. After its patent had expired in 2011, we were among the first generics to launch it on several new markets, including Germany and Romania, which are the most important ones. Krka's olanzapine became the leading generic olanzapine in Germany and is among the leaders in the other markets of Western Europe as well.

Kventiax (quetiapine), contributing around 15% to our sales of antipsychotics, is among the leading quetiapines in several markets.

Antidepressants

In 2011 Krka maintained its position as the leading generic antidepressant producer in the markets of Slovenia, Central, Eastern and South-Eastern Europe, where we are also the number two among all antidepressant producers. The majority of our sales of antidepressants are generated in the Czech Republic, Poland, Slovenia and the Nordic countries.

Krka's antidepressants

escitalopram (Elicea/Ecytara)
venlafaxine (Alventa/Olwexya)
sertraline (Asentra)
mirtazapine (Mirzaten)
fluoxetine (Fluval)

Over one third of our sales of antidepressants comes from **Asentra** (sertraline). In 2011 it remained the leading generic antidepressant in the markets of Slovenia, Central, Eastern and South-Eastern Europe with over 20% of the sertraline market. In 2011 we launched our sertraline on the markets of Portugal, Ireland and Estonia.

The highest sales growth among our antidepressants was recorded by **Elicea/Ecytara** (escitalopram). Its sales increased by over 30% in 2011, making it the leading generic escitalopram in the markets of Slovenia, Central, Eastern and South-Eastern Europe, where it holds a 10% market share.

Our range of antidepressants also includes a dual action product marketed as **Alventa/Olwexya** (venlafaxine). It is available as prolonged-release capsules and is among the leading venlafaxines in the countries of Western Europe.

Medicines for the treatment of Alzheimer's disease

Krka has maintained its position as the leading generic producer of medicines treating Alzheimer's disease in the markets of Slovenia, Central and South-Eastern Europe. Our highest absolute sales growth was recorded in Germany. Over 60% of our total sales of medicines treating Alzheimer's come from **Yasnal** (donepezil) and **Nimvastid** (rivastigmine). Nimvastid (rivastigmine) is the leading generic rivastigmine and Yasnal (donepezil) the leading generic donepezil in the markets of Slovenia, Central and South-Eastern Europe. In 2011 we began marketing Yasnal in the form of orodispersible tablets and have thus made it easier for patients to take it. We also launched a new product for the treatment of Alzheimer's disease, **Galsya SR/Galnora** (galantamine), being the first generic to launch galantamine as prolonged-release capsules in the UK, and later also in Germany, the Nordic countries, Slovenia and Ireland.

Medicines for the treatment of Parkinson's disease

Our first medicine treating Parkinson's disease was **Oprymea** (pramipexole). In 2011 it became the leading generic pramipexole in the markets of Central, Eastern and South-Eastern Europe, while we also started marketing it in Ireland. In 2011 we offered patients and doctors a new product, **Rolpryna SR/Ralnea SR** (ropinirole) prolonged-release tablets. We were the first generic to launch it in Germany, the UK, Poland, Hungary, Ireland and several other markets. In 2011 we were Europe's only generic supplier of ropinirole in the form of prolonged-release tablets.

Analgesics

Our most important analgesics are **Doreta** (tramadol and paracetamol) and **Naklofen duo** (diclofenac). Doreta became in 2011 the leading generic fixed-dose combination of tramadol and paracetamol in the markets of Central and South-Eastern Europe, while Naklofen duo, our best-selling analgesic, was launched on new markets, of which the Russian Federation is the most important.

Medicines for the treatment of infections

We are the number three producer of macrolides in the markets of Slovenia, Central, Eastern and South-Eastern Europe. Our most important macrolide is **Fromilid** (clarithromycin), the leading generic macrolide in the markets of Slovenia, Central, Eastern and South-Eastern Europe, and the third best-selling macrolide brand. Despite already holding large market shares, Fromilid recorded a sales growth rate of over 30% in 2011, mainly on account of its **Fromilid uno** prolonged-release dosage form.

For several years now Krka has maintained its position as one of the leading generic fluoroquinolone producers in the markets of Slovenia, Central, Eastern and South-Eastern Europe. The leading norfloxacin in these markets is **Nolicin** (norfloxacin), while **Ciprinol** (ciprofloxacin) is the leading ciprofloxacin in Slovenia, Croatia, Romania, Ukraine and a few other countries of Central and Eastern Europe.

Medicines for the treatment of diseases of the blood and blood-forming organs

Zyllt/Kardogrel (clopidogrel), from the platelet aggregation inhibitor group, was again one of our leading products in terms of sales value in 2011. Its most important markets include the Russian Federation, France and Germany, whereby Germany and the Russian Federation contribute most to the absolute growth in sales as well. With a 10% market share in 2011 our clopidogrel remained the leading generic clopidogrel in the markets of Slovenia and Central, Eastern and South-Eastern Europe. It also remained the leading generic clopidogrel in the markets of Western Europe. In 2011 we added

Ireland to the list of countries where we market it under our own brand. Krka's clopidogrel is currently being used to treat over 850,000 patients.

Medicines for the treatment of diseases of the urinary tract

Our most important product for the treatment of benign prostatic hyperplasia is **Tanyz** (tamsulosin). When we launched **Tanyz ERAS** in 2011 we were the first generic to start marketing tamsulosin in the form of prolonged-release tablets in Slovenia, Poland, Hungary and the Czech Republic. Due to its steady 24-hour release, Tanyz ERAS increases convenience of the treatment and makes it even safer.

Vizarsin (sildenafil) is Krka's medicine for the treatment of erectile dysfunction. It has achieved market shares of over 20% in Slovenia, Lithuania and Estonia, and is among the leading generic sildenafilis in Finland, Spain and Portugal. In 2011 we started marketing it in Hungary and the Czech Republic, and as the first generic in Romania.

Our range of medicines for the urinary tract was expanded in 2011 with a new product treating urinary incontinence. Having launched **Asolfena** (solifenacin), we were the first generic to market solifenacin in Slovenia, the Czech Republic and Slovakia. In the future we plan to launch it on other markets as well.

Medicines for the treatment of diseases of the respiratory system

Our most important medications for diseases of the respiratory system are **Cezera/Lertazin** (levocetirizine), intended to treat the symptoms of allergic rhinitis and chronic idiopathic urticaria, and **Monkasta/Monalux** (montelukast), intended to prevent and treat chronic bronchial asthma and alleviate the symptoms of seasonal allergic rhinitis (hay fever). In 2011 we became one of the first generics to start marketing Monkasta/Monalux in Hungary, the Czech Republic and Slovakia.

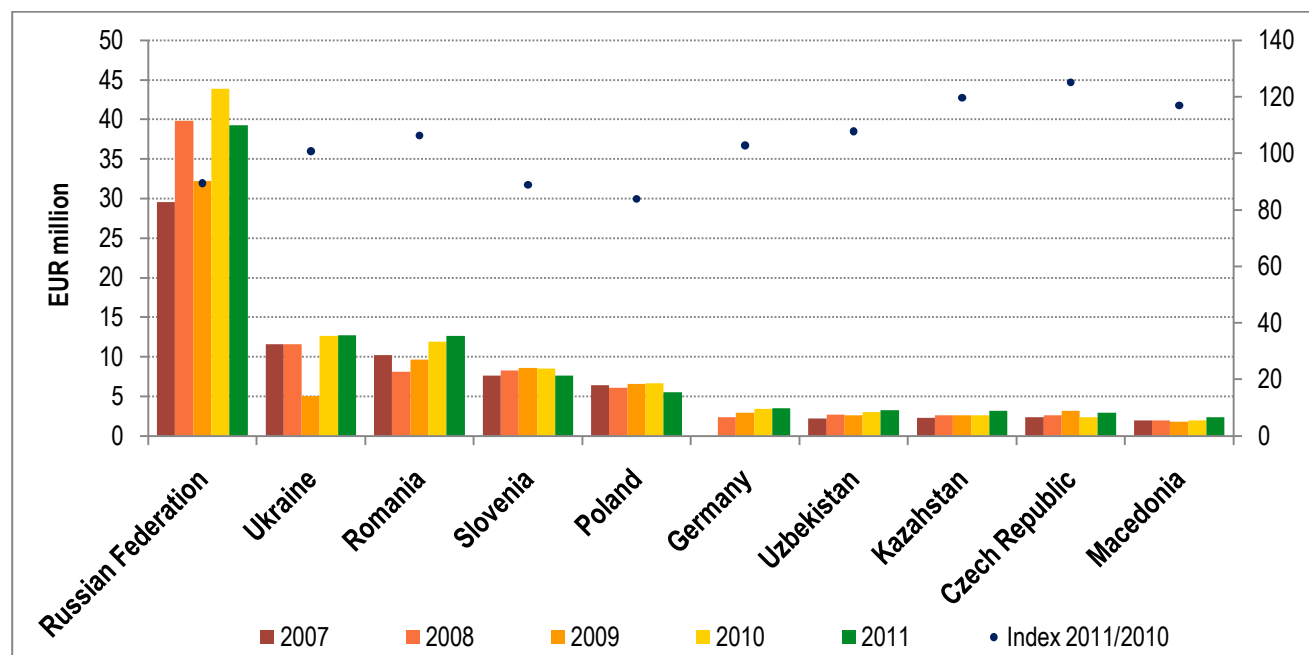
Non-prescription products

In 2011 the Krka Group sold EUR 114.1 million worth of non-prescription products, down 3% compared to 2010. This product group includes the former group of self-medication products and cosmetic products, which were joined into a single group under a new name because the product portfolio was restructured in 2011. Of the cosmetic products only hair and scalp treatment products were kept in the portfolio.

Sales being slightly down compared to 2010 was primarily due to lower sales in the Russian Federation, Poland and Slovenia, related with final withdrawal of a major segment of our cosmetic products. Sales in the other seven leading markets were up, the most – by over 20% – in the Czech Republic, Kazakhstan and Macedonia. Sales growth was also recorded in Lithuania, Mongolia and Azerbaijan as well as in several smaller markets.

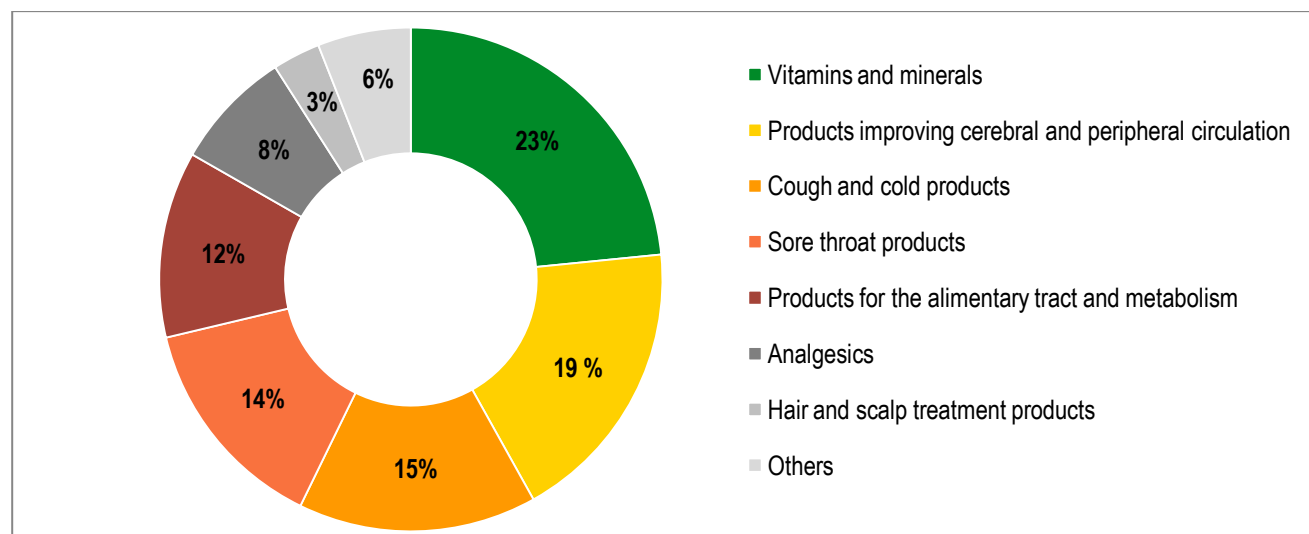
Krka's leading non-prescription product brands are Bilobil, Herbion and Septotele.

Sales of non-prescription products* in the 10 largest markets



* For the years 2007–2010, non-prescription products include sales figures for the former groups of self-medication products and cosmetic products.

Sales of non-prescription products by therapeutic group in 2011



Krka's leading non-prescription product brands are Bilobil, Herbion, Septotele and Pikovit, which are also in the group of Krka's top 25 leading products in general.

Our leading brand in the group of non-prescription products is **Bilobil**. In the markets of Slovenia and Central, Eastern and South-Eastern Europe, Bilobil has remained in 2011 one of the leading ginkgo products. Bilobil's most important market is Romania, where it has a market share of over 50%, and it is the leading ginkgo product in Ukraine, with a market share of over 40%. In 2011 we launched **Bilobil intense** (120 mg) on new markets. The trust that consumers place in **Bilobil forte** was reaffirmed by it winning the Polish Golden Otis award in the category of memory enhancers. This is the most prestigious Polish award conferred by consumers to pharmaceutical companies for their products. Bilobil had already received a Golden Otis back in 2003, 2004 and 2009.

The most important brand among our sore throat products is **Septotele**. Our marketing activities spotlight the brand Septotele plus, which is the group of products with the highest sales growth. In 2011 we added a new product to the brand, **Septotele plus spray**, and started marketing it in Slovenia and in the markets of Central and South-Eastern Europe. This gave the Septotele brand a decisive push in winning additional market shares. **Septotele plus honey and lime**, another one of our recently launched Septotele products, was launched onto several new markets in 2011, while in Ukraine Septotele won the Consumers' Favourite Award in the category of sore throat treatment products.

Our most important new non-prescription products are Septotele plus spray, Nalpaza control/Nalpaza 20 mg and Orsoslim.

Our most important brands in the group of vitamin and mineral products are **Pikovit** and **Duovit**. Duovit is an umbrella brand of vitamin and mineral products for adults, and includes eight products. Our vitamin and mineral products for children are united under the Pikovit brand, which also includes eight products. The two most recently launched new Pikovit products are **Pikovit Omega-3/Pikovit IQ** and **Pikovit Prebiotik/Pikovit Prebio** syrups, which we had started marketing in 2010. In 2011 we launched both on new markets, mainly in Eastern Europe. Pikovit is a trusted brand, enjoying the confidence of both consumers and experts. For several years Krka's Pikovit has been recommended by the Union of Pediatricians of Russia, while in Poland Pikovit Prebiotik won the Certificate of Professors of Pharmacy award in 2011.

Krka's brand **Herbion** includes two herbal cough syrups intended for various kinds of cough. **Herbion cowslip syrup** facilitates expectoration and **Herbion plantain syrup** relieves dry cough. Our most important markets for Herbion products are the Russian Federation and Ukraine, while we also launched them on several other markets in 2011, including Georgia, Mongolia and Kirghizia.

Our number one non-prescription analgesic is **Nalgesin S**. We continued intensive marketing activities with Nalgesin in all key markets in 2011 as well as launched it on several new ones. According to an independent survey conducted by the research company Farmasist, Nalgesin S has become Slovenian pharmacists' number one choice when it comes to over-the-counter analgesics. Also in Slovenia we received the bronze Effie award for the successful business, marketing and communication strategy for our brand Nalgesin S.

We launched a new non-prescription product in 2011, **Nalpaza control/Nalpaza 20 mg** (pantoprazole). It is indicated in the short-term treatment of reflux signs (such as heartburn, acid regurgitation) in adults, and supplements the Nalpaza brand, our prescription pharmaceutical which we have marketed for several years now. Nalpaza Control/Nalpaza 20 mg was launched in Slovenia, the Czech Republic and Slovakia.

Another new non-prescription product launched in 2011 is **Orsoslim**, used for losing weight. It complements our weight loss portfolio based on the prescription pharmaceutical Orsoten (orlistat). Orsoslim is a natural complex that helps reduce body weight and decrease waist size. During its first year it was launched in the Russian Federation, Ukraine and Kazakhstan.

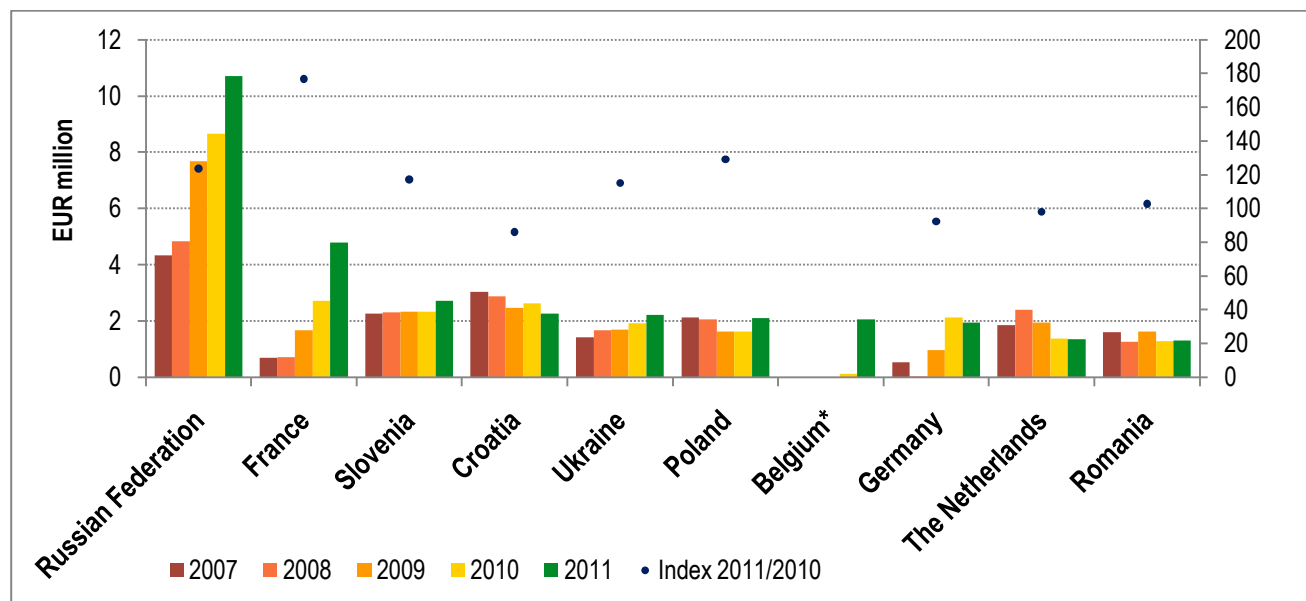
Fitoval is Krka's brand uniting several products helping to eliminate the most common hair and scalp problems. The different products offer an integrated approach to eliminating these problems, as they not only offer external care for the hair and scalp but nutrition for hair roots as well. In 2011 we upgraded the brand by adding two new products to the portfolio – **Fitoval intense dermatological anti-dandruff shampoo** and **Fitoval maintenance dermatological anti-dandruff shampoo**, which we launched on several markets, including Slovenia, Ukraine and Slovakia. In Poland our Fitoval anti hair-loss shampoo received the Discovery of the Year award in 2011.

Animal health products

In 2011 the Krka Group sold EUR 38.1 million worth of animal health products, up 25% compared to 2010. Sales increased the most in Region West Europe and Overseas Markets and, with respect to Krka's 10 largest individual markets, in Belgium, France, Poland and the Russian Federation. In Slovenia and in the markets of Eastern and South-Eastern Europe as well as in the majority of Central European markets we market our animal health products via our own marketing and sales network. In the Czech Republic and Hungary as well as in the markets of Region West Europe and Overseas Markets our products are sold via partners.

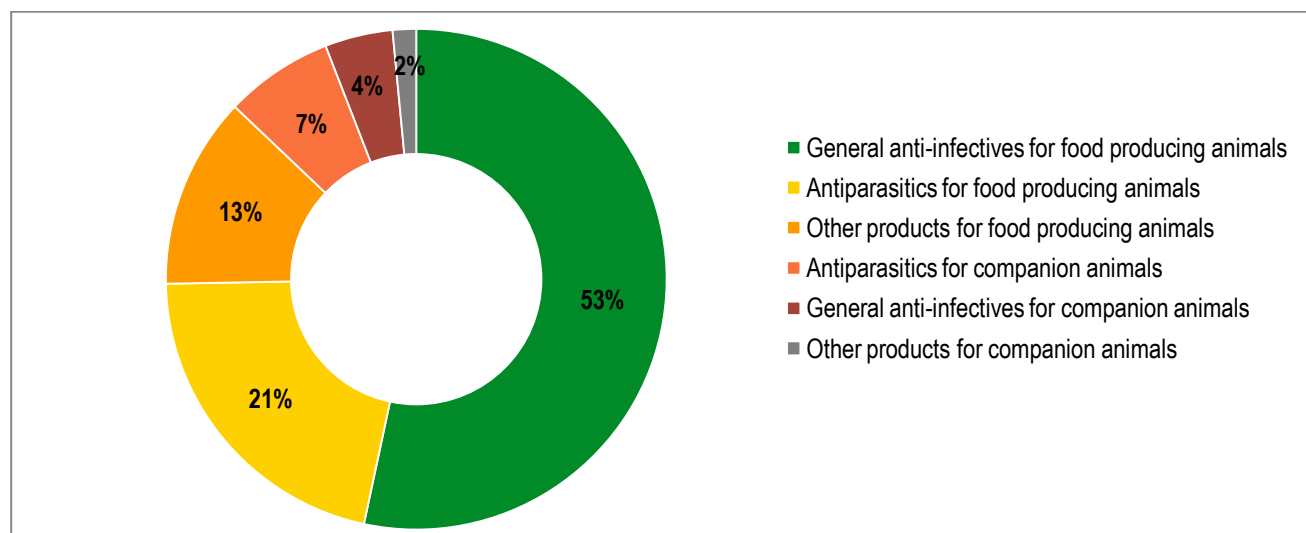
The sales of animal health products increased by 25% in 2011.

Sales of animal health products in the 10 largest markets



* The 2011/2010 sales growth index in Belgium exceeded 1,000.

Sales of animal health products by therapeutic group in 2011



Our leading animal health product is **Enroxil** (enrofloxacin). Over 40% of Krka's enrofloxacin is sold in the markets of Region West Europe. Both in Slovenia and Central, Eastern and South-Eastern Europe as well as in Western Europe, Krka's enrofloxacin has remained the leading generic enrofloxacin in 2011. A wide range of dosage forms are marketed under the Enroxil brand, including the single-dosage **Enroxil Max** solution for injection and **Enroxil flavour** flavoured tablets, which in 2011 we launched in the Russian Federation.

Our leading veterinary products further include **Floron** (florfenicol), one of Europe's leading generic florfenicols, and coccidiostat **Kokcisan** (salinomycin). Both have been marketed for several years now in numerous countries around the world.

In 2011 we launched a new veterinary product, **Toltarox/Tolzesya** (toltrazuril), preventing coccidia infestations in pigs. It was launched on several markets, including the Russian Federation, Romania and Poland, while our partners also started marketing it in Western Europe, where it generated the majority of its sales value; in Germany Krka's toltrazuril already holds a market share of over 10%. With respect to absolute sales growth, Toltarox/Tolzesya is Krka's leading animal health product, having already ranked a top five best-selling product during its first year on the market.

*Our most important new animal health products are **Toltarox/Tolzesya** (toltrazuril) and **Quiflox/Marfloxin** (marbofloxacin).*

Ecocid/Oxicid S is a universal highly active disinfectant with a broad spectrum of virucidal, bactericidal and fungicidal action. Its efficacy has been confirmed using methods that comply with the most recent EU standards, and it is one of Krka's top five animal health products.

We launched another new veterinary product in 2011, **Quiflox/Marfloxin** (marbofloxacin). Marbofloxacin is a third generation antimicrobial fluoroquinolone, used to treat bacterial infections in cattle and pigs. In 2011 we launched it in several Central European countries, while in several Western European countries it is available via our partners. Quiflox/Marfloxin is Krka's top ten animal health product, while with respect to absolute sales growth it is a top three.

Fypyrst (fipronil) is Krka's most important veterinary product for companion animals. It is used to eliminate and control external parasites in cats and dogs. After being launched in 2010, it became in 2011 our top ten best-selling animal health product and, given its absolute sales growth, a top three. We launched it on several new markets in 2011, of which the most important ones are the Russian Federation, Croatia and Ukraine.

We expanded our range of animal health products in 2011 with a new veterinary medicine for companion animals. **Rycarfa** (carprofen) is a non-steroidal anti-inflammatory medicine for cats and dogs. We started marketing it in several markets, the most important ones being Slovenia, the Russian Federation, Romania and Poland, while our partners have also started selling it in the markets of Western Europe. It is available as injection and flavoured tablets, being Western Europe's only generic carprofen available in these two dosage forms.

Health-resort and tourist services

The spa resort group Terme Krka generated sales of EUR 34.8 million in 2011 from its branches in Šmarješke Toplice, Dolenjske Toplice, Strunjan, Novo mesto and Otočec, up 13% compared to 2010. The highest sales growth, 48%, was recorded by coastal resort Talaso Strunjan, which had been closed for renovation for four months at the beginning of 2010 but was then very successful in 2011, having witnessed a record number of overnight stays. The number of overnight stays also increased in spa centres Terme Dolenjske Toplice (up 4%) and Terme Šmarješke Toplice (up 2%). These results are mainly due to the increasing numbers of overnight stays by foreign guests, who like to stay with us because of our diverse and high quality health care and relaxation programmes. Sales increased the most, by 16%, for health care services, which can partly be attributed to our increasing marketing of health care programmes among foreign guests and the marketing of preventive health care programmes.

In 2011 the spa resort group Terme Krka recorded nearly 358,000 overnight stays, 72% by domestic guests. The most frequent foreign guests were Italians (10%), Austrians and Russians (both 4%). The occupancy rate was 73% at Terme Šmarješke Toplice and 67% at Terme Dolenjske Toplice, while at the seaside spa resort Talaso Strunjan it was a high 82%. The number of German guests increased by as much as 30%, while the most numerous foreign clients using our sophisticated medical rehabilitation programmes are the Russians.

Research and development

Our development activity is focused on developing generic active pharmaceutical ingredients and dosage forms, and technologies. The development of a value-added generic product requires innovative approaches, both in the field of research and technology development as well as with respect to the methods of production and evaluation.

Recognising our R&D achievements, the Chamber of Commerce and Industry of Slovenia presented Krka with a golden award for our innovative synthesis of esomeprazole and for developing an innovative dosage form.

We have received several awards for our achievements in research and development. One of the most important ones is the gold award from the Chamber of Commerce and Industry of Slovenia for our innovative synthesis of esomeprazole and for developing an innovative pharmaceutical form. This was a very complex innovation, and the product involved is one of Krka's most important pharmaceuticals.

The compliance of our development procedures, production procedures and documentation with regulatory requirements is essential for gaining marketing authorisations for prescription pharmaceuticals, non-prescription products and animal health

In 2011 Krka obtained marketing authorisations for 19 new products in 44 dosage forms and strengths.

products. Bringing a new product to the market on time is the result of a complex process. It includes our recognising the opportunity on time, having the right development and patent starting points, being successful at development work, and managing the entire pre-launch process well (from the supply chain, to the technology in the industrial scale and to quality issues). Only when we align all these areas with innovative approaches to regulatory issues can we be successful.

Bringing a new generic product with added value to the market on time is the result of creative and innovative approaches and, above all, teamwork among the research and development and regulatory departments. Developing and gaining marketing authorisations for products includes making the best use of development and marketing opportunities and of the product portfolio of Krka's companies. In selecting products we also take into account the specific features of individual markets, in order to open up additional sales opportunities for existing products in new markets. To be competitive in the future we will need to preserve our efficient research and development with respect to selected products, and continue launching new products for interesting therapeutic groups. The protection of our industrial property, rapid marketing authorisation, and launching of existing products on new markets are also essential.

Number of new Krka Group marketing authorisations by region

In 2011 Krka acquired marketing authorisations for 19 new products in 44 dosage forms and strengths.

We obtained new marketing authorisations under a range of EU and national procedures. Via the most demanding EU procedures (CP, DCP, MRP) we acquired 64 marketing authorisations.

We gained new marketing authorisations for numerous products and expanded marketing opportunities in all Regions. In several countries we obtained 855 new marketing authorisations.

Number of new Krka Group marketing authorisations by region

	Slovenia		South-East Europe		East Europe		Central Europe		West Europe		Rest of World	
	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms
2011	31	76	92	225	112	191	177	424	415	843	28	55
2010	42	88	96	224	157	243	208	444	386	828	36	64
2009	43	64	101	173	126	222	171	317	393	798	40	89
2008	29	49	113	241	177	284	93	215	203	502	22	44
2007	11	39	104	223	108	181	86	311	102	500	21	76

Protecting our know-how and intellectual property

Krka protects the results of its development work in key areas using patent applications. In 2011 Krka submitted patent applications for six new inventions and 15 international patent applications on the basis of prioritised applications from 2010.

Our products are marketed under our own trademarks. In 2011 Krka registered 42 trademarks in Slovenia, and submitted 33 international and 55 national applications.

Prescription pharmaceuticals

In 2011 we acquired marketing authorisations for nine new products in 28 dosage forms and strengths, which is the result of our know-how and experience in the development of pharmaceutical products and in the regulatory procedures. Most new products reflect Krka's vertical integration of development and production processes. This added value allows our products to achieve long-term competitiveness, whereas our innovative approaches have increased their marketing opportunities in new markets.

Krka is one of the leading generic producers of medicines for the treatment of cardiovascular diseases.

In 2011 we acquired marketing authorisations for two fixed-dose combinations with amlodipine to treat high blood pressure (hypertension) and/or stable coronary artery disease. The first is the fixed-dose combination of **perindopril** and **amlodipine (Amlessa)** in tablet form in four strengths. Due to the additive action of these two active substances, the combination has a strong anti-hypertensive effect, offers better protection for the target organs, minimises adverse effects and ensures improved patient compliance. The first marketing authorisation for the new product was granted under the DCP.

Another result of our successful development work and management of all stages of product preparation is the new fixed-dose combination of **valsartan** and **amlodipine** in the form of film-coated tablets in five strengths. With the additive action of the two substances it provides an effective and safe treatment by allowing the patient to take a single tablet a day. This improves patient compliance and long-term treatment persistence, which is especially important for patients at risk.

Krka's well established **atorvastatin (Atoris)** has been available in new strengths since 2011, which has opened up new treatment possibilities. Atoris in the form of film-coated tablets was authorised under the DCP in three new strengths. The Atoris 80 mg tablets contain the maximum prescribed daily dosage and are intended for patients at high risk of cardiovascular complications, particularly for the prevention of strokes; the two intermediate tablet strengths, 30 mg and 60 mg, offer a further choice of dosage when seeking the most optimum balance between efficacy and safety.

We also expanded Krka's range of sartans. Marketing authorisations were acquired for products based on two key substances, **irbesartan** and **candesartan**. The new fixed-dose combinations of candesartan and irbesartan with a diuretic complete and strengthen the established Krka brands **Karbis/Candecor** and **Ifirmasta**. We acquired marketing authorisations in the majority of EU countries for the fixed-dose combination of **candesartan** and **hydrochlorothiazide (Candecombi/Karbicombi)** in tablet form in four strengths. **Ifirmacombi**, a fixed-dose combination of **irbesartan** and **hydrochlorothiazide** in film-coated tablet form in three strengths, was authorised under the CP in the entire EU. The two substances provide the desired effects in the treatment of high blood pressure, which monotherapy cannot offer.

The range of pharmaceuticals to treat conditions affecting the central nervous system, one of Krka's key therapeutic groups, was also expanded.

A marketing authorisation was obtained for the new product **Galsya SR** with the active substance **galantamine** in the form of prolonged-release capsules in three strengths. It is used for the symptomatic treatment of mild to moderate Alzheimer's disease. Prolonged-release capsules allow for the medicine to be taken only once a day. Having obtained approval for its **galantamine**, Krka now offers a complete range of medicines to treat Alzheimer's disease and has acquired marketing authorisations for all active substances from the group of acetylcholine esterase inhibitors that are today used in the clinical practice. Krka's galantamine has been authorised through the DCP in most EU countries.

Our new fixed-dose combinations of valsartan, amlodipine and perindopril, as well as the fixed-dose combinations of candesartan and irbesartan with a diuretic, have expanded our range of medicines treating cardiovascular diseases and have consolidated our position as a leading generic producer in this group.

Completing the DCP we acquired a marketing authorisation for **levetiracetam** in the form of film-coated tablets in four strengths. This antiepileptic may be used for monotherapy or as add-on treatment of epileptic seizures.

In the group of anti-allergy medications, we obtained a marketing authorisation for the new product **desloratadine (Dasselta)** in the form of 5 mg film-coated tablets. Desloratadine is a non-sedating antihistamine alleviating the symptoms of allergic rhinitis and urticaria. It was authorised by the European Medicines Agency under the CP for the entire EU.

The combination of two analgesics, **Doreta**, was prepared in a new dosage. These new film-coated tablets contain 75 mg of tramadol and 650 mg of paracetamol, with only one film-coated tablet thus being sufficient to relieve moderate to severe pain.

We also broadened our range of antidiabetic medications by acquiring marketing authorisations for **pioglitazone** in tablet form in three strengths in the countries of Western Europe. The product treats type-2 diabetes.

We expanded marketing opportunities for different products in the markets of Western and Central Europe. We acquired new marketing authorisations in 12 countries for **levocetirizine (Cezera)** film-coated tablets. In six EU countries we obtained new marketing authorisations for **sertraline hydrochloride** film-coated tablets in three strengths. **Donepezil** film-coated tablets in two strengths received new marketing authorisations in 13 EU countries. **Pantoprazole** gastro-resistant tablets in two strengths received new marketing authorisations in nine countries. Via demanding EU procedures we obtained approvals for **candesartan (Canocord)** tablets in four strengths, for **losartan (Lorista)** film-coated tablets in three strengths, for **indapamide** prolonged-release tablets, for **perindopril** tablets in two strengths, and for **esomeprazole** gastro-resistant capsules in two strengths. In the group of statins, a new marketing authorisation was obtained for **rosuvastatin (Roswera)** film-coated tablets in six strengths. **Rosuvastatin** was authorised through a DCP in another 12 EU countries.

Concluding the MRP in three countries of Western Europe, we obtained new marketing authorisations for **alprazolam** prolonged-release tablets in three strengths.

By obtaining a marketing authorisation for **sildenafil (Vizarsin)** film-coated tablets in three strengths in the Russian Federation, we increased the marketing opportunities for this product.

Additional approvals enabled us to expand the marketing opportunities in the markets of South-Eastern Europe. In Croatia we obtained a new marketing authorisation for **telmisartan (Tolura)** in tablet form in three strengths, and for **candesartan (Karbis)** in tablet form. By obtaining new marketing authorisations we increased the marketing opportunities for **ezetimib (Ezoleta)** in tablet form, for **pantoprazole (Nolpaza)** powder for solution for injection, and for **rosuvastatin (Roswera)** film-coated tablets. A new marketing authorisation was also obtained for the fixed-dose combination of **perindopril** and **amlodipine (Dalneva)** tablets.

In the other markets of South-Eastern Europe we applied for new marketing authorisations for our products from various therapeutic groups: **rosuvastatin (Roswera)** in the form of film-coated tablets in four strengths, **pantoprazole (Nolpaza)** powder for solution for injection, **esomeprazole (Emanera)** in the form of gastro-resistant capsules in two strengths, **pramipexole (Oprymea)** in tablet form, **repaglinide (Enyglid)** in tablet form in three strengths, **sildenafil (Vizarsin)** in the form of film-coated tablets, **rivastigmine (Nimvastid)** in capsule form, **valsartan (Valsacor)** in the form of film-coated tablets, **candesartan (Karbis)** in tablet form, and the fixed-dose combination of **perindopril** and **indapamide (Co-Prenessa)** in tablet form.

Non-prescription products

In 2011 we obtained marketing authorisations for six new non-prescription products.

One of them is for the new **Orlistat/Orsoten slim** 60 mg capsules (Orsoten slim), which we obtained in the Russian Federation. The product is recommended to adults as an aid in reducing weight, and should be used together with a low-calorie, low-fat diet.

In the group of our herbal products, we obtained the first marketing authorisation for **Herbion ivy syrup** in Slovenia and obtained further approvals under the MRP in 10 other EU countries. **Herbion ivy syrup** contains a dry extract of the leaves of common ivy (*Hedera helix*), which dilutes thick mucus in the respiratory tract and is used to facilitate expectoration with increased mucus secretion.

In Ukraine we obtained a marketing authorisation for **Palprostes** soft gel capsules, recommended to alleviate the symptoms of benign prostatic hyperplasia and to aid in the complex therapy for this condition.

We increased the marketing opportunities for the **Bilobil** brand by obtaining additional marketing authorisations for the **Bilobil** 120 mg capsules in Latvia and in the markets of South-Eastern Europe.

In the group of food supplements, we expanded our range of vitamin products. In Slovenia we obtained marketing authorisations for two new products, **Pikoplus 11+ for girls** and **Pikoplus 11+ for boys** chewable tablets. They contain a balanced combination of the most important vitamins, minerals and the micronutrient choline, and particularly the nutrients that help growing-up girls overcome changes of the skin and body, and those helping boys recover energy lost due to increased physical activity.

Krka's key brand is **Septotele**. In 2011 we obtained marketing authorisations for the **Septotele plus spray** in the Czech Republic (**Neoseptotele DUO**), Slovakia, Croatia, Macedonia, Bosnia and Herzegovina and Bulgaria. After being granted marketing authorisations in Portugal, the **Septotele plus honey and lime** lozenges were introduced to the markets of Western Europe. Based on the results of a clinical study **Orsoslim** in capsule form was certified in the Russian Federation, which allows the nutritional product to be labelled with indications.

Krka also expanded the range of cosmetic products marketed under our **Fitoval** brand. Notifications were acquired for two new products, **Fitoval intensive dermatological anti-dandruff shampoo** and **Fitoval maintenance dermatological anti-dandruff shampoo**.

Animal health products

In 2011 marketing authorisations were obtained for four new products in 10 dosage forms and strengths.

Having completed a DCP we acquired a marketing authorisation for the new medicine **marbofloxacin (Marfloxin/Quiflox)** in the form of solution for injection in two strengths. The product is used to treat bacterial infections in cattle and pigs.

We concluded the procedures for **Dehinel** in the form of tablets. Both **Dehinel plus XL** and **Dehinel plus flavour** were authorised in 20 EU countries as well as in Croatia. Both products treat internal parasite infestations in dogs.

The range of antimicrobial medicines was expanded. Our new product **tiamulin (Entemulin)**, water soluble granules for the preparation of medicated drinking water (450 mg/g), was authorised through a DCP in seven EU countries. The product is used to prevent and treat chronic respiratory disease in poultry as well as to treat gastrointestinal and respiratory infections in pigs. In the countries of Western Europe we completed a DCP and obtained marketing authorisations for the **fipronil (Fypryst)** spot-on solution, treating external parasite infestations in cats and dogs. Fipronil was additionally authorised in Croatia, Serbia, Ukraine and the Russian Federation.

In Serbia we acquired a new marketing authorisation for **enrofloxacin** in the form of flavoured tablets (**Enroxil flavour**) in three strengths, treating bacterial infections in cats and dogs.

With respect to products for companion animals, **carprofen (Rycarfa)**, tablets and solution for injection, was approved in several markets of Western Europe as well as in Croatia and Ukraine.

New products were also added to our range of antiparasitic medicines. New marketing authorisations were granted to Krka in certain markets of Central and Western Europe as well as Serbia and Moldova for **toltrazuril (Toltarox)** in the form of oral suspension, preventing and treating coccidiosis in newborn pigs.

Health-resort and tourist services

The spa resort Terme Šmarješke Toplice developed and started marketing in 2011 the new programme Vitagen. On the basis of the genetic analysis, our health professionals advise guests on how they can adjust their lifestyles in order to avoid certain common illnesses of our time.

The spa resort Terme Dolenjske Toplice has worked together with a renowned aesthetic body makeover expert in developing the programme Estetika Balnea. It includes non-surgical cosmetic rejuvenation treatments involving minimum risk, shorter recovery and lower costs. Our treatments are based on all-natural and thoroughly tested substances.

Product supply

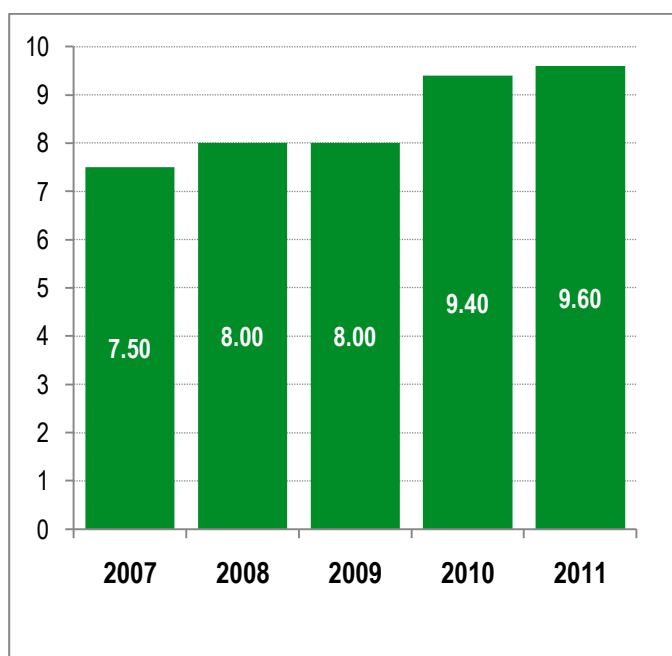
The key objective of Product Supply is to satisfy market demand by providing sufficient quantities of quality products in a timely and cost efficient manner. We manage that by continually optimising cost efficiency of products and technologies, by constantly improving processes to reduce flow time along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

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

Production planning and realisation

The production of finished products in 2011 remained at the same level as in 2010. By continually improving processes we considerably reduced the average order-to-delivery time. In planning production we increased the number of batches of the same product scheduled simultaneously in order to enhance efficiency, economics and availability. We successfully set up the production of new products and offered them to customers on time.

Production of finished pharmaceutical products in billions



Supply process

In 2011 we started doing business with our largest suppliers of secondary packaging electronically and introduced extranet portals in dealings with contractors. This has simplified supply planning and accelerated the procedures as well as decreased administrative expenses. Our strategy of building partnerships with suppliers is being continually improved. Certain suppliers are included into our processes as soon as at the development stage of a new product, and where necessary they are informed about our development strategy and undergo training. With major suppliers we hold annual meetings.

Production

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

It took us very little time to set up regular production in the new solid dosage forms production plant OTO and thus gain additional production capacity. We successfully passed the inspection conducted by the U.S. Food and Drug

Administration. We are actively involved in the construction of new solid dosage forms production facilities, especially Notol 2 and the production and distribution centre in the Russian Federation, which will increase our production capacity from the current 11 to over 16 billion solid pharmaceutical forms. We are also strengthening our API (Sinteza 1 in Krško, Slovenia) and sterile products production capacity.

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

Warehousing and transport

The principles we comply with in the warehousing and distribution of our products to customers are, as elsewhere, quality, flexibility and responsiveness. We have modernised our warehouses in Gotna vas, Slovenia, by installing air-conditioning systems and expanding the medicinal herb warehouse. We have been involved in the implementation of the SAP business management software into the warehouses for incoming materials, and have increased storage capacity for materials subject to more stringent warehousing requirements.

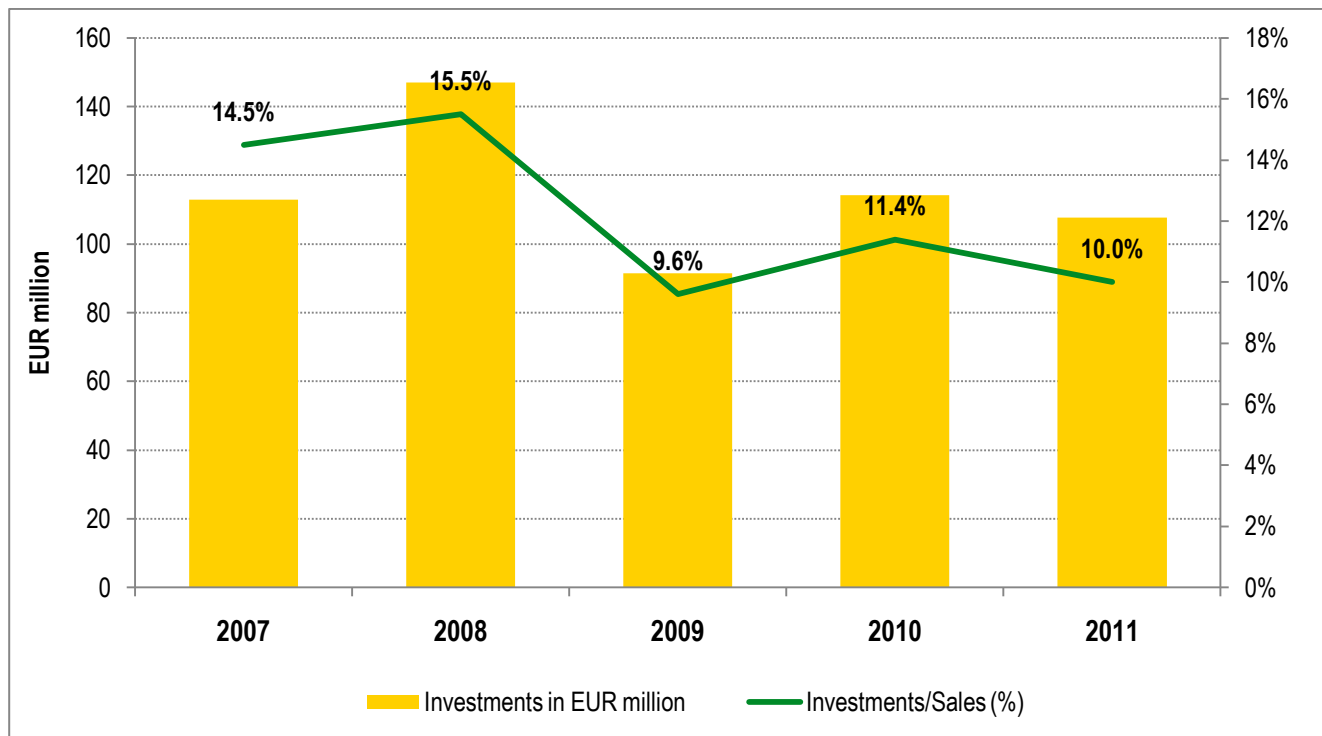
We have also been successful in the area of inventive work, which reflects our creativity. All employees from Product Supply engage in inventive work, which is why in 2011 the Pharmaceuticals Production Division was declared the best organisational unit in terms of inventive work.

Investments

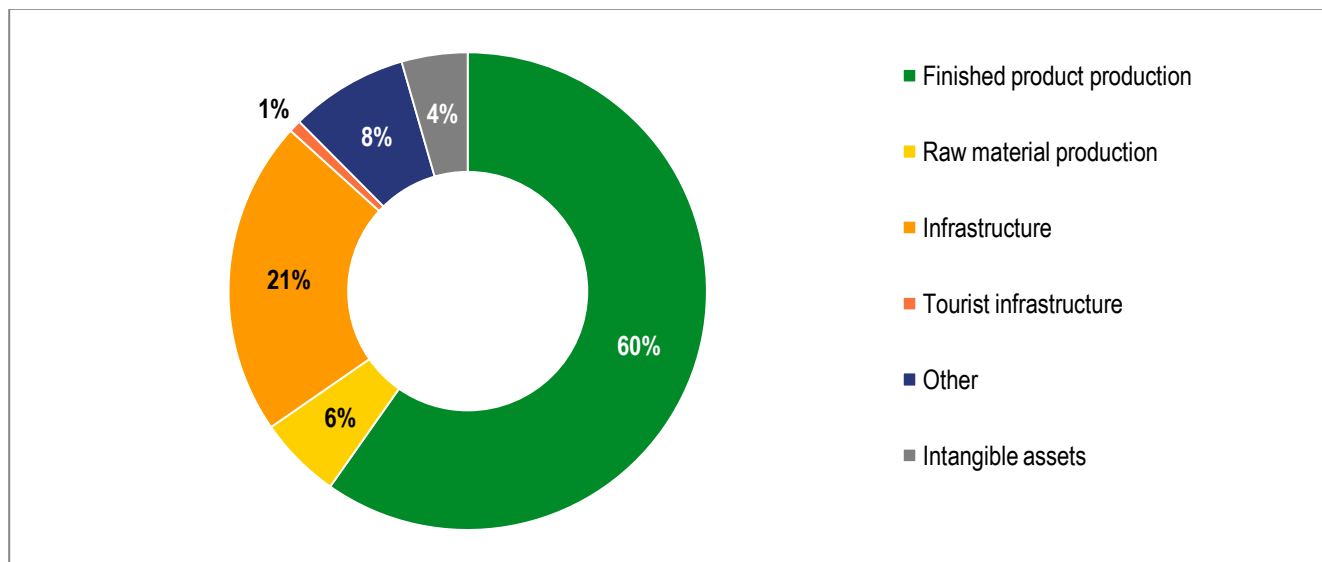
In 2011 the Krka Group's investments totalled EUR 108 million, which is 10% of our sales revenue. In Slovenia, Croatia and the Russian Federation we currently have 20 ongoing investment projects.

In 2011 we allocated EUR 108 million to investments.

Krka Group investments 2007—2011



Structure of Krka Group investments in 2011



The majority of our investments have been allocated to increasing our finished product production capacity and to constructing infrastructure.

New development and production facilities to produce more quality, safe and effective pharmaceuticals

A new development and control centre, RKC 3, and a new solid dosage forms production plant, OTO, opened their doors at the end of October 2011. Worth a total of EUR 113 million, they will strengthen our development and production capacity, and stand as an important landmark in Krka's technological development and production upgrade. The concept for both facilities was designed with the know-how and teamwork of Krka's experts.

Solid dosage forms production plant OTO

Krka's investment into the new plant is worth EUR 91 million, which makes it the Group's largest investment in the last three years. Construction at the main location in Ločna, Slovenia, started back in June 2009 with production on line one opening in April 2011, after a successful technical inspection. Operating in two shifts, it has already increased the production capacity to 2.5 billion tablets, coated tablets and capsules per year. The production process in OTO is organised in the standard way, with containers.

The plant has five floors with a total surface area of 17,000 m². Warehouse transport services connect the Specifika plant warehouse and the warehouse for finished products. Production in OTO runs on state-of-the-art technological equipment that complies with the stringent pharmaceutical production standards. The plant has adequate technical and technological utilities and was designed to make efficient use of energy. The installation of a heat pump and the technical solution used for air-conditioning will help reduce CO₂ emissions by 300 tonnes per year. This is the equivalent of 100 contemporary single-family homes' heating emissions produced in a year.

Development and control centre RKC 3

To a large extent Krka's sales growth depends on the new products created by its research and development teams. The products that we started marketing in individual markets over the past five years represent nearly 50% of our total sales, and it is therefore not a coincidence that we are expanding our research and development capacity. One of such projects is the new development and control centre RKC 3, which we started building in September 2009 at Krka's central location in Ločna, Slovenia. RKC 3 is located in the direct vicinity of RKC 1, with which it is connected with a bridge, and RKC 2, forming a functional and aesthetically appealing whole. The project is worth EUR 22 million.

The principle aims of RKC 3, which was completed in June 2011, are to strengthen Krka's research and development capacity in terms of quantity as well as quality, and to assure quality and control of incoming materials, bulk products and finished products consistent with good laboratory practice standards for new production facilities. RKC 3 has increased our development capacity and strengthened product quality assurance. It contains state-of-the-art laboratory equipment required to develop and introduce the latest analytical methods, which is an important competitive advantage.

With a total net surface area of 11,479 m² the building spreads across seven floors: five are intended for development and control activities and two are technical floors. The building also has a cafeteria, serving the staff of RKC 3 as well as those working in nearby buildings. The design of the building is modular and flexible, so that it can be used for different purposes (from large laboratories to offices).

Modernising production and increasing capacity

Sinteza 4 – Increasing production capacity

By purchasing additional technological equipment for the Sinteza 4 production plant we have enhanced its flexibility and productivity as well as increased the range of products that can be produced in the plant simultaneously.

Production of animal health tablets

By refurbishing the interior of our solutions and emulsions plant we have set up the conditions for the production of bulk products and for the blister packaging of flavoured animal health tablets consistent with good manufacturing practice guidelines. The new blister packaging line and other technological equipment will increase our production capacity.

Production of sterile products, Phase II

The sterile product production plant will gradually increase ampoule production to 130 million ampoules per year. Initially we will install two injection filling lines, two injection solution preparation lines and one ampoule packaging line. All the technological equipment will be fully fitted by the end of 2012. Having started construction work during the 2011 New Year's holidays, we expect production on the new technological equipment to start in the first half of 2013.

Investments outside Slovenia

In February 2011 Krka began building a new distribution centre and a new solid dosage forms production plant in the Russian Federation. The flexible, modular construction of the production facilities will progress in several phases. In phase one six packaging lines will be fitted gradually. The plant's target capacity is 1.5–1.8 billion tablets and capsules per year. The investment, worth EUR 135 million, is also significant in light of the efforts invested by the Russian government to boost domestic pharmaceutical production. With Krka-Rus II Krka is consolidating its status as a domestic producer in the Russian Federation.

In February 2011 we started constructing a new plant in the Russian Federation.

The project includes several new buildings being constructed: a production plant, a logistics centre with a high-bay warehouse and an energy facility. The main construction work will be completed during 2012, with production in the new plant planned to start in 2013.

Increased production capacity in Croatia

The existing and partly refurbished production and distribution centre in Jastrebarsko, which operates under Krka's subsidiary Krka Farma Zagreb, will increase its production capacity for bulk products and finished products. The investment is worth an estimated EUR 3.8 million.

Farma GRS

In a project aimed at advancing the pharmaceutical industry, Krka and partners founded in January 2011 Farma GRS, d. o. o. New research and development and production facilities will be set up at Krka's location in Ločna, Slovenia, in a project worth EUR 45 million, which is partly funded by the European Regional Development Fund.

The principal aim of the newly founded company is to set up the infrastructure for developing new products and technologies related to pharmaceutical chemistry and technology. We will focus primarily on complex active ingredients and processes, aiming to develop new generic pharmaceuticals – new both to patients and the industry. The Farma GRS project in fact includes two investments: constructing a production centre for final processing of active ingredients, and a chemicals development centre, whereby Krka will also partly increase the capacity of RKC 3.

New projects

We are drawing up the project documentation and obtaining the relevant permits to construct the new oral solid dosage form production plant Notal 2, the largest investment in Krka's history. The plant's target capacity is 4.5 billion finished products per year and its estimated value is EUR 200 million.

Notal 2 has been the largest investment in Krka's history.

Another considerable investment is the expansion of our chemical production to Krško, Slovenia. We are building a new API production plant there, Sinteza 1, for which we obtained the building permit at the end of 2011. This project substantiates Krka's philosophy of vertical integration, which keeps us in control of the entire development and production process, from the active ingredient to the finished product, and product launching on the market. The first stage will involve constructing the required infrastructure.

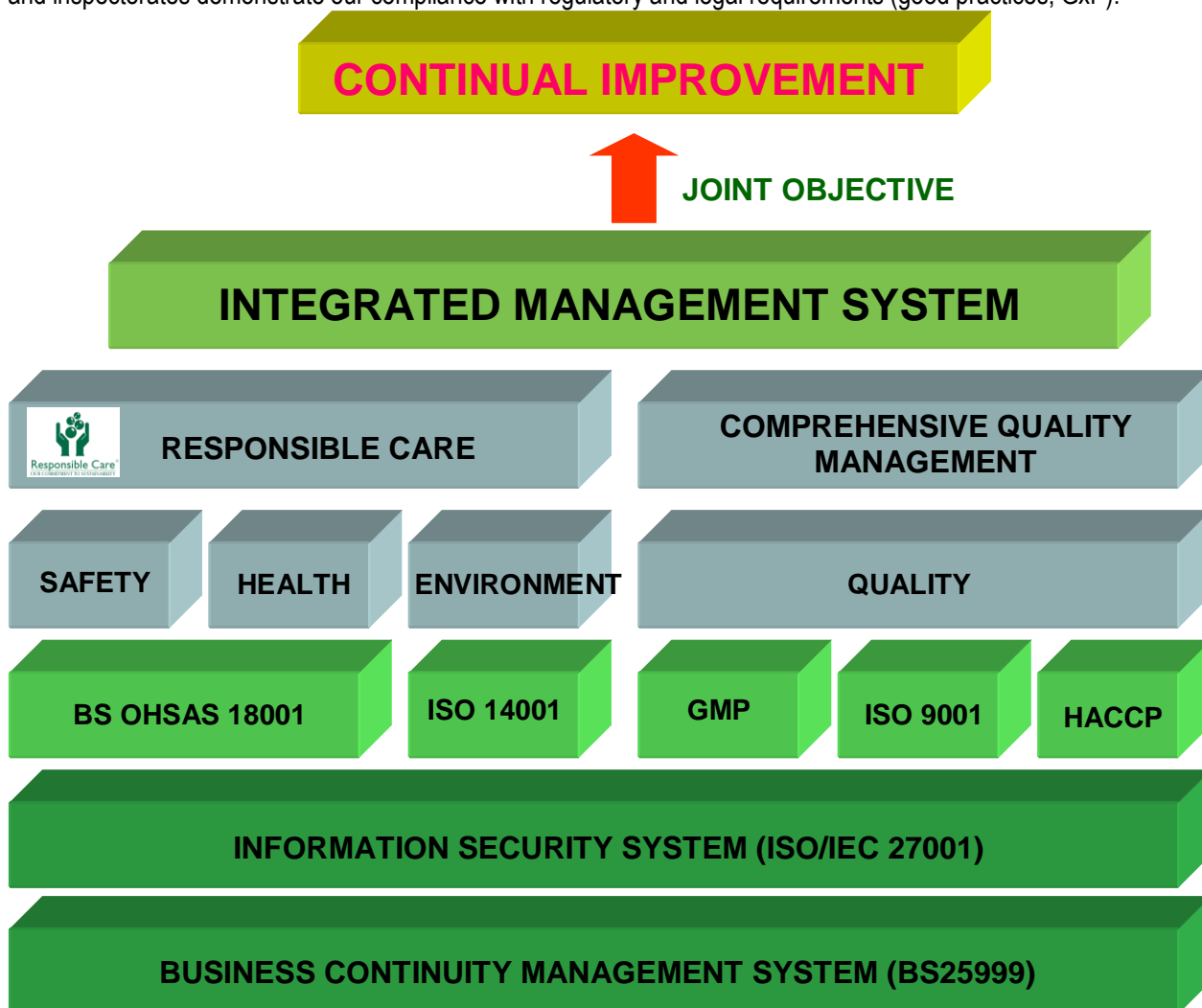
Integrated management system and quality

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

Management system

Our integrated management system (IMS) facilitates the effective management of individual systems related to different aspects of our operations (quality, the environment, health and safety at work, foodstuffs safety, information security and business continuity management), and brings them into a single management system with the intention of achieving the optimum operating objectives. Our IMS is described in Krka's Quality Manual. Its structure is based on the ISO 9001 standard, which has been upgraded and broadened by a number of other standards and principles: GxP, HACCP, ISO 14001, BS OHSAS 18001, ISO/IEC 27001, BS 25999. The performance of our IMS is supported by a centralised document management system, which we are continually improving, currently by gradually migrating from paper to electronic document management. The advantages offered by electronic document management include: lower costs, smaller time span from when a document is produced to when it can take effect, easier access, better security, etc. To ensure the credibility of our IMS and consolidate our partners' trust, the IMS is regularly certified by independent external institutions (SIQ – Slovenian Institute of Quality and Metrology). The regular audits conducted by Slovenian as well as foreign inspectors from agencies and inspectorates demonstrate our compliance with regulatory and legal requirements (good practices, GxP).

Our integrated management system (IMS) demonstrates our attitude to quality, the environment, health and safety at work, food safety and information security, while the efficiency and effectiveness of our IMS is confirmed by good business results.

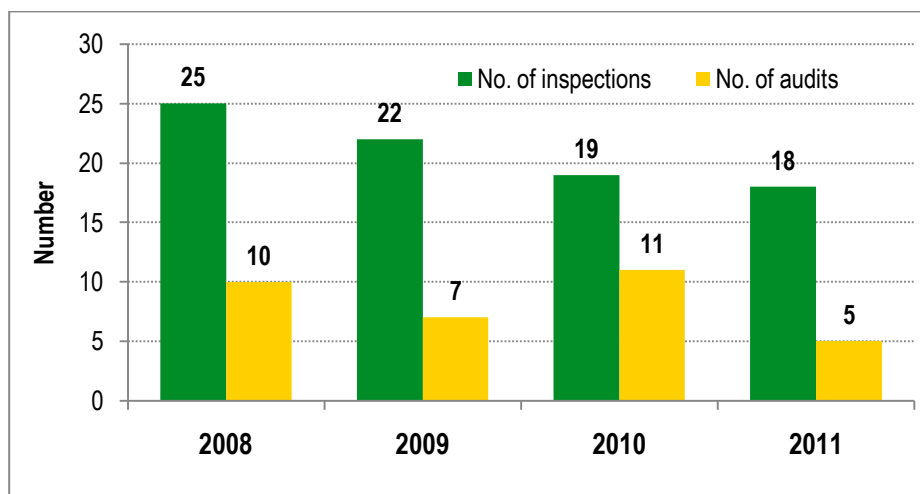


Krka is inclined to making constant improvements. These are dictated, on the one hand, by standards, guidelines and the PDCA approach (Plan, Do, Check, Act), and, on the other, our commitment to meeting these standards. Improvements are the driving force behind the progress and ongoing development that Krka continually implements across all areas of its operations. This includes systematic process management, covering every step from customer requirements, research and development, product supply, sales and marketing, to the monitoring of customer satisfaction. And it is customer satisfaction, of both existing and future customers, and achieving business success that have been our primary objectives thus far and that will remain so in the future.

Quality system

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

Number of inspections and audits in the Krka Group



The number and frequency of partner audits depend on the risk analyses they conduct when drawing up their audit plans. The decreasing trend in the number of audits, which was particularly pronounced in 2011, shows that the risk is assessed to be low and that the trust our partners place in Krka's quality system is considerable.

The Agency for Medicinal Products and Medical Devices of the Republic of Slovenia (JAZMP) conducts regular inspections of our control and quality assurance systems, our pharmaceuticals and API production process, our conducting clinical trials, pharmacovigilance. In 2011 we passed several inspections, including:

- the verification of our new development and control laboratories within the new development and control centre RKC 3. The audit was successful and confirmed that the laboratories operate in compliance with GxP;
- the verification of the solid dosage forms production plant OTO;
- an inspection of our conducting clinical trials, whereby the inspectors examined our compliance with guidelines;
- an inspection of one of our plants through the Pharmaceutical Inspection Co-operation Scheme (PIC/S). The inspection was successful, helping JAZMP to meet one of the conditions for Slovenia to become a full member of PIC/S;
- a joint inspection of the production and distribution centre of Krka's subsidiary in Jastrebarsko, Croatia, together with the UK Medicines and Healthcare products Regulatory Agency (MHRA).

Having conducted these successful inspections, JAZMP confirmed our compliance with the EU requirements, which form the basis for renewing the GMP certificate and pharmaceutical manufacturing licence.

A general GMP inspection conducted by the U.S. Food and Drug Administration examined our API and finished products production for the compliance of production conditions and the manner of work in development, production, supervision and

quality assurance. The fact that Krka passed this inspection means we comply with good manufacturing practice and regulations valid in the USA.

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

In some countries (e.g. Russian Federation, Ukraine and Belarus), Krka has the special status of a high-quality pharmaceutical producer. This makes imports quality control for Krka's products in those countries consist of only three parameters, which reduces costs and brings finished product batches to the market much faster.

The Veterinary Administration of the Republic of Slovenia conducted inspections to verify that conditions are in place to ensure the traceability of feed in three registered plants, and to approve production in the plant producing animal-based foodstuffs. It also investigated our compliance with the requirements for the issue of veterinary permits for exporting feed additives and foodstuffs of animal origin.

We also successfully passed an audit of our pharmacovigilance system, both at our representation offices, where the auditors were the national agencies, and at Krka, where the auditor was our contracted partner.

Krka's internal auditors audit the management systems of suppliers and contracted partners in order to better control the quality of our products and processes and in order to remain focused on the key areas that have a significant impact on the quality of finished products. To this end we evaluate individual producers, suppliers and partners, and take measures required to keep product quality risk at an acceptable level. A good insight into the quality systems of our suppliers and contractors, as well as transparent requirements and responsibilities laid down in the quality assurance contracts that we enter into with all clients involved in our raw material and product manufacturing process, optimise our work processes and reduce time and costs.

Quality assurance processes

Employing a process-based approach enables effective process management. Krka has six key processes that have a significant impact on implementing the company's policies and reaching its strategic objectives. They are: company management, research and development, product supply, marketing, sales, and engineering and technical services. Quality assurance processes are a part of the company management process and form the basis for other corporate processes.

Our constant task is to upgrade quality systems and objective-driven processes, from the purchasing process, to the verification of incoming materials and the production process, through to verifying finished product compliance. This helps us ensure the compliance of products for human and animal use that we release to the market.

Krka incorporates and manages quality assurance in the research and development field at the earliest possible stage of product development. Such an approach leads to quality, safe and effective finished products.

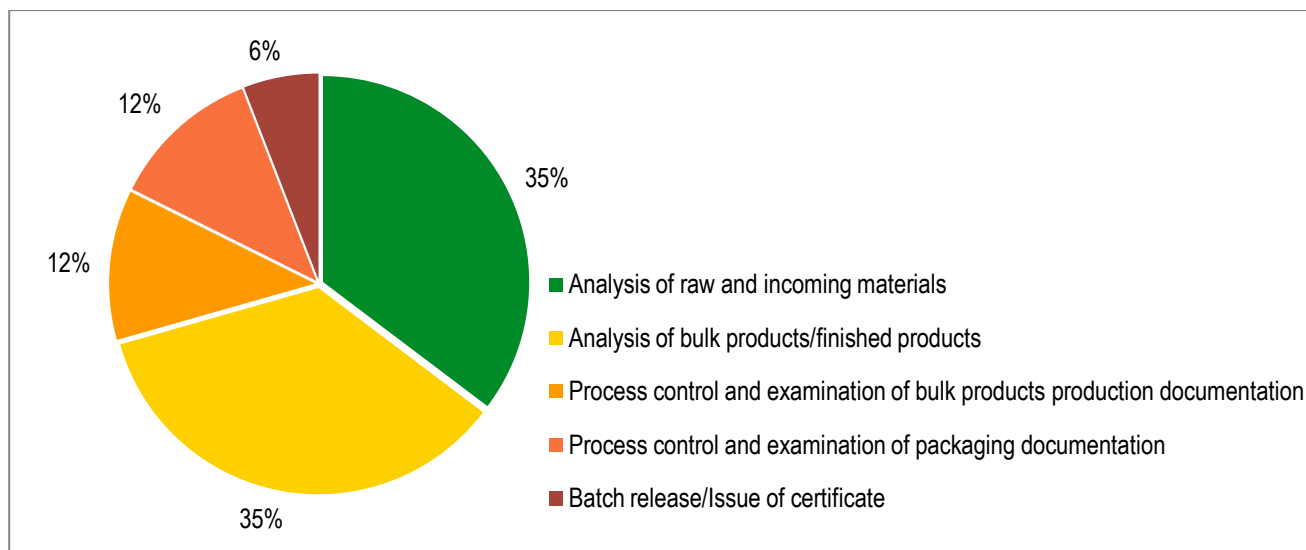
Laboratory quality controls are used to conduct quality analyses of products, active ingredients, incoming materials and the production environment at all production locations. To improve our work and increase responsiveness in conducting regular laboratory quality controls, the Laboratory Quality Control department hired additional expert staff in 2010, installed new laboratory equipment and moved to the new premises of the development and control centre RKC 3, where we have state-of-the-art laboratories. Our in-depth professional work, compliance with all the requirements of laboratory quality control, and our handling of laboratory equipment pursuant to FDA requirements (FDA 21 Code of Federal Regulations Part 11, EU Annex 11) help us reach optimum analysis response times and therefore contribute to realising sales orders and satisfying our customers.

The number of product batches released to market depends on sales requirements and production realisation. The activities that are crucial for releasing a batch to market come as a result of processes ongoing throughout the control and quality assurance cycle. All production batches are assessed according to good manufacturing practice standards and marketing authorisation documentation, which makes our products safe, high quality and effective.

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

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

Activities leading up to the release of pharmaceuticals to market



Improving the quality system

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

The Krka quality management system is subject to internal audits, external inspections and customer audits, the purpose of which is to contribute to a continual improvement of our integrated management system and of the operations of all other processes in the Krka Group.

In order to improve our processes we constantly monitor customer satisfaction through indirect indicators, such as complaints, recalls and information about adverse effects. We contribute to our partners' satisfaction with our products and services by offering support in preparing quality assurance contracts, by holding annual quality audits, and by coordinating activities related to product realisation within quality assurance. Finally, customer satisfaction is also evident from the audits of our compliance with GxP and marketing authorisation requirements, which we continue to pass successfully.

A key objective of our IMS, as well as of our operations and success, is the satisfaction of our customers with Krka products and services.

All major integrated management system processes are periodically reviewed against performance criteria by our Quality Committee, whereupon the Committee proposes strategic guidelines for their further development.

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

The quality systems are being upgraded within the entire Krka Group, with the intention of integrating functions into a uniform quality management system. Through the internationalisation of quality system processes we are establishing coherent and comprehensive quality management, as well as optimising processes and making them efficient.

Information security system

Our information security management system (ISMS) is ISO/IEC 27001 certified. We regularly conduct information source risk assessments, while the ISMS is regularly assessed by external security audits. In 2011 Krka's Information Protection Policy was extended to its subsidiaries. A key element making the implementation of our ISMS successful is staff training and awareness, which we sometimes conduct using contemporary technologies, such as e-learning.

Krka's internal rules on archiving documentary material comply with the Protection of Documents and Archives and Archival Institutions Act, and were approved in 2011 by the Archives of the Republic of Slovenia.

Our information security system is a platform that facilitates continual improvements in several areas, such as the protection of personal data, archiving, business continuity, etc.

Business continuity management system

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

Major emergencies and disasters, such that would stop the production and sales of our products for a longer period, can compromise Krka's existence. In 2011 we finished setting up our business continuity management system pursuant to the BS25999 standard (Business Continuity Management). We assess process criticality and the risks endangering their operability. We take effective measures to protect people, property and other key resources, and to prevent emergencies and disasters from occurring. For cases of emergency we have prepared plans of action and disaster relief measures as well as measures to decrease direct damage, and have also prepared plans to act in extraordinary circumstances until normal operations are restored. We intend to improve the efficiency of our business continuity management system by implementing continual system upgrades and by holding trainings and drills.

SUSTAINABLE DEVELOPMENT

Responsibility to employees

Quality of life and work, social security, and safety at work form the foundation for a stimulating work environment in which the goals and needs of the individual are linked with the company's objectives.

At Krka we build a culture of mutual trust, respect, collaboration and teamwork, involving lifelong learning and responsible and effective work. We develop fair relations with all partners. Respect for legal norms and rules and an ethical approach to other people and the wider social community form the very basis of our work. In addition, we are bound to respect the ethical and professional standards of work, conduct and behaviour by the Krka Code of Ethics.

We strive to make our actions reflect our sense of responsibility to employees and the values we uphold: speed and flexibility, partnership and trust, creativity and efficiency.

*We build
partnerships and
trust.*

We can only achieve good results with well qualified and committed people. We invest into the development of our own specialists and senior managers, and provide support to employees gaining higher education qualifications. We also offer our employees numerous opportunities for personal growth, education and training.

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

A pleasant organisational climate facilitates committed and creative work and the reaching of ambitious objectives. This is why we regularly measure organisational climate and employee engagement in the Krka Group, to establish work productivity and employees satisfaction. The findings of such analyses prove a good tool for preparing improvements and changes within our organisation.

The company's competitiveness and performance are maintained also with the continual improvement of internal processes. This is becoming increasingly important given our intense growth and expansion into new markets. The Krka Group is becoming increasingly complex, which is why we devote special attention to our organisational efficiency. Large-scale changes to our organisation in 2011 were the result of a reorganisation of six of the Group's major organisational units and of the restructuring of representative offices into subsidiaries. Our representative office in Latvia transformed into a subsidiary in 2011, and procedures were ongoing for establishing subsidiaries in France, Spain and Italy.

*We deliver
efficacy
with speed and
flexibility.*

The number of employees is growing, especially in the marketing and sales network in our companies and representative offices outside Slovenia, and in Slovenia also in production. Krka companies and representative offices outside Slovenia employ as many as 4,345 members of staff, which is 48% of all Krka Group employees.

Attracting qualified experts who can contribute to realising our objectives requires **systematic work with young people, even before they enter the job market.** We offer university and secondary school students who had demonstrated a certain talent and ability during their studies the opportunity to acquire Krka study grants. During their studies they are then connected with the company through gatherings that we organise for them, and through their professional internship. They get a chance to know the company and our work processes better, as well as to demonstrate and develop their knowledge and potential. In 2011 Krka had 107 university students on study grants, 25 of whom graduated in 2011.

*We encourage
creativity.*

Krka has received many prizes and awards for its systematic and accountable work in the human resources field, which involves the efforts of our senior management, specialist services and other partners. In 2011 we won our seventh TOP 10 award for investing into and being successful at education and training, we were a finalist in the Golden Thread employer-of-the-year campaign and became Slovenia's Most Reputable Employer.

Key data in 2011	
No. of employees	8,948, of which 51% in Slovenia
Average age	38
Share of female employees	62.5%
Share of employees with at least university qualification	51.3%
Change in the number of employees in 2011	+379

Number of employees on 31 December 2011

	2011	2010	2009	2008	2007	Index 2011/2010
Krka Company in Slovenia	3899	3784	3563	3380	3213	103
Krka Company representative offices outside Slovenia	480	749	1697	1870	1678	64
Krka Company	4379	4533	5260	5250	4891	97
Subsidiaries outside Slovenia	3865	3361	2036	1673	1240	115
Terme Krka group	653	675	679	679	646	97
Farma GRS	51					
Krka Group	8,948	8,569	7,975	7,602	6,777	104

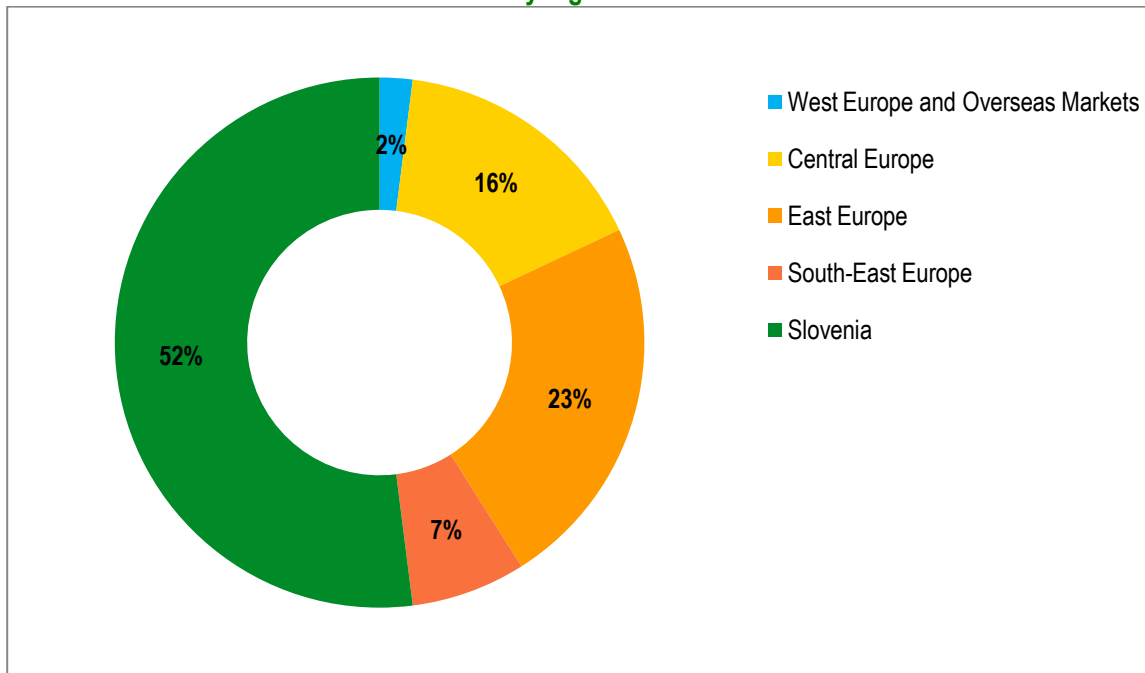
Educational structure

To invest extensively into development, additional capacity and complex technologies, and to maintain Krka's competitiveness in global markets, we require highly qualified specialists in all areas. The share of Krka Group staff with a university level education or higher is constantly increasing and currently stands at 51%. At the end of 2011, as many as 4,591 of our staff had a university level education or higher, while our team includes 95 experts with a doctoral degree and 266 with master's degrees and specialisations.

Educational structure

	2011	2010	2009	2008	2007
Doctorate	95	90	82	76	81
Master of science	266	245	215	178	161
University education	4,230	4,076	3,730	3,604	2,875
Higher professional education	945	780	698	596	619
Vocational college education	257	248	240	225	201
Secondary school education	1,760	1,711	1,599	1,503	1,404
Other	1,395	1,419	1,411	1,420	1,436
Total Krka Group	8,948	8,569	7,975	7,602	6,777

Educational structure on 31 December 2011 by region



Employee education and development

In the Krka Group we invest extensively in the knowledge and development of all our employees. The **Krka appraisal interview** is an important tool for providing effective leadership and development. Managers and employees use these interviews to define objectives, agree on priorities and expectations relating to work and employee development, and on that basis plan the employees' continual training. All employees are involved in the Krka appraisal system.

We are building competence-based systems in various work areas, based on which we determine requirements for the development and upgrading of our employees' knowledge and skills. Competences are also the starting point in recruiting new staff, as well as a basis for creating education and training programmes and for evaluating those programmes.

By providing our staff with **continual training**, we foster their professional and personal growth as well as career advancement. We offer continual education and training in various specialist fields, such as management and personal growth, foreign languages, particularly English and Russian, quality, and using modern information technology.

*Knowledge is a
Krka value.*

In 2011 every Krka Group employee took part in over 6 education or training programmes, spending 52 hours on average. Krka spends 0.63% of our operating revenue on staff education and training.

Krka employees undergo education and training at faculties, institutes and other institutions, both at home and abroad. As many as 67 are currently enrolled into postgraduate studies towards obtaining a specialisation, master's degree or doctoral degree, and 491 were enrolled into part time studies in 2011. Krka supports them by partly funding their tuitions and by granting study time leaves.

Krka was one of the first companies in Slovenia to develop programmes for the **national vocational qualifications (NVQ)**. We are the only provider in the country for 6 NVQ programmes for the pharmaceutical industry, and employees working in pharmacies and other pharmaceutical companies are included as well. In 2011 we awarded 75 NVQ certificates. In total we have awarded 828 certificates since 2004, including 142 to participants from other companies and pharmacies.

The need to develop leaders led to the creation of our own leadership programme, the **Krka Leadership School**. It comprises three programmes, adjusted to the different levels of leadership, including the Krka International Leadership School, the Krka Operational Leadership School and an elementary level leadership programme. We also provide an in-house international **programme for experts and project teams**, working towards developing our specialist staff. This

programme places emphasis on developing communication skills, team and project work, and personal development. Our staff also undergo leadership and management training at reputable business schools.

In addition to seminars for the new employees, we organised several workshops for the marketing and sales staff in 2011, for various positions. The most numerous group in the marketing and sales network is our medical representatives, for which we hold in-house seminars led by over 50 Krka trainers.

Traditional forms of education and training are being supplemented with e-learning and e-testing, which are gaining importance fast given Krka's widespread international network. E-learning is particularly necessary for obtaining marketing and sales as well as quality-related knowledge. We often use it to prepare our staff for upcoming seminars and meetings. In 2011 the Krka Group staff took part in 700 webinars and 1,000 different online testing sessions.

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

Particular emphasis is devoted to identifying, early in their career, and systematically developing our **key and promising employees**. We train them, let them gather experience in various areas, mentor and coach them, with a view to preparing them to assume the most demanding and responsible tasks in the company.

In 2011 we had 1,065 key and promising employees, which is 12.2% of the entire Krka Group team.

Employee remuneration and motivation

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

A performance bonus is paid to all Krka Company employees in Slovenia twice a year, based on the performance criteria defined in the business plan. All Krka Group employees are assessed against individual performance schemes, while the marketing and sales staff have a performance bonus system directly related to the results they achieve.

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

In 2011 we awarded the first ever certificate of commendation for exceptional achievements, which we called the **Boris Andrijanič Award for Remarkable Achievements**.

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

*We promote
commitment and
loyalty,
and reward
excellence.*

Encouraging inventive work

Krka's system of inventive work allows every employee to propose improvements spontaneously or as part of a specific campaign. The management staff have a very special role in this process, being responsible for creating a positive atmosphere and encouraging employees to innovative thinking, as well as for implementing and rewarding their proposals. The system of inventive work is incorporated into the system of continual improvements within the quality system, and thus also into our integrated management system.

Employee's proposals contribute to reducing costs and improving work processes, which is why our staff receive bonuses for the innovative proposals they make and additional bonuses for improvements they propose, whereby the latter are based on calculated or estimated savings. We are introducing other incentives to stimulate innovative thinking as well, and selected proposers also receive special recognition awards at the annual Krka Awards Day.

In 2011 the number of improvements, mainly those that contributed to calculable savings, increased by 10% compared to the previous year. The proposed improvements, which come as a result of experience in a particular field, have contributed to improving processes and have considerably cut costs.

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 risks to acceptable levels.

Our work process risks are under control.

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

Several years ago we started the Interpersonal Relations and Sick Leave project, which has contributed to reducing sick leave. In 2011 sick leave in the Krka Group was 4.4% and maternity leave 3.6%.

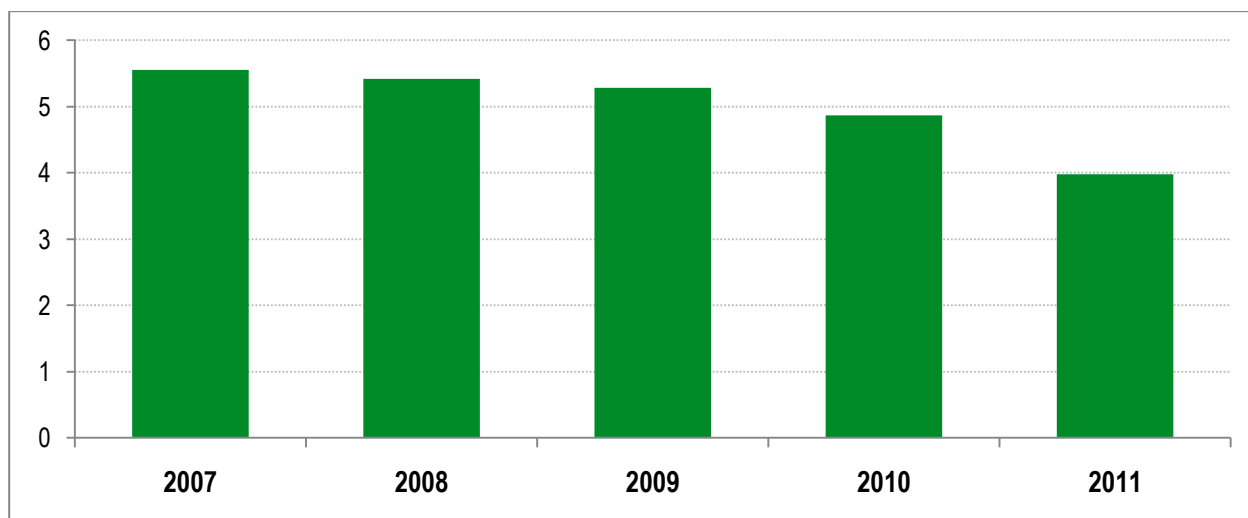
A total of 5.8% of employees has a registered disability. Pursuant to the legislation and regulations and the individuals' disabilities, we have a team of experts to find work for them that matches their occupational profile. Preventive measures are taken to ensure they do not suffer further restrictions due to their disabilities. In addition to preventive and curative healthcare for employees with disabilities, Krka ensures that their workposts are adjusted to their occupational capacities. Krka also provides appropriate requalification for employees who can no longer perform their duties.

Teamwork in employee healthcare produces results.

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

Data on workplace accidents is monitored continually. The LTAR (Lost Time Accident Rate) indicator in the graph below indicates the number of accidents in the workplace requiring three or more days of sick leave per million hours of work. In 2011 its value was 3.98, whereby all accidents were minor.

Frequency of workplace accidents (LTAR)



No major incidents, such as a fire or major spillage of hazardous chemicals, occurred in 2011. The Fire Protection Department and the Industrial Fire Service Crew are responsible for emergency interventions. We staged 13 training

exercises in 2011 to increase emergency preparedness, one of which was a major exercise involving the Novo mesto Fire and Rescue Service. We demonstrated the possibility of an emergency actually occurring, and tested the coordination between the internal and external emergency teams, and the Krka first aid and medical teams.

We are well-prepared for emergencies.

Quality of life

For many years Krka has contributed to increasing our employees' quality of life and quality of work. At all locations where possible we provide our employees with high quality meals (warm meals as well), calling attention to the importance of a healthy diet.

To support health and good interpersonal relations we organise a variety of sporting and cultural events for our employees, as well as preventive, recreational and social programmes.

We offer quality of life to employees and Krka pensioners.

In 2011 we continued with the **Caring for Your Health — Together We Scale the Heights** campaign, with which we try to encourage people to exercise, and call their attention to the importance of a healthy lifestyle. Together with the Slovenian Mountaineering and Climbing Association we signposted and did maintenance work on 15 popular hiking routes around Slovenia. In 2011 Krka employees hiked 4 of them.

The Krka Trim Club organises preventive sports activities that over 950 of our employees take part in every week. We also have holiday accommodation. Krka helps resolve its employees' housing issues by granting housing loans and renting out Krka-owned flats.

The Krka Culture and Arts Society offers an art gallery, a choir, a drama club and creative workshops, and organises visits to various events, enriching our employees' quality of life.

Employee gatherings are an important part of Krka's corporate culture. Employees get together for Krka Day — a social and sports event for all employees, the Krka Awards Day, environmental cleaning campaigns, and other events (gatherings for the disabled staff, blood donors, volunteer fire fighters, people involved in sports, and others). The gatherings of our retired Krka staff have also become somewhat of a tradition.

Communicating with employees

At Krka we are aware that employees are the key to our success. Communication helps us align activities directed at achieving our goals, and is the key to the processes of socialisation, decision-making, problem solving and controlling change. Communication is the glue that keeps a company, its employees, customers and other stakeholders together.

We promote open two-way communication.

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

We keep employees informed about company events via various internal communications tools. People are kept up-to-date through announcements posted on information boards and screens, through the weekly bulletin Bilten and monthly magazine Utrip (Pulse), which are available in printed as well as electronic form on the Intranet. Staff also receive information through meetings between the management and worker representatives, and at employee assemblies.

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

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

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

We keep employees informed about events in the company via various internal communication tools.

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

Employees are also informed about news in the company via our internal weekly bulletin **Bilten**, which is available in printed as well as electronic form, and via our monthly magazine **Utrip**. Utrip is an important contribution to understanding the Krka vision, mission and values, as well as the company's strategy and politics. Bilten and Utrip are magazines in the Slovenian language, while in recent years we have started compiling local language editions as well, in Poland, the Russian Federation, Ukraine and Croatia. Competing with other corporate in-house newsletters, Utrip won three Papyrus awards in 2011: first place for the highest communication value and for best photography, and third place for the best printed newsletter.

M-Bulletin is an electronic newsletter intended for our marketing and sales staff outside Slovenia, while **Vrelec** (Spring) is the internal newsletter issued by the spa resort group Terme Krka.

Employees also receive daily information about events in the company via **information screens**.

Responsibility to investors

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

Our transparency of operations complies with the good practice of corporate governance as stipulated by the Slovenian Corporate Governance Code.

Communication with investors and analysts is an important aspect of Krka's reaching its primary objective, because it helps them understand our business story. Declared the most transparent company in Slovenia in 2011, Krka received the Golden Portal prize for 5-year excellence in corporate governance and investor relations.

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

The main communication objectives are:

- achieving a fair market valuation for Krka,
- gaining an easier and cheaper access to capital,
- creating a reasonable level of liquidity in Krka shares.

We are meeting these objectives through:

- meetings with investors at the company's headquarters,
- meetings between Krka's corporate leadership and financial analysts at the company's headquarters,
- taking part in various investor conferences,
- organising roadshows in financial centres around the world,
- organising conference calls with financial analysts after releasing business results,
- issuing publications for investors (magazine Utrip prihodnosti, presentation and promotional material for investors),
- holding annual general meetings,
- hosting press conferences announcing business results,
- communicating with financial media.

We have been awarded the Golden Portal prize for excellence in corporate governance and investor relations over the past five years.

In 2011 we began holding regular conference calls with financial analysts each time we released the company's business results.

In 2011 we hosted the first meeting between Krka's corporate leadership and financial analysts at our headquarters.

Krka's business results are available in Slovenian and English on the Ljubljana Stock Exchange online portal SEOnet (<http://seonet.ljse.si>) and on the Krka website.

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

Responsibility to customers

We are aware of how important our customers are and of our responsibility towards them. We put their satisfaction with our products and services first.

We build relationships based on cooperation, knowledge and trust.

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

1. institutions (healthcare, regulatory, industrial property, health insurance, etc),
2. direct customers (distributors, other pharmaceutical companies),
3. indirect customers (pharmacies, hospitals, pharmacists, doctors, veterinaries), and
4. end users (patients, consumers).

We are aware of how important our customers are and of the responsibility we have towards them.

Responsibility to institutions

In cooperating with regulatory institutions, health insurance companies and other bodies involved in the medicines sector, we not only follow the official procedures but also provide accurate documentation and react swiftly, contributing to long-term successful cooperation. Our principal concern is providing quality, safe and effective products as well as offering reliable and trustworthy data. In constantly raising the level of our operations we continually upgrade our systems. This is why we successfully pass all the 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 have engaged 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 institutions is of a particularly special importance. Education and training is something that we do every day at Krka, and a relevant aspect of it is the Krka Prizes and study grants offered to future experts. Our experts undergo continual education and upgrade their knowledge through the fruitful cooperation with the mentioned institutions as well as by participating in the teaching process and scientific research.

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

Responsibility to direct customers

Another customer group is direct customers, primarily distributors and other pharmaceutical companies. We strive to increase their satisfaction and exceed their expectations. Their opinions are very valuable to us, as they help us recognise the key areas and business processes that need improvement, which is a platform for ensuring future sales growth. We therefore systematically monitor the satisfaction of our direct customers and the trust they place in Krka.

We started conducting satisfaction surveys in 2005, and the highest levels of customer satisfaction were recorded in the last two years, in 2010 and 2011, when the average satisfaction score was 4.5 (on the scale of 1 to 5). The fact that our direct customers regularly take part in our annual surveys is another sign of their high level of satisfaction. Considering the sales realisation in 2011, the response rate last year was 95%.

Responsibility to indirect customers

One of our most important customer groups is indirect customers, i.e. doctors and pharmacists, who form a link between us and our end users, as they prescribe, recommend and dispense our products. We have a responsibility to provide them with all the required expert information about Krka products that they need to make decisions. Our relations with indirect customers and the expert public fully comply with all the valid legal norms and ethical standards.

Our relations with indirect customers and the expert public fully comply with all the valid legal norms and ethical standards.

As personal contact is still the number one information transfer medium, we have a marketing and sales network spread across 35 markets and including over 3,500 staff. We devote a lot of attention to maintaining a responsible and well planned cooperation with indirect customers, following trends and carefully analysing feedback. An indispensable aspect of a responsible attitude is making sure that all our staff who come into contact with indirect customers have a strong professional background and can offer objective and useful information on our products. This is why we make sure they undergo regular education and training. These training sessions increasingly take place online. We place a lot of emphasis on professional communication and therefore hold training sessions strengthening communication skills. We regularly test the staff's competence and knowledge, and adjust future training courses accordingly.

Every year we also organise numerous specialist gatherings for doctors and pharmacists in the different countries with a Krka presence.

In addition to local events in individual markets, we organised several international symposiums in 2011 that took place as parts of major international congresses.

The survey revealed that we are highly visible and held in high esteem by general physicians and cardiologists, who ranked us the top five most reputable company in all markets.

It is important for us to understand the satisfaction levels of our direct customers, which not only facilitates comparisons with competitive companies but comparisons among different markets as well. This is why we have commissioned in 2011 an independent external agency for the second time to conduct the Krka Image survey in our key markets (Slovenia, the Russian Federation, Croatia, Poland, Hungary and the Czech Republic). It measured our reputation and the satisfaction of our direct customers (general physicians, specialists – cardiologists and psychiatrists, pharmacists and veterinaries) with Krka along three lines: satisfaction with the company, with our products, and with our medical representatives as well as with marketing and sales and post-sales activities. One of the aims of the survey was to get an insight into how trends change over time in order to facilitate comparison with the last similar survey, which we commissioned four years ago. The survey revealed that we are highly visible and held in high esteem by general physicians and cardiologists, who ranked us the top five most reputable companies in all markets. In Slovenia we are the leading in all surveyed groups, in the Russian Federation we are considered the leading by general physicians and in Poland by psychiatrists. With respect to our products, general physicians consider us to be the leading in Slovenia and among the leading in the majority of other markets. The results also show that we have mostly maintained our high rankings from four years ago, while in Poland we have even improved them. We received better reviews with respect to value for money in terms of our products than most other companies in individual markets. With respect to our medical representatives, we are considered the leading in Slovenia, a top three company in Hungary and the Czech Republic, and a top six company in the other markets. In the category of marketing activities, we seem to outrank the competition with our workshops, symposiums and professional gatherings.

One method of measuring the satisfaction of our end users and direct customers with our products is the many post-marketing clinical research we run to test the clinical efficacy and safety of our pharmaceuticals. Krka is one of the few generic pharmaceutical companies to carry out research. Our system for monitoring adverse effects is standardised in all markets and complies with the EU requirements and legislation.

Responsibility to patients

Users – patients, and consumers buying our products – have always been the centre of our attention. Their health is our first concern, therefore we provide a wide range of products to treat the most widespread illnesses of the modern time, supplementing established products with new ones.

Users – patients, and consumers buying our products – have always been the centre of our attention.

Our responsibility to patients is many-fold. It is important that they trust us and that they trust our products. This is why we develop and market quality, effective and safe generic products with added value, and offer them at accessible prices, by which we are recognized in a large part of the world. We examine the quality of active ingredients and excipients as well as all incoming materials through to finished products by conducting numerous laboratory tests, using the most precise, the most reliable and validated analytical methods and devices. This is our way of ensuring that all our medicines are high quality, effective and safe.

Appropriate communication is our tool for building long-term relationships. Our communication with patients is responsible, professional and user-oriented. We adjust the style and tone as well as the subject matter of communication to them, trying to reach the widest possible audience with our message. We strive to give our users all the information on our products they need, decreasing the fear factor, improving cooperation and strengthening trust. In recent years we have been strengthening our online presence, trying to provide our users with the most up-to-date and relevant information, as well as provide advice and answer their queries. Almost all our non-prescription product brands have their own websites. This is where we carry out activities that encourage users to become actively involved, and introduce novelties that they expect, which is what makes them come back to these websites frequently. Many product websites are also available in the local languages of our different markets. To make our products even more accessible, in 2011 we launched the website Lekarna na dom, which enables end users to buy our products from online pharmacies in selected markets, thus being a welcome and useful feature in tune with the contemporary style of life.

We make sure that all our medicines are high quality, effective and safe.

An important new feature introduced for our end users in 2011 is information on our prescription pharmaceuticals available on the company's website www.krka.si. We have made available all the permitted details about a particular medicine. The information that users used to be able to only receive from doctors or pharmacists, or read in the information leaflet after they had bought a product, is now available to them online at all times. They can read about what a medicine is, what it is used for, what they as users should know before they take it, how they should take it, what are the adverse effects, and how they should store it. We have thus made another step forward in bringing information on our medicines closer to users.

To make our products even more accessible, we launched in 2011 the website lekarna-na-dom.si which offers our products through online pharmacies.

We continue to publish our electronic monthly newsletter E-mesečnik, which is about to be recast to make it even more appealing to readers, and deal with up-to-date and relevant health-related topics on the website www.ezdravje.com. We regularly update our websites addressing specific diseases and conditions. We also operate a special website for pet lovers, www.klopi-bolhe.com. These websites allow users to contact us directly by email, which they frequently do.

The information on prescription pharmaceuticals at www.krka.si now includes details about each product and instructions for use.

For those that do not use the World Wide Web we continue to issue a wide range of printed materials, especially about non-prescription products. For six years now we have been publishing in Slovenia V skrbi za vaše zdravje (Caring for Your Health), a magazine dealing with health issues and ways to solve them. The magazine has over 30,000 subscribers, while another 60,000 issues are picked up each month in pharmacies and doctor's waiting rooms. We also issue a series of V skrbi za vaše zdravje booklets for patients, providing information on various common diseases and medicines, as well as giving advice on how to deal with such problems and tips on how to lead a healthy life. In printed form these booklets are available at general physicians, while patients are increasingly reading them online at www.krka.si.

Social corporate responsibility

Social responsibility is incorporated into every level of Krka's operations. It has been our fundamental principle since incorporation and it is inseparably connected to our mission of living a healthy life.

Social responsibility is an investment into greater economic success, and includes responsibility to employees as well as to other stakeholders and the environment. Responsible treatment of natural and social resources leads to sustainable development.

Social responsibility is one of Krka's fundamental principles.

This is why social corporate responsibility is strongly anchored into the strategy of Krka's operations. Our good relationship with the community grows out of respect and dialogue. Long-term cooperation with the local community and our contribution to its development not only come from our sponsorships and grants but from individual actions taken by Krka employees, which is an important part of the Krka tradition.

Improving the lives of as many people as possible

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

Our contributions support organised groups and individuals whose projects and actions promote social development and progress. We allocate most funds to healthcare and sports, followed by science, education, humanitarian efforts and culture, while we also support those whose efforts contribute to protecting the natural environment. As a general rule we sponsor projects and societies active at the wider local level, which promote mass participation and work with young people.

In 2011 the Krka Company allocated EUR 3.94 million to sponsorships and grants, which is 0.37% of our total sales.

Healthcare and sports

Krka allocates considerable funds to healthcare institutions for modernisation and equipment upgrades. In this way we wish to bring urgent medical care closer to as many people as possible.

Krka is a co-founder of the Slovenian Heart Foundation and has supported its work throughout its existence. For the seventh consecutive year Krka cooperated with the Arterial Hypertension Section of the Slovenian Medical Association on the 2011 World Hypertension Day, measuring blood pressure to passers-by in 10 towns around Slovenia. This is an awareness-raising campaign informing people of the importance of having their blood pressure measured regularly, and calling attention to the related health implications.

We also devote considerable amounts to sports activities. As a general rule, we primarily sponsor amateur clubs at the wider local level, which promote mass participation and work with young people.

Helping people

Despite our commitment to corporate and business objectives, Krka employees often divide their time and goodwill to participate in charity and humanitarian campaigns. We are well aware that good interpersonal relations are at the core of community life. We come to the aid of people who suffer damage in accidents or are inflicted by social misfortune. For a number of years we have been the largest donor to the Novo mesto-based society Sožitje, a charity helping people with mental disabilities, and the Novo mesto Dragotin Kette Primary School for children with special needs. We also support occupational activity centres and retirement homes, and frequently respond to Red Cross and Caritas charities' calls for donations. In 2011 we collected school supplies and clothes under a Red Cross campaign, and held a lecture on healthy dieting at the Levstikov trg Primary School for Children with Disabilities, which operates under the Janez Levec Labour and Employment Centre.

Social responsibility is also promoted by numerous Krka employees. They have been blood donors for many years, or are volunteers in numerous not-for-profit associations and organisations. Their dedicated volunteer work on several

sponsorship boards and organisations promotes community development and improves peoples' lives in many different ways.

Knowledge as the compass for the future

The scientific community in Slovenia has come to recognise the merit of Krka Prizes, which we awarded in 2011 for the 41st consecutive time. Krka Prizes are meant as a stimulus for young people to engage in creative and research work. In the past 41 years, Krka has awarded 2,373 Krka Prizes for such contributions. In 2011, 5 Krka Prizes were awarded for special achievements in the field of research work, 25 went to undergraduate and postgraduate university students, and 5 to secondary school students.

In this long period Krka has established strong ties with numerous scientific and education institutions, especially in the areas of research and development, and education. Today Krka Prizes are a symbol encouraging young people to strive for excellence in research work, and they also form a bridge between academia and the pharmaceutical industry, thereby promoting a faster application of scientific findings in practice. It is crucial for the young people to not only see opportunities in research and development work but be aware of their responsibility in respect of the practical applications of their achievements.

Culture is a part of who we are

We have supported many types of cultural expression since our incorporation, and have had our own Culture and Arts Society since 1971. It prepares fine art and photography exhibitions in the Krka galleries in Novo mesto and Ljubljana, as well as organises the annual book fair with accompanying events, and Drama club meetings. It supports the work of the Krka Mixed Choir, literature club and creative workshops. In December 2011 the Krka Culture and Arts Society celebrated 40 years of existence.

We support cultural institutions in our wider community, including the Novo mesto Anton Podbevšek Theatre, and provide funding to several others, such as the Marjan Kozina Music School, the Dolenjska Museum and the Krka Wind Orchestra. For several years now we have been a sponsor of Slovenia's central cultural institution, Cankarjev dom, and of the annual music summer festival Festival Ljubljana. For several consecutive years, including 2011, we have been incorporating into Festival Ljubljana the Krka Evening of Culture.

Quality of life

One of our most visible projects, which started in 2009 and has continued into 2010 and 2011, is the Caring for Your Health – Together We Scale the Heights campaign. It included our working with the Slovenian Mountaineering and Climbing Association to signpost and do maintenance work on 15 hiking routes around Slovenia. It is an awareness-raising campaign encouraging the Slovenian people to care for their health and to hike; walking is the easiest of exercises and contributes to improving our physical as well as emotional well-being.

The idea was to reach people all over Slovenia, to whom we wanted to set an example: in 2009 we organised 5 hikes, in 2010 another 6 and in 2011 another 4. Over 9,000 hikers have to date taken part in Krka hikes.

Protecting the environment together

Our fundamental principle in making business decisions is caring for the quality of life, which means placing the protection of our natural environment at the forefront of our work. We have organised our first Krka environmental clean-up event in 2009, and in April 2010 we joined the all-Slovenian volunteer Clean Up Slovenia in One Day campaign. In 2011 we organised another clean-up event in Slovenia, with Krka employees cleaning and fixing up the surroundings of the Terme Krka resorts at Otočec, Šmarješke Toplice, Dolenjske Toplice, Ljutomer and Strunjan. We will repeat a similar event in 2012.

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

In autumn 2010 we made another contribution to preserving the environment by using renewable energy sources. On the rooftop and façade of the new part of the packaging warehouse we installed a solar power station to generate green energy, and have made further efforts at preserving the environment by having company internal post delivered with an

electric drive vehicle. Since we follow global trends and they forecast a rapid development of electric vehicles, we have installed in the car park in front of the Krka administrative building in Novo mesto our first charging station for electric vehicles.

On another note, Krka employees and local residents have been involved in fire prevention for over four decades as members of the Krka Volunteer Industrial Fire Service.

Partnerships

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

Supporting our community is a constant in Krka's corporate policy. On the one hand it improves quality of life and consolidates good relations with the public, while on the other it increases motivation and loyalty in employees.

*We develop
partnerships
with those we
sponsor.*

Responsibility for our natural environment

Responsibility for our natural environment is built into Krka's day-to-day operations and has an indirect influence on our suppliers as well as customers, the local community and other interested parties involved in our operations. In 2011 we were consistent in striving to reach our environmental objectives. Our Environment Policy contains a clearly phrased statement of responsibility for the natural environment, and serves as a basis for our numerous environment conscious projects. We keep up to date with state-of-the-art technologies and most recent trends directed at a rational consumption of natural resources and energy, at cutting emissions to the absolute minimum, and at complying with environmental laws. Since our core business is related to people's health, it is important we preserve the environment in which we live in too. We reaffirmed our commitment to preserving the environment by obtaining the ISO 14001 environment management standard 11 years ago, and in 2010 we were granted an integrated environmental protection permit. After all these years we see that progress has been made at Krka in all areas of environmental protection.

Krka's responsibility for the environment is also evident from our employees' high level of environmental-awareness. This is a process, which we nurture and implement via planned education and training sessions as well as via contributions and announcements in our internal media. Our staff are invited to act consciously with respect to the environment, seeing it is best to be responsible at the source and thus minimise environmental impact. Topics on environmental responsibility are featured in our introductory seminar for newly recruited employees and in the courses leading up to obtaining national vocational qualifications.

We have also demonstrated our sense of responsibility for the natural environment by organising at our own initiative a Krka clean-up event in Slovenia. On the first Saturday in April 2011, 370 of our staff cleaned and fixed up the natural surroundings of Terme Krka spa resorts in Otočec, Šmarješke Toplice, Dolenjske Toplice and Strunjan, and the surroundings of Krka plants in Bršljin, Šentjernej and Ljutomer. In 2011 we also organised the traditional meeting with local residents at which we informed them of our actions, results and plans that relate to environmental protection. The locals' comments and initiatives are taken into account when preparing environmental objectives and programmes. The general public is informed of our efforts in this field via the media as well as various consultations and round-table discussions. We are strongly involved in the drafting of environmental legislation and make active contributions at the Environment and Energy Section of the Dolenjska and Bela Krajina Chamber of Commerce and Industry. Academic institutions of all types are welcome to look at our environment protection technology.

At Krka we see responsibility for the environment as a huge responsibility to ourselves, our customers, the local community and above all, future generations.

Significant environmental protection achievements in 2011

- Reduction in the quantity of mixed solid waste by 37%.
- Increase in the quantity of waste directed into composting and energy use by 18%.
- Set up of waste collection points at the location in Ločna and the Ljutomer plant.
- Purchase of new press containers and a waste vehicle.
- Replacement of several cooling machines that contain ozone-depleting substances.
- Reconstruction of the pre-treatment facility by putting a roof over the balancing tank and thus reducing emissions from the wastewater treatment plant.

We have modernised the pre-treatment process and thus reduced airborne emissions from the wastewater treatment plant.

Environmental protection objectives and programmes for 2012

- Reduce environmental impact in all areas.
- Draw up the design to expand the wastewater treatment plant using state-of-the-art technology for separating biomass from treated water.
- Implement waste gas thermal oxidation in the plant for finalising APIs.
- Replace heat conductors and certain electric motors with more energy-efficient ones.
- Gradually replace cooling machines that use ozone-depleting refrigerants.
- Reduce external lighting.
- Embark on the project of constructing a cogeneration system.
- Embark on the project of utilising low-temperature condensed smoke heat in the gas boiler room.
- Educate and inform employees about environment-conscious behaviour.

Environmental protection costs

Over the past five years Krka has invested EUR 25 million in environmental protection (running costs and investments). The exact values of investments each year differ depending on the particular projects. In 2011 running costs amounted to EUR 4.3 million and investments were worth EUR 1 million.

Use of natural resources

Water

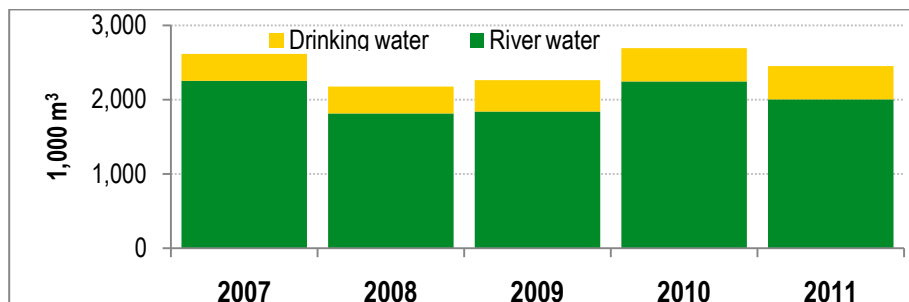
At Krka water is considered a value of the present and the future, an ingredient key to running our business. This is why we devote special attention to how it is used.

Drinking water and river water

Drinking water is not available in unlimited quantities. We are reminded of that by annual droughts and other exceptional events. In an attempt to make sure drinking water is used rationally, we not only inform and train employees at all Krka locations but make sure there can be no major leaks. The majority of our water supply network has therefore been placed on pipe bridges, and mechanical gauging stations are gradually being replaced by electronic ones connected to a computer operated surveillance system. In this way we can monitor drinking water use every day and detect causes of increased use. We have managed to not have drinking water use increase proportionately to the scope of production. All our water systems comply with HACCP system requirements. Over 80% of drinking water is used for production process purposes, as Krka utilises drinking water as a raw material to prepare high quality purified waters used in the production of pharmaceutical products. We do this by making use of contemporary membrane technology (ultrafiltration, reverse osmosis). Due to adequate technology management and planned preventive maintenance, we keep water quality unchanged and make sure water losses as well as the use of chemicals for additional purification and disinfection of systems remain limited to the minimum.

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

Utilisation of drinking water and river water



Energy

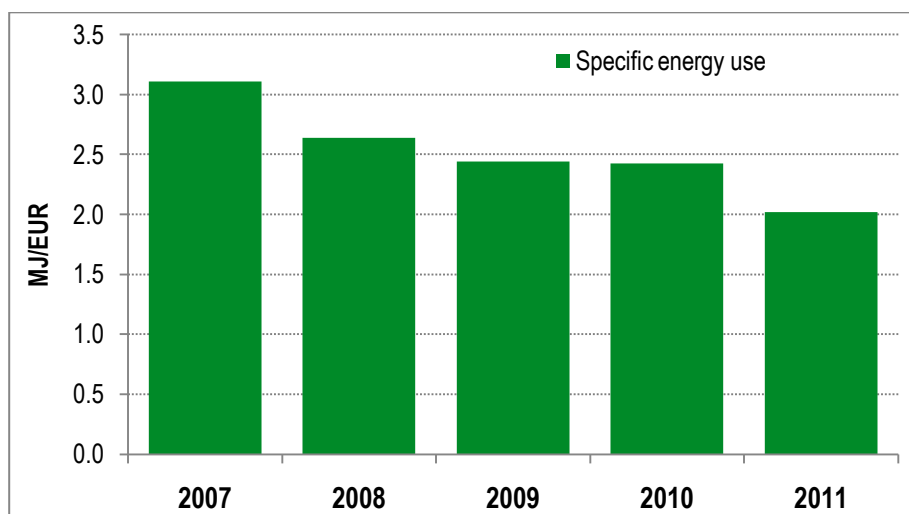
Krka's main sources of energy are:

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

Specific energy use

Specific energy use has been declining in recent years, the result of our numerous energy efficiency measures. Despite the significant increase in production volume in 2011, specific energy use was slightly down compared to 2010.

Specific use of energy



Energy efficient investing

We continually improve our investment management by making investments that are energy efficient. Key energy indicators are defined for each investment at the very start, while our projects strive to make the most efficient use of energy and cause the lowest possible emissions. In addition to investment costs, planning also takes account of full life cycle plant operating costs, and energy reviews are carried out if required before major investments or upgrades.

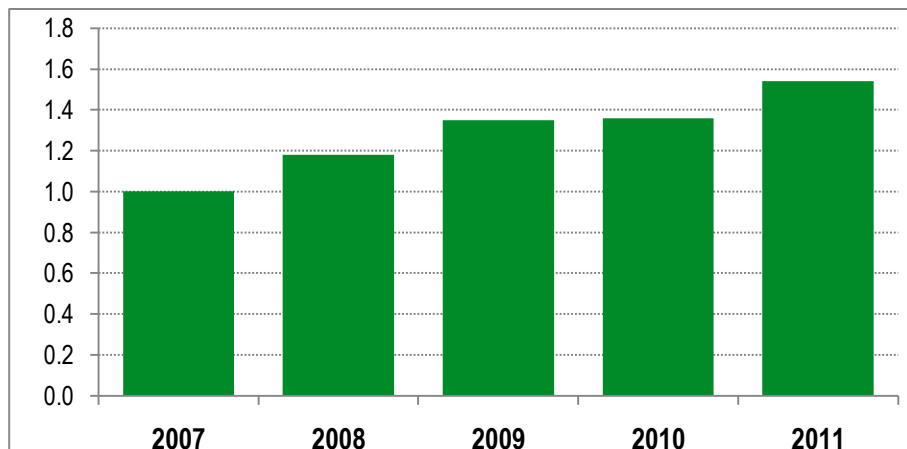
In the main air-conditioning system of the newly built solid dosage forms production plant, we installed in 2011 for a trial period a free cooling system. It produces cooling energy in wintertime and at the same time reduces the need for heat energy. We have also improved the energy efficiency of air-conditioning. Compared to traditional air-conditioning systems we used solutions that reduce energy consumption by over 17%, which means a reduction of at least 300 tonnes of CO₂ per year.

Our modernisation of air-conditioners has reduced CO₂ emissions by at least 300 tonnes per year.

Energy efficiency index

In the past five years specific energy use has decreased by 35% and the energy efficiency index has increased by as much as 54%.

Energy efficiency index



Emissions

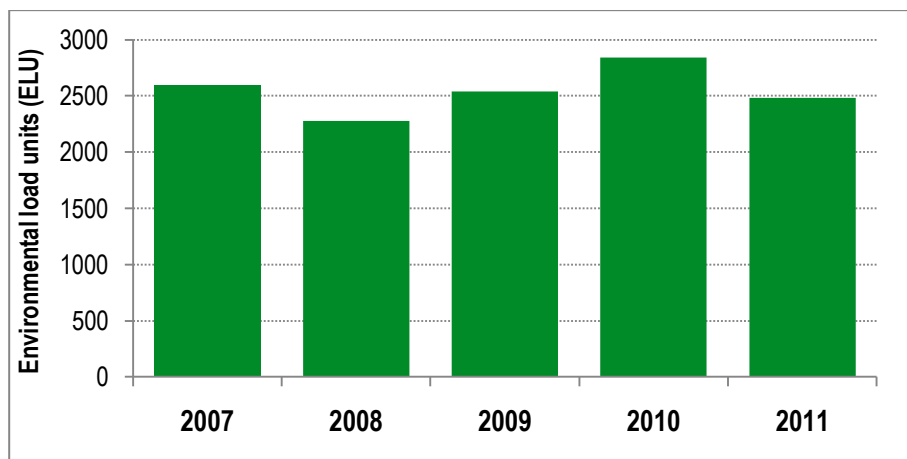
Wastewater

In 2011 we treated 1,011,552 m³ of wastewater in our treatment plant. Our professional management of the demanding wastewater treatment technology has resulted in the plant's high operational efficiency.

Wastewater from the Bršljin and Ljutomer plants is appropriately treated in the municipal wastewater treatment plants, while wastewater from the Šentjernej plant is pre-treated in the plant's own treatment plant. In the future the wastewater from Šentjernej will be comprehensively treated in the municipal wastewater treatment plant.

In 2011 we reduced our environmental impact compared to 2010 by 359 environmental load units, or 13%.

Wastewater management



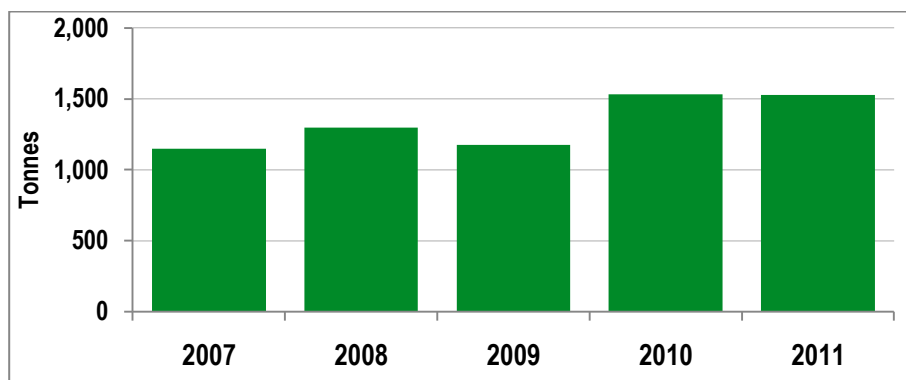
* Environmental load units (ELU) are the prescribed mathematical calculation of pollution from all wastewater outlets in Slovenia (Krka Ločna, Šentjernej, Bršljin and Ljutomer). The calculation takes into account the annual wastewater rate of discharge, organic pollution, nitrogen, phosphorous, suspended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

Waste

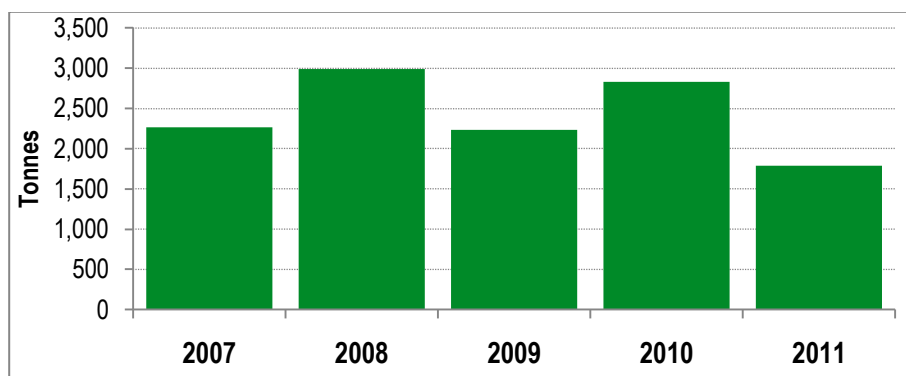
Special attention is devoted to separating waste at the source, i.e. at the point where it occurs. For this purpose we have set up our own waste management system. Landfill is the least environmentally acceptable and therefore the last option in

the waste management process. Krka's strategic objectives therefore include reducing the quantity of landfilled waste, in which Krka was successful in 2011. We sent a total of 1,786 tonnes of production waste to landfills, a decrease of 37% compared to 2010. This was achieved by harvesting high energy waste and directing it into energy use, by composting all herb waste, and by transferring some of the mud from wastewater treatment into waste processing. A total of 1,526 tonnes of useful separated waste (paper, plastic, glass, metal, wood) were processed in 2011, and 976 tonnes of waste were used to generate energy or sent to composting. We are continually improving our separate waste collection system by organising waste collection points and purchasing new equipment. One of the more important objectives in having a responsible attitude towards the environment is reusing regenerated solvents. Taking various measures along the entire chain from development to production, we have doubled the use of regenerated solvents in 2011. The nature of pharmaceutical production prevents us from reusing the other waste we produce, which is why we collect it separately and direct it into further processing.

Useful separated waste



Landfilled waste



Noise

We are installing new equipment with reduced noise emissions into our facilities, setting up noise barriers, and fitting cargo vehicles with electrical cooling aggregates, all to reduce noise pollution to the minimum. All noise measurement results are below the statutory threshold and below the threshold that would cause disturbance to the local environment.

Air emissions

Air emissions are being reduced through treatment systems fitted to all outlets constituting a potential source of air pollution.

Using effective de-dusting systems, filters, wet-type filtration systems, condenser columns and thermal oxidisers, we keep air emissions below the legal threshold values and at the levels made possible by state-of-the-art emission control technology. Absolute filtration is applied to all airborne particle emissions, making sure that all particles, or at least over 99.95% of all particles, are removed.

Environmental protection at Krka's subsidiaries outside Slovenia

Environmental protection measures are being increasingly incorporated into the operations of Krka's subsidiaries outside Slovenia as well. Emissions into the environment are managed in compliance with the local legislation and, as in the controlling company in Slovenia, with modern emission reduction procedures. Krka's subsidiaries accommodate production facilities only for finished products, which has a lower environmental impact. Waste separation has been put in place, hazardous waste is being transferred into incineration, wastewater is being led off into municipal wastewater treatment plants, and particle emissions are being reduced with filtration devices.

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Living a healthy life.

2011 FINANCIAL REPORT



www.krka.si

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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 (hereinafter also 'Group'), whereas the second section encompasses the financial statements and related notes of Krka, d. d., Novo mesto (hereinafter also 'Company'). The financial statements have been prepared in compliance with the International Financial Reporting Standards (hereinafter 'IFRS') as adopted by the European Union, which is in compliance with the resolution adopted at the 11th Annual Meeting held on 6 July 2006.

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

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

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

STATEMENT OF COMPLIANCE

The Management Board of Krka, d. d., Novo mesto is responsible for the preparation of the annual report of the Company and the Krka Group including the financial statements so as to provide the general public with a true and fair view of the financial position and the results of operations of the Company and its subsidiaries in 2011.

The Management Board hereby acknowledges that:

- the financial statements of the Company and its subsidiaries were prepared on a going concern basis,
- the selected accounting policies are applied consistently and any changes in accounting policies have been reported,
- the accounting estimates have been prepared in a fair and reasonable manner and are in compliance with the principles of prudence and due diligence,
- the financial statements and the notes thereto for the Company and the Group have been prepared in accordance with the effective legislation and the IFRS, as adopted by the European Union.

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

Novo mesto, 17 February 2012

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

CONSOLIDATED FINANCIAL STATEMENTS OF THE KRKA GROUP

Statement of consolidated financial position

in EUR thousand	Notes	31 Dec 2011	31 Dec 2010
Assets			
Property, plant and equipment	13	703,112	686,461
Intangible assets	14	119,082	122,815
Deferred tax assets	17	27,340	27,505
Non-current loans	15	4,821	4,312
Non-current investments	16	4,944	5,238
Other non-current assets		169	175
Total non-current assets		859,468	846,506
Inventories	18	253,208	229,343
Trade and other receivables	19	399,512	402,686
Current loans	15	1,050	1,227
Current investments	16	602	653
Cash and cash equivalents	20	20,187	7,789
Total current assets		674,559	641,698
Total assets		1,534,027	1,488,204
Equity			
Share capital	21	59,126	59,126
Treasury shares	21	-42,584	-21,749
Reserves	21	174,409	159,233
Retained earnings	21	947,289	855,140
Equity holders of the parent		1,138,240	1,051,750
Non-controlling interest	21	1,514	1,577
Total equity		1,139,754	1,053,327
Liabilities			
Non-current borrowings	23	25,500	67,214
Provisions	24	104,819	108,889
Deferred revenue	25	6,670	7,138
Deferred tax liabilities	17	18,103	19,468
Total non-current liabilities		155,092	202,709
Trade payables	26	90,888	91,386
Current borrowings	23	44,091	57,910
Income tax liabilities		1,309	9,814
Other current liabilities	27	102,893	73,058
Total current liabilities		239,181	232,168
Total liabilities		394,273	434,877
Total equity and liabilities		1,534,027	1,488,204

Consolidated income statement

in EUR thousand	Notes	2011	2010
Revenues	6	1,075,627	1,010,021
Cost of sales		-416,704	-385,409
Gross profit		658,923	624,612
Other income	7	4,721	11,888
Distribution expenses		-281,151	-256,619
R&D costs		-92,932	-90,924
Administrative expenses		-75,555	-77,486
Operating profit		214,006	211,471
Financial income	11	2,897	7,972
Financial expenses	11	-16,928	-8,071
Net financial expenses		-14,031	-99
Profit before tax		199,975	211,372
Income tax expense	12	-37,240	-40,454
Profit for the period		162,735	170,918
Attributable to:			
– equity holders of the parent		162,801	171,025
– non-controlling interest		-66	-107
Basic earnings per share (in EUR)	22	4.85	5.06
Diluted earnings per share (in EUR)	22	4.85	5.06

Consolidated statement of comprehensive income

in EUR thousand	Notes	2011	2010
Profit for the period	21	162,735	170,918
Other comprehensive income for the period			
Change in fair value of available-for-sale financial assets	21	-281	-421
Deferred tax effect - change in fair value of available-for-sale financial assets	21	56	84
Translation reserve	21	-8,250	1,816
Total other comprehensive income for the period		-8,475	1,479
Total comprehensive income for the period		154,260	172,397
Attributable to:			
– equity holders of the parent		154,326	172,504
– non-controlling interest		-66	-107

Consolidated statement of changes in equity

	Share capital	Treasury shares	Reserves						Retained earnings			Total equity holders of the parent	Non-controlling interest	Total equity
			Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserves	Translation reserve	Other revenue reserves	Profit for the period	Retained earnings			
in EUR thousand														
Balance at 1 Jan 2011	59,126	-21,749	21,749	101,503	14,990	27,184	1,767	-7,960	684,639	111,765	58,736	1,051,750	1,577	1,053,327
Profit for the period	0	0	0	0	0	0	0	0	0	162,801	0	162,801	-66	162,735
Other comprehensive income for the period														
Change in fair value of available-for-sale financial assets	0	0	0	0	0	0	-281	0	0	0	0	-281	0	-281
Deferred tax effect - change in fair value of available-for-sale financial assets	0	0	0	0	0	0	56	0	0	0	0	56	0	56
Translation reserve	0	0	0	0	0	0	0	-8,250	0	0	0	-8,250	0	-8,250
Total other comprehensive income for the period	0	0	0	0	0	0	-225	-8,250	0	0	0	-8,475	0	-8,475
Total comprehensive income for the period	0	0	0	0	0	0	-225	-8,250	0	162,801	0	154,326	-66	154,260
Transactions with owners, recognised directly in equity														
Formation of statutory reserves	0	0		0	0	2,816	0	0	0	-2,816	0	0	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board	0	0		0	0	0	0	0	15,000	-15,000	0	0	0	0
Transfer of previous period's profit to retained earnings	0	0		0	0	0	0	0	0	-111,765	111,765	0	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0		0	0	0	0	0	60,972	0	-60,972	0	0	0
Formation of reserves for treasury shares	0	0	20,835	0	0	0	0	0	0	-20,835	0	0	0	0
Repurchase of treasury shares	0	-20,835		0	0	0	0	0	0	0	0	-20,835	0	-20,835
Dividends paid	0	0		0	0	0	0	0	0	0	-47,001	-47,001	0	-47,001
Acquisition of non-controlling interests	0	0		0	0	0	0	0	0	0	0	0	3	3
Total transactions with owners, recognised directly in equity	0	-20,835	20,835	0	0	2,816	0	0	75,972	-150,416	3,792	-67,836	3	-67,833
Balance at 31 Dec 2011	59,126	-42,584	42,584	101,503	14,990	30,000	1,542	-16,210	760,611	124,150	62,528	1,138,240	1,514	1,139,754

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	Share capital	Treasury shares	Reserves						Retained earnings			Total equity holders of the parent	Non-controlling interest	Total equity
			Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserves	Translation reserve	Other revenue reserves	Profit for the period	Retained earnings			
in EUR thousand														
Balance at 1 Jan 2010	59,126	-19,489	19,489	101,503	14,990	22,184	2,104	-9,776	570,354	106,766	51,434	918,685	1,684	920,369
Profit for the period	0	0	0	0	0	0	0	0	0	171,025	0	171,025	-107	170,918
Other comprehensive income for the period														
Change in fair value of available-for-sale financial assets	0	0	0	0	0	0	-421	0	0	0	0	-421	0	-421
Deferred tax effect - change in fair value of available-for-sale financial assets	0	0	0	0	0	0	84	0	0	0	0	84	0	84
Translation reserve	0	0	0	0	0	0	0	1,816	0	0	0	1,816	0	1,816
Total other comprehensive income for the period	0	0	0	0	0	0	-337	1,816	0	0	0	1,479	0	1,479
Total comprehensive income for the period	0	0	0	0	0	0	-337	1,816	0	171,025	0	172,504	-107	172,397
Transactions with owners, recognised directly in equity														
Formation of statutory reserves	0	0	0	0	0	5,000	0	0	0	-5,000	0	0	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board	0	0	0	0	0	0	0	0	52,000	-52,000	0	0	0	0
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0	0	0	0	-106,766	106,766	0	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	0	0	0	62,285	0	-62,285	0	0	0
Formation of reserves for treasury shares	0	0	2,260	0	0	0	0	0	0	-2,260	0	0	0	0
Repurchase of treasury shares	0	-2,260		0	0	0	0	0	0	0	0	-2,260	0	-2,260
Dividends paid	0	0		0	0	0	0	0	0	0	-37,179	-37,179	0	-37,179
Acquisition of non-controlling interests	0	0		0	0	0	0	0	0	0	0	0	0	0
Total transactions with owners, recognised directly in equity	0	-2,260	2,260	0	0	5,000	0	0	114,285	-166,026	7,302	-39,439	0	-39,439
Balance at 31 Dec 2010	59,126	-21,749	21,749	101,503	14,990	27,184	1,767	-7,960	684,639	111,765	58,736	1,051,750	1,577	1,053,327

Consolidated cash flow statement

in EUR thousand	Notes	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		162,735	170,918
Adjustments for:		127,202	126,354
– amortisation/depreciation	13,14	87,186	81,721
– foreign exchange differences		-3,354	-97
– investment income		-871	-1,453
– investment expense		3,834	1,926
– interest expense and other financial expense		3,167	3,803
– income tax	12	37,240	40,454
Operating profit before changes in net operating current assets		289,937	297,272
Change in trade and other receivables		8,083	-75,583
Change in inventories		-23,865	-47,697
Change in trade payables		-498	18,884
Change in provisions		-4,070	1,485
Change in deferred revenue		-468	243
Change in other current liabilities		29,738	15,425
Income taxes paid		-51,799	-28,513
Cash generated from operations		247,058	181,516
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		378	803
Dividends received		16	9
Proceeds from sale of property, plant and equipment		255	516
Purchase of intangible assets	14	-7,621	-7,251
Purchase of property, plant and equipment	13	-100,035	-107,922
Non-current loans		-1,502	-1,373
Proceeds from repayment of non-current loans		980	1,063
Acquisition of non-current investments		-63	-36
Proceeds from sale of non-current investments		67	42
Payments/Proceeds in connection with current investments and loans		87	1,534
Net cash used in investing activities		-107,438	-112,615
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		-3,361	-4,278
Repayment of non-current borrowings		-37,899	-38,653
Repayment /Acquisition of current borrowings		-17,440	8,029
Dividends paid		-46,902	-37,097
Repurchase of treasury shares	21	-20,835	-2,260
Proceeds of payments from non-controlling interests		3	0
Net cash used in financing activities		-126,434	-74,259
Net increase/decrease in cash and cash equivalents		13,186	-5,358
Cash and cash equivalents at beginning of period		7,789	13,411
Effect of exchange rate fluctuations on cash held		-788	-264
Net cash and cash equivalents at end of period		20,187	7,789

Notes to the consolidated financial statements

Krka, d. d., Novo mesto (hereinafter 'Company') is the ultimate 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 2011 relate to the Krka Group consisting of the controlling company and its subsidiaries in Slovenia as well as abroad.

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

1. Basis for the preparation of financial statements

Statement of compliance

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

The consolidated financial statements were approved by the Company's Management Board on 17 February 2012.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, with the exception of derivative financial instruments, financial instruments at fair value through profit or loss and financial assets available for sale, where the fair value has been taken into account. Methods applied in the measurement of fair value are presented in Note 3.

Functional and reporting currency

The consolidated financial statements are presented in euro, which is the Company's functional currency. All financial information presented in euro has been rounded to the nearest thousand.

The use of estimates and judgements

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

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

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

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

2. Significant accounting policies

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

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

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

Basis for consolidation

Subsidiaries

Subsidiaries are entities controlled by the controlling company. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intragroup balances and transactions, and any unrealised income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currencies

Foreign currency transactions

Transactions and balances in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, which are recognised directly in comprehensive income. Non-cash items measured at historical cost in foreign currency are translated into the functional currency by applying the exchange rate valid at the date of transaction.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to euro at exchange rates at the reporting date. The income and expenses of foreign operations are translated to euro at the average annual exchange rate, which in view of operations is closest to the exchange rate ruling at the date of the transaction. Foreign exchange differences arising on retranslation are recognised directly in other comprehensive income – translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

Financial instruments

Non-derivative financial instruments

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

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

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

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

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

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

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value. Changes in fair value are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss. Impairment losses and foreign exchange gains and losses on available-for-sale monetary items are recognised directly in profit or loss.

Financial assets at fair value through profit or loss

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

Receivables and loans

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

Share capital

Repurchase of share capital (treasury shares)

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

Dividends

Dividends are recognised in the Group's consolidated financial statements as a liability in the period in which they are declared by the Annual Meeting.

Property, plant and equipment

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other directly attributable cost of preparing the asset for its intended use, and (if applicable) costs of dismantling and removing the items and restoring the site on which they are located, as well as capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within 'other income' or 'other expenses' in profit or loss.

Subsequent costs

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

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land and assets being acquired are not depreciated.

The estimated useful lives are as follows:

- for buildings 15 to 60 years
- for plant and equipment 2 to 20 years
- for furniture 5 years
- for computer equipment 4 to 6 years, and
- for means of transportation 5 to 15 years.

Intangible assets

Goodwill

Goodwill, which occurred with the acquisition of the subsidiary, represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill is measured at cost less accumulated impairment losses.

Research and development

All other costs referring to the research and development work within the Group are recognised in profit or loss as incurred.

Other intangible assets

Intangible assets with infinite useful life (trademark) are on an annual basis tested for impairment. Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses (see accounting policy 'Impairment').

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation

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

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

Inventories

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

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

Impairments

Financial assets

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

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

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

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

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

Non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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

Short-term employee benefits

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

Long-term employee benefits

Provisions for retirement benefits and anniversary bonuses

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

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

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions for lawsuits

The Group discloses provisions for lawsuits referring to alleged patent infringements. The eligibility of provisions formed in terms of the lawsuit's favourable or unfavourable outcome is assessed on an annual basis. The amounts of provisions are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated potential amount, if the indemnification claim is not yet disclosed.

Revenues

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

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

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

Deferred revenue

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

Financial income and expenses

Financial income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and foreign exchange gains and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Financial expenses comprise interest expense on borrowings, foreign exchange losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method, except those that are attributable to property, plant and equipment under construction.

Income tax expense

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

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

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

the expected way of settling the carrying amount of assets and liabilities, using tax rates enacted at the reporting date.

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

Earnings per share

The Group presents basic and diluted earnings per share (EPS) data. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS equals the basic EPS, as all shares of the Group belong to the same class of ordinary registered shares.

Segment reporting

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

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

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

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

New standards and interpretations not yet adopted

Amendments to standard and interpretations that are not yet effective for the year ended 31 December 2011, and have thus not been applied in preparing the financial statements are presented below.

1. Amendments to IFRS 7 Disclosures - Transfers of Financial Assets (Effective for annual periods beginning on or after 1 July 2011; to be applied prospectively. Earlier application is permitted.)

The Amendments require disclosure of information that enables users of financial statements:

- to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and
- to evaluate the nature of, and risks associated with, the company's continuing involvement in derecognised financial assets.

The Amendments define "continuing involvement" for the purposes of applying the disclosure requirements.

The Group estimates that, given the nature of operations and the type of its financial assets, the amendments to IFRS 7 will not have a significant impact on the financial statements.

3. Determination of fair values

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

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 calculated estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Non-derivative financial liabilities

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

4. Financial risk management

A brief summary of financial risk management policies is given below. Detailed information is given in Note 29 (Financial instruments) of the consolidated financial statements.

Credit risk

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

Extension of payment deadlines to end buyers ceased in 2011, therefore also the growth in total trade receivables stopped, compared to the sales. Fluctuations in the level of trade receivables that are recorded during the year are highest at the end of the quarterly periods. Past due receivables have remained at a level that Krka considers normal and acceptable.

The quality of trade receivables in terms of maturity structure and assessed customer risk are estimated to have remained unchanged on average. On account of our active management of receivables and past due receivables in 2011, we have not recorded any major write-offs of receivables.

Liquidity risk

On the Group level, the liquidity risk is managed on a centralised basis, thus assuring a clear and effective cash management as well as enabling financing under most favourable terms and conditions. A strong cash flow from operations, conservative capital structure and successful performance of Krka continued to assure an excellent solvency rating of the controlling company and its subsidiaries in 2011, as well as favourable financing terms.

The controlling company optimizes the bank balances of subsidiaries, carries out cash planning and provides financing sources. Possible cash deficits are secured in advance by banks based on agreed-upon credit lines, while occasional cash surplus is allocated to short-term bank deposits.

Due to low indebtedness, good performance and numerous risk hedging activities we estimate that the liquidity risk was low in 2011.

Currency risk

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

The Group's statement of financial position shows a surplus of assets over liabilities in all the currencies mentioned, which is considered a long currency position. The key accounting categories that form the long currency position are trade receivables and operating liabilities.

Fluctuations in key foreign exchange currencies were unstable in 2011. First half of 2011 recorded a gradual appreciation of key foreign currencies which resulted in exchange gains in the first half of the year. Over the third quarter the currency positions in Russian roubles, the Romanian leu, the Croatian kuna and the Polish zloty witnessed a decrease, resulting in exchange losses. In particular for this reason the Group generated foreign exchange losses in 2011. Additional information relating to the currency risk is provided within the financial statements under the note 'Financial instruments'.

Currency positions were not hedged in 2011. The costs of foreign exchange hedges for the key currencies are high.

Interest rate risk

No new non-current borrowings were raised in the reporting period. As the annual instalments are regularly repaid, the long-term indebtedness of the Group dropped to the level where market interest rate changes no longer have a decisive impact on the Group's overall financial expense.

Capital management

Management decided to maintain a large amount of equity in order to keep the confidence and to secure further development of the Group. It defined return on equity as one of the key strategic ratios, namely as a relation between the generated profit of the controlling company's equity and the average value of the controlling company's equity. For the past five years, the average return on equity (ROE) was recorded at 19.0% (at the end of 2010, the average five-year return on equity (ROE) was recorded at 20.3%)

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

The dividend policies of Krka were modified in 2011, significantly increasing the dividend payout for the financial year 2010 (by 27%). In the past, the upper limit of for dividend payout was one quarter of the generated profit. Now, the upper limit of for dividend payout is one third of the profit. In 2011 the ratio between the gross dividend per share divided by earnings per share in the previous period for the Company corresponded to 28% (in 2010: 21%).

At the 16th Annual Meeting held on 7 July 2011, the shareholders revoked the authorisation that had been adopted at the 14th Annual Meeting and adopted a new resolution. According to the new resolution, the Company may acquire treasury shares on the regulated market at respective market prices. The Company may acquire treasury shares also outside the regulated market. When purchasing treasury shares on the regulated market or non-regulated market, the purchase price must not be lower than the book value based on the last published audited financial statements of the Krka Group. Furthermore, the purchase price must not exceed 30-fold the earnings per share held by the majority stakeholders as stated in the last published audited financial statements of the Krka Group.

Treasury shares acquired on the basis of this authorisation as well as previous authorisations from the General Meetings held on 5 November 1997 and 2 July 2009, may be disposed of in the following way:

- to be exchanged for equity-stakes in other companies, based on its M&A strategy;
- to be sold to a strategic partner;
- to be used for listing of Krka shares on stock exchange markets outside the Republic of Slovenia.

The Group has no specific goals as regards the ownership share held by employees, as well as no programme of share options. There were no changes in the Group's approach to capital management during the year. Neither the controlling company nor its subsidiaries are subject to externally imposed capital requirements.

5. Segment reporting

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

Segment reporting

	European Union		South-East Europe		Eastern Europe		Other markets		Total	
in EUR thousand	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Revenues to non-group companies	678,928	633,862	86,438	87,648	285,226	264,898	25,035	23,613	1,075,627	1,010,021
Revenues to Group companies	124,608	145,728	54,902	62,081	125,411	132,025	0	0	304,921	339,834
Revenues from reversal of provisions and other income	4,113	9,037	109	186	499	2,665	0	0	4,721	11,888
Operating profit	164,162	162,456	22,730	24,084	23,116	21,422	3,998	3,509	214,006	211,471
Interest revenue	357	675	8	9	13	115	0	0	378	799
Interest expenses	-2,950	-3,567	-14	-24	0	0	0	0	-2,964	-3,591
Net financial income/expenses	-4,594	-106	-1,010	-1,066	-7,230	993	-1,197	80	-14,031	-99
Income tax expense	-28,380	-34,701	-3,774	-4,720	-4,755	-970	-331	-63	-37,240	-40,454
Profit for the period	131,188	127,649	17,946	18,298	11,131	21,445	2,470	3,526	162,735	170,918
Investments in property, plant and equipment, and intangible assets	85,492	108,051	1,602	474	20,562	6,647	0	0	107,656	115,172
Depreciation of property, plant and equipment	58,283	54,005	4,639	4,968	14,010	11,433	487	411	77,419	70,817
Amortisation of intangible assets	7,205	8,133	552	722	1,867	1,920	143	129	9,767	10,904
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Total assets	1,155,647	1,094,719	91,825	96,806	274,283	283,746	12,272	12,933	1,534,027	1,488,204
Total liabilities	247,403	270,408	27,120	33,239	112,024	122,723	7,726	8,507	394,273	434,877

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

6. Revenues

in EUR thousand	2011	2010
Revenues from the sale of products	971,940	919,857
Revenues from the sale of services	40,869	34,402
Revenues from the sale of material and merchandise	62,738	55,677
Other revenues	80	85
Total revenues	1,075,627	1,010,021

7. Other income

in EUR thousand	2011	2010
Reversal of provisions	44	21
Reversal of deferred revenue	1,239	744
Gain on sale of property, plant and equipment and intangible assets	382	591
Other income	3,056	10,532
Total other income	4,721	11,888

8. Costs by nature

in EUR thousand	2011	2010
Cost of goods and material	271,754	268,819
Cost of services	214,864	205,667
Employee benefits cost	269,160	258,235
Depreciation and amortisation expense	87,186	81,721
Formation of provisions for lawsuits	119	15
Other expenses	40,182	31,219
Total costs	883,265	845,676
Change in the value of inventories	-16,923	-35,238
Total	866,342	810,438

9. Employee benefits cost

in EUR thousand	2011	2010
Gross wages and salaries and continued pay	211,405	198,349
Social security contributions and payroll tax	46,278	42,164
Retirement benefits and anniversary bonuses	-530	5,823
Other employee benefits cost	12,007	11,899
Total employee benefits cost	269,160	258,235

Other employee benefits cost in 2011 includes mostly the vacation bonus and commuting allowances.

The item of retirement benefits and anniversary bonuses refers to the reversal of related provisions as explained in Note 24.

10. Other expenses

in EUR thousand	2011	2010
Grants and assistance for humanitarian and other purposes	3,352	3,043
Environmental levies	2,486	2,327
Other taxes and levies	15,437	7,234
Loss on sale of property, plant and equipment and intangible assets	4,031	1,874
Write-offs and write-downs for inventories	10,889	10,910
Other costs	3,987	5,831
Total other expenses	40,182	31,219

11. Financial income and expenses

in EUR thousand	2011	2010
Net foreign exchange gain	0	6,269
Interest income	378	799
Change in fair value of investments through profit or loss	0	52
Dividend income	105	9
Other income	2,404	822
Reversal of impairment	10	21
Total financial income	2,897	7,972
Net foreign exchange loss	-8,749	0
Interest expense	-2,964	-3,591
Change in fair value of investments through profit or loss	-155	-53
Impairment and write-off of receivables	-4,849	-4,159
Other expenses	-211	-268
Total financial expenses	-16,928	-8,071
Net financial expenses	-14,031	-99

12. Income tax expense

Adjustment to effective tax rate

in EUR thousand	2011	2010
Income tax	38,458	46,303
Deferred tax	-1,218	-5,849
Total income tax	37,240	40,454
Profit before tax	199,975	211,372
Income tax calculated using the actual tax rate	39,995	42,274
Tax exempt expenses	2,453	2,371
Tax incentives	-5,270	-5,769
Revenues decreasing the tax base	-150	-101
Revenues increasing the tax base	0	27
Effect of different tax rates and similar	212	1,652
Total income tax expenses	37,240	40,454
Effective tax rate	18.6%	19.1%

13. Property, plant and equipment

in EUR thousand	31 Dec 2011	31 Dec 2010
Property	30,613	29,370
Plant	328,868	306,844
Equipment	298,971	274,637
Property, plant and equipment under construction	44,660	75,610
Total property, plant and equipment	703,112	686,461

As for 2011 the Group's largest investment in the amount of EUR 21,712 thousand refers to the construction of the plant for production of solid pharmaceutical forms (2010: EUR 40,102 thousand). EUR 11,238 thousand were invested in the construction of the Research and control centre no. 3 (2010: EUR 8,879 thousand), EUR 3,808 thousand in the second phase of the sterile product production plant (it is a new project, hence no related expenses were recorded in 2010), EUR 2,221 thousand in the construction of the Sinteza 1 plant in Krško for the production of ingredients (2010: EUR 1,007 thousand), and EUR 2,206 thousand were invested in the Sinteza 4 plant with the purpose to increase its capacities (another new project that was started in 2011 and hence without any expenses recorded in 2010).

Production capacities were increased in subsidiaries of Krka-Rus and amounted to EUR 17,720 thousand (2010: EUR 3,556 thousand). As for the Farma GRS company, two investment projects are in progress, namely the construction of the Production centre for finalizing active ingredients and the Chemical Development Centre. Investments in these two new projects totalled in 2011 to EUR 2,414 thousand (it is a new project, hence no related expenses were recorded in 2010).

Movement of property, plant and equipment (PPE)

in EUR thousand	Property	Plant	Equipment	PPE under construction	Total
Cost of purchase					
Balance at 1 Jan 2010	29,253	521,014	599,125	50,012	1,199,404
Additions	0	0	0	107,922	107,922
Capitalisation – transfer from PPE under construction	261	27,147	54,967	-82,375	0
Disposals	-165	-801	-13,498	0	-14,464
Exchange differences	21	1,367	2,311	51	3,750
Transfer within intangible assets	0	-41	41	0	0
Balance at 31 Dec 2010	29,370	548,686	642,946	75,610	1,296,612
Balance at 1 Jan 2011	29,370	548,686	642,946	75,610	1,296,612
Additions	0	0	0	100,035	100,035
Capitalisation – transfer from PPE under construction	1,296	46,585	82,585	-130,466	0
Disposals	0	-4,282	-16,534	0	-20,816
Exchange differences	-53	-2,183	-4,481	-519	-7,236
Transfer from intangible assets	0	0	199	0	199
Balance at 31 Dec 2011	30,613	588,806	704,715	44,660	1,368,794
Accumulated depreciation					
Balance at 1 Jan 2010	0	-220,936	-329,322	0	-550,258
Depreciation	0	-20,691	-50,126	0	-70,817
Disposals	0	567	12,374	0	12,941
Exchange differences	0	-782	-1,235	0	-2,017
Balance at 31 Dec 2010	0	-241,842	-368,309	0	-610,151
Balance at 1 Jan 2011	0	-241,842	-368,309	0	-610,151
Depreciation	0	-22,171	-55,248	0	-77,419
Disposals	0	3,085	15,706	0	18,791
Transfer from intangible assets	0	0	-179	0	-179
Exchange differences	0	990	2,286	0	3,276
Balance at 31 Dec 2011	0	-259,938	-405,744	0	-665,682
Carrying amount					
Balance at 1 Jan 2010	29,253	300,078	269,803	50,012	649,146
Balance at 31 Dec 2010	29,370	306,844	274,637	75,610	686,461
Balance at 1 Jan 2011	29,370	306,844	274,637	75,610	686,461
Balance at 31 Dec 2011	30,613	328,868	298,971	44,660	703,112

Based on the contracts that had been signed in connection with the ongoing investments, the Group accounted for EUR 82,353 thousand of future liabilities in 2011 resulting from acquisition of property, plant and equipment.

No borrowing costs refer to the item of property, plant and equipment in the reporting period.

14. Intangible assets

in EUR thousand	31 Dec 2011	31 Dec 2010
Goodwill	42,644	42,644
Trademark	42,403	42,403
Concessions, patents, licences and similar rights	34,035	37,768
Total intangible assets	119,082	122,815

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 under construction
Cost of purchase				
Balance at 1 Jan 2010	42,644	42,403	80,431	165,478
Additions	0	0	7,250	7,250
Disposals	0	0	-2,522	-2,522
Exchange differences	0	0	146	146
Balance at 31 Dec 2010	42,644	42,403	85,305	170,352
Balance at 1 Jan 2011	42,644	42,403	85,305	170,352
Additions	0	0	7,621	7,621
Disposals	0	0	-3,051	-3,051
Transfer to PPE	0	0	-199	-199
Exchange differences	0	0	-123	-123
Balance at 31 Dec 2011	42,644	42,403	89,553	174,600
Accumulated amortisation				
Balance at 1 Jan 2010	0	0	-38,897	-38,897
Amortisation	0	0	-10,904	-10,904
Disposals	0	0	2,246	2,246
Exchange differences	0	0	18	18
Balance at 31 Dec 2010	0	0	-47,537	-47,537
Balance at 1 Jan 2011	0	0	-47,537	-47,537
Amortisation	0	0	-9,767	-9,767
Disposals	0	0	1,532	1,532
Transfer to PPE	0	0	179	179
Exchange differences	0	0	75	75
Balance at 31 Dec 2011	0	0	-55,518	-55,518
Carrying amount				
Balance at 1 Jan 2010	42,644	42,403	41,534	126,581
Balance at 31 Dec 2010	42,644	42,403	37,768	122,815
Balance at 1 Jan 2011	42,644	42,403	37,768	122,815
Balance at 31 Dec 2011	42,644	42,403	34,035	119,082

Impairment testing for the TAD Pharma trademark and goodwill

For the purpose of impairment testing for the trademark and the goodwill relating to the acquisition of the company TAD Pharma, the German market was taken into account as a cash generating unit. Recoverable amount grounds on the value in use. By this acquisition, the Krka Group secured itself direct access to the entire German market, considered as Europe's biggest generic market. Since the acquisition i.e. in the period from 2007

to 2011, the Group increased its sales on the German market by more than a half. Germany is considered as the most important market of the Group within the Western Europe and the overseas markets, as well as its fourth biggest individual market. Similar to the previous period, a 5-percent annual growth in sales was planned also for the period 2012–2016, which is used as the basis for impairment testing. As for the cost structure, the profitability achieved in 2011 was taken into account as well as the expected return on operations, considering also further pressure on cutting prices for health products. The calculation applied the 9.11-percent discount rate (2010: 8.60-percent discount rate) equalling the weighted average capital cost of TAD Pharma (WACC). As in previous year, the annual rate of long-term growth of the residual cash flow is accounted for at 3-percent. Based on the discounted cash flows it was established that the recoverable amount of the cash generating unit exceeds its carrying amount, including the goodwill and the trademark, hence no need for the respective impairment exists.

15. Loans

in EUR thousand	31 Dec 2011	31 Dec 2010
Non-current loans	4,821	4,312
– loans	4,821	4,312
Current loans	1,050	1,227
– current portion of loans due next year	883	940
– current loans to other entities	162	285
– current interest receivable	5	2
Total loans	5,871	5,539

The item of current loans relates mostly to housing loans extended by the parent company and some subsidiaries to their employees in accordance with the internal acts of the Group. Loans of the controlling company bear the annual interest rate that equals the contractually agreed rate. This interest rate is defined by the Minister of Finance based on provisions of the Corporate Income Tax Act that stipulates the interest rate for related parties. The respective rate ranged in 2011 between 2.284% and 2.987%. The loan-related repayment period must not exceed 15 years.

16. Investments

in EUR thousand	31 Dec 2011	31 Dec 2010
Non-current investments	4,944	5,238
– financial assets available for sale	4,944	5,238
Current investments, including derivatives	602	653
– instruments held for trading	68	93
– other current investments	534	560
Total investments	5,546	5,891

EUR 720 thousand of financial assets available for sale refer to investments in shares made in Slovenia (2010: EUR 885 thousand), whereas EUR 4,224 thousand to investments in shares made abroad (2010: EUR 4,353 thousand).

Other current investments refer to Slovenian mutual funds in the amount of EUR 276 thousand (2010: EUR 287 thousand) and assets under management in the amount of EUR 258 thousand (2010: EUR 273 thousand).

Movement of financial assets available for sale

in EUR thousand	Financial assets available for sale
Balance at 1 Jan 2010	5,658
Adjustment to market value	-420
Balance at 31 Dec 2010	5,238
Balance at 1 Jan 2011	5,238
Purchase	89
Adjustment to market value	-383
Balance at 31 Dec 2011	4,944

Adjustments of non-current investments (i.e. available-for-sale financial assets) to the market value or fair value are recognised among comprehensive income in the amount of EUR -282 thousand (2010: EUR -420 thousand) and through profit or loss in the amount of EUR -101 thousand (2010: EUR 0).

17. Deferred tax assets and deferred tax liabilities

in EUR thousand	Assets		Liabilities		Assets - liabilities	
	2011	2010	2011	2010	2011	2010
Intangible assets, and property, plant and equipment	580	422	14,217	14,890	-13,637	-14,468
Financial assets available for sale	20	0	385	442	-365	-442
Inventories	2,310	2,296	2,874	3,597	-564	-1,301
Receivables/liabilities	6,318	5,449	627	539	5,691	4,910
Provisions for lawsuits	9,800	9,800	0	0	9800	9,800
Provisions for retirement benefits	8,280	9,029	0	0	8,280	9,029
Transfer of tax loss	32	509	0	0	32	509
Total	27,340	27,505	18,103	19,468	9,237	8,037

in EUR thousand	Balance at 1 Jan 2010	Recognised in profit or loss	Translation reserve	Recognised in comprehensive income	Balance at 31 Dec 2010	Recognised in profit or loss	Translation reserve	Recognised in comprehensive income	Balance at 31 Dec 2011
Investments, intangible assets, and property, plant and equipment	-15,908	1,448	-8	0	-14,468	765	66	0	-13,637
Financial assets available for sale	-526	0	0	84	-442	20	0	57	-365
Inventories	697	-2,059	61	0	-1,301	722	15	0	-564
Receivables/Liabilities	-496	7,361	-1,955	0	4,910	928	-147	0	5,691
Provisions for lawsuits	9,799	0	1	0	9,800	0	0	0	9,800
Provisions for retirement benefits	9,155	-161	35	0	9,029	-740	-9	0	8,280
Transfer of tax loss	1,249	-740	0	0	509	-477	0	0	32
Total	3,970	5,849	-1,866	84	8,037	1,218	-75	57	9,237

18. Inventories

in EUR thousand	31 Dec 2011	31 Dec 2010
Material	96,764	84,463
Work in progress	54,425	48,263
Products	95,236	90,318
Merchandise	6,783	6,299
Total inventories	253,208	229,343

The write down of inventories to net realisable value amounted to EUR 2,894 thousand (2010: EUR 2,165 thousand), whereas the write-off of inventories amounted to EUR 7,995 thousand (2010: EUR 8,745 thousand).

19. Trade and other receivables

in EUR thousand	31 Dec 2011	31 Dec 2010
Trade receivables	361,290	368,780
Other receivables	38,222	33,906
Total receivables	399,512	402,686

Allowances for and write-offs of receivables recorded within financial expenses amounted to EUR 4,849 thousand in the reporting period (2010: EUR 4,159 thousand).

Trade receivables

in EUR thousand	Gross value	Allowances for doubtful and disputable receivables	Net value at 31 Dec 2011	Net value at 31 Dec 2010
Domestic customers	12,771	312	12,459	13,930
Foreign customers	364,085	15,254	348,831	354,850
Total trade receivables	376,856	15,566	361,290	368,780

49% of trade receivables were secured with the SID – Prva kreditna zavarovalnica d.d. In 2010, 32% of trade receivables were secured.

Other receivables

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

20. Cash and cash equivalents

in EUR thousand	31 Dec 2011	31 Dec 2010
Cash in hand	45	61
Bank balances	20,142	7,728
Total cash and cash equivalents	20,187	7,789

The Group concluded contracts with three different banks on the authorised overdraft limit on bank accounts in the total amount of EUR 2,000 thousand (2010: EUR 2,000 thousand). No negative balances were recorded on these bank accounts, hence no overdraft limits were used.

21. Equity

Share capital

Share capital of the controlling company consists of 35,426,120 ordinary registered no-par value shares. There is 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 of the reporting date the controlling company recorded 2,025,117 treasury shares i.e. 5.72% of the share capital value.

At the 14th Annual Meeting held on 2 July 2009, the shareholders adopted a resolution authorising the Management Board of the controlling company to acquire treasury shares, with the proviso that the combined share of all treasury shares acquired and already held, could not exceed 10% of share capital or 3,542,612 of shares. Based on this authorisation, the Company was allowed to acquire treasury shares on the regulated market at respective market prices. The Company was also allowed to acquire shares outside regulated market. When purchasing treasury shares on regulated market or non-regulated market, the purchase price was not allowed to be lower than the book value based on the last published audited financial statements of the Krka Group. Also, the purchase price was not allowed to exceed 30-fold the earnings per share held by the majority stakeholders as stated in the last published audited financial statements of the Krka Group.

At the 16th Annual Meeting held on 7 July 2011, the shareholders revoked the authorisation that had been adopted at the 14th Annual Meeting and adopted a new resolution. According to the new resolution, the Company may acquire treasury shares on the regulated market at respective market prices. The Company may acquire treasury shares also outside the regulated market. When purchasing treasury shares on the regulated market or non-regulated market, the purchase price must not be lower than the book value based on the last published audited financial statements of the Krka Group. Furthermore, the purchase price must not exceed 30-fold the earnings per share held by the majority stakeholders as stated in the last published audited financial statements of the Krka Group.

Treasury shares acquired on the basis of this authorisation as well as previous authorisations from the General Meetings held on 5 November 1997 and 2 July 2009, may be disposed of in the following way:

- to be exchanged for equity-stakes in other companies, based on its M&A strategy;
- to be sold to a strategic partner;
- to be used for listing of Krka shares on stock exchange markets outside the Republic of Slovenia.

362,836 of treasury shares were repurchased in 2011 in the total amount of EUR 20,835 thousand.

Repurchase of treasury shares by the controlling company in 2011

	Number of shares	Average share price (in EUR)	Value of shares (in EUR thousand)
Balance at 31 Dec 2010	1,662,281		21,749
Total repurchase of shares in 2011	362,836	57,42	20,835
Balance at 31 Dec 2011	2,025,117		42,584

The 2011 repurchase of treasury shares in terms of days is illustrated within Enclosure 1 to the Financial Statements of Krka, d. d. and the Krka Group.

Reserves

The Group's reserves comprise reserves for treasury shares, the share premium, legal and statutory reserves, fair value reserves and translation reserves.

Reserves for treasury shares amounted to EUR 42,584 thousand as at the reporting date and increased by EUR 20,835 thousand based on its formation as a result of additional purchase of treasury shares.

The *share premium* is to be used under the terms and purposes as defined by the applicable act. The share premium was recorded at EUR 101,503 as at 31 December 2011 and consists of the general equity revaluation adjustment (EUR 90,659 thousand) that was included among share premium during the transfer to IFRS, and the share premium (EUR 10,844 thousand) formed pursuant to a special regulation applicable in the ownership transformation of the controlling company. The amount may be used solely for the purpose of increasing share capital. No movements in share premium were recorded in 2011.

Legal reserves are to be formed up to 30% of the share capital. They amounted to EUR 14,990 thousand as at 31 December 2011 and remained unchanged over the previous period.

Statutory reserves amounted to EUR 30,000 thousand as at the reporting date and grew by EUR 2,816 thousand over the previous year. The increase of reserves was approved by the controlling company's management based on statutory provisions. Statutory reserves are formed by the Group up to the amount of EUR 30 million. Statutory reserves can be used for loss coverage, formation of reserves for treasury shares, for decreasing share capital by share withdrawal, and for regulating the dividend policy.

The *fair value reserve* includes the cumulative change in the fair value of available-for-sale financial assets. Compared to the previous period the fair value reserve decreased by EUR 225 thousand and as at 31 December 2011 amounted to EUR 1,542 thousand. The total change results from a decrease in the fair value of available-for-sale investments (by EUR 281 thousand) and an increase of EUR 56 thousand referring to the related deferred tax effect.

Compared to 2010 the *translation reserve* decreased by EUR 8,250 thousand and as of the reporting date amounted to EUR –16,210 thousand. The said decrease is a result of exchange differences occurring during the translation of individual items in financial statements of foreign operations into the local currency i.e. reporting currency.

Retained earnings

Retained earnings grew based on the profit for the period recorded by the majority stockholder in the amount of EUR 162,801 thousand. The decrease, on the other hand, is a result of allocation of accumulated profit to dividend payout (EUR 47,001 thousand) in accordance with the resolution adopted by the 16th Annual Meeting held on 7 July 2011, of an additional formation of statutory reserves (EUR 2,816 thousand), as well as additional reserves for treasury shares formed for the related purchase by the controlling company in 2011 (EUR 20,835 thousand).

The amount of the dividend payout, shown in the statement of cash flows, differs from the figure, confirmed by the Annual Meeting and included in the statement of changes in equity, by the amount of change between the opening and closing balance of liabilities for dividend payout in the amount of EUR 98 thousand (2010: EUR 82 thousand).

Dividends per share

As for 2011 the declared gross dividend per share amounted to EUR 1.40 (2010: EUR 1.10).

Non-controlling interests within equity

The non-controlling interest refers to following Group companies:

in EUR thousand	Non-controlling interest		Non-controlling interest within equity		Profit for the year attributable to the non-controlling interest	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Interest held by Terme Krka, d.o.o. in Golf Grad Otočec, d.o.o.	36.9%	36.9%	1,510	1,577	-67	-107
Interest held by Krka, d. d. in Farma GRS, d.o.o.	0.3%	/	4	0	1	0
Total			1,514	1,577	-66	-107

22. Earnings per share

Basic earnings per share amounted to EUR 4.85 in 2011 and declined by 4.2% over the previous year (2010: EUR 5.06). The calculation of earnings per share took account of the profit for the period attributable to the majority stockholders in the amount of EUR 162,801 thousand (2010: EUR 171,025 thousand). The weighted average number of shares was accounted for in the calculation for both years i.e. 33,582,965 shares for 2011 and 33,797,418 shares for 2010. Treasury shares were eliminated from the calculation.

All shares issued by the controlling company are ordinary shares, hence the diluted earnings per share ratio equalled the basic earnings per share.

23. Borrowings

in EUR thousand	31 Dec 2011	31 Dec 2010
Non-current borrowings	25,500	67,214
– borrowings from domestic banks	25,500	67,071
– borrowings from foreign banks	0	143
Current borrowings	44,091	57,910
– portion of non-current borrowings due next year	41,726	37,899
– borrowings from domestic banks	0	18,500
– borrowings from foreign banks	978	0
– borrowings from other entities	386	317
– interest payable	1,001	1,194
Total borrowings	69,591	125,124

Non-current borrowings

in EUR thousand	Currency	Maturity	31 Dec 2011		31 Dec 2010	
			Par value	Carrying amount	Par value	Carrying amount
Borrowing from domestic bank	EUR	2011	0	0	40,000	3,636
Borrowing from domestic bank	EUR	2012	25,000	5,000	25,000	10,000
Borrowing from domestic bank	EUR	2012	79,000	23,700	79,000	39,500
Borrowing from domestic bank	EUR	2012	8,025	271	8,025	991
Borrowing from foreign bank	EUR	2012	1,000	155	1,000	286
Borrowing from domestic bank	EUR	2014	30,000	20,100	30,000	26,700
Borrowing from domestic bank	EUR	2014	30,000	18,000	30,000	24,000
Total non-current borrowings			173,025	67,226	213,025	105,113

No new non-current borrowings were raised by the Group in 2011.

Non-current borrowings obtained from banks are neither secured by mortgages nor by bank guarantees.

Current borrowings are denominated in euro and were extended for the period of one year. These borrowings were not secured.

24. Provisions

in EUR thousand	Balance at 31 Dec 2010	Formation	Utilisation	Reversal	Translation reserves	Balance at 31 Dec 2011
Provisions for retirement benefits and anniversary bonuses	55,315	53	-3,855	-583	-15	50,915
Other provisions	53,574	392	0	-44	-18	53,904
– provisions for lawsuits	49,015	119	0	-11	-1	49,122
– other provisions	4,559	273	0	-33	-17	4,782
Total provisions	108,889	445	-3,855	-627	-33	104,819

The amounts of provisions for lawsuits referring to intellectual property are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated amount, if the indemnification claim is not yet disclosed. External advisors for litigations referring to intellectual property are engaged for defining the anticipated amounts. Furthermore, the management each year verifies the calculated amount of provisions for each individual claim that is not yet closed.

Provisions for retirement benefits and anniversary bonuses are based on a calculation performed by a certified actuary and they were accounted for under following assumptions:

- discount rate of 5.75% in the reporting period (2010: 4.50%) referring to the harmonised 10-term government bond yield within the eurozone (Source: ECB);
- currently applicable amounts of retirement benefits and anniversary bonuses as defined by internal acts of individual companies or local regulations;
- employee turnover depending in particular upon the employees' age;
- mortality level calculated on the basis of last mortality tables available;
- increase in wages by 3% (2010: 3.6%).

The estimates and the assumptions that have been applied reflect the actual state of affairs during the preparation of the calculation of the actuary. The projected unit method was applied in the calculation. Actuarial deficits or surpluses that have occurred in connection with retirement benefits and anniversary bonuses were recognised as decrease in employee benefits cost in the net amount of EUR 530 thousand (further details in Note 9).

25. Deferred revenue

in EUR thousand	Balance at 31 Dec 2010	Deferred revenue received	Reversal of deferred revenue	Balance at 31 Dec 2011
Grants received for the Beta plant in Šentjernej	125	0	-44	81
Grants received for the health resorts Dolenjske and Šmarješke Toplice and Golf Grad Otočec	5,276	0	-306	4,970
Grants by the European Regional Development Fund	26	0	-5	21
Grants by the European Fund – development of new technologies (FBD project)	926	31	-129	828
Grants received from the European Fund – Development Centres of the Slovene Economy	0	606	-606	0
Properties, plant and equipment received for free	591	1	-13	579
Emission coupons	22	21	-36	7
Other deferred revenue	172	112	-100	184
Total deferred revenue	7,138	771	-1,239	6,670

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

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

26. Trade payables

in EUR thousand	31 Dec 2011	31 Dec 2010
Payables to domestic suppliers	36,955	42,365
Payables to foreign suppliers	49,623	48,525
Payables from advances	4,310	496
Total trade payables	90,888	91,386

27. Other current liabilities

in EUR thousand	31 Dec 2011	31 Dec 2010
Accrued contractual discounts on products sold to other customers	57,926	34,943
Payables to employees – gross wages, other charges	29,082	27,405
Other	15,885	10,710
Total other current liabilities	102,893	73,058

28. Contingent liabilities

in EUR thousand	31 Dec 2011	31 Dec 2010
Guarantees issued	12,068	2,795
Other	620	620
Total contingent liabilities	12,688	3,415

As for the guarantees, the highest figure refers to the performance guarantee issued in connection with the GRS project (EUR 5,300 thousand), followed by the guarantee for the timely payment of liabilities relating to customs duties and excise duties paid in Slovenia (EUR 2,802 thousand) and abroad (EUR 3,000 thousand).

The item 'Other' includes the affected property in Serbia (EUR 620 thousand).

29. Financial instruments

Long-term stability of the Group's performance is managed by means of active risk management policies as presented in detail under Note 4. Due to the extensive scope of international import and export business, the Group is primarily exposed to foreign exchange and interest rate risks, as well as to credit risks. No derivative financial instruments were applied in 2011 for hedging against foreign exchange and interest rate risks.

Credit risk

Credit risk is mitigated by the assessment of the customers' credit rating as well as by active debt collection procedures.

Credit risk exposure

The carrying amount of financial assets represents the biggest exposure to credit risk. As at the reporting date, the balances were as follows:

in EUR thousand	Notes	31 Dec 2011	31 Dec 2010
Loans	15	5,871	5,539
Receivables	19	399,512	402,686
– thereof trade receivables		361,290	368,780
Cash and cash equivalents	20	20,187	7,789
Total		425,570	416,014

As for the financial assets exposed to credit risk, the loans and receivables are presented separately. Their maximum exposure to credit risk is shown in terms of geographic regions:

in EUR thousand	31 Dec 2011	31 Dec 2010
Slovenia	38,931	32,973
South-East Europe	89,610	76,958
Eastern Europe	141,861	157,903
Central Europe	59,716	70,256
Western Europe and overseas markets	75,265	70,135
Total	405,383	408,225

49% of trade receivables were secured. Receivables are secured with the SID – Prva kreditna zavarovalnica d.d. In 2010, 32% of trade receivables were secured.

Ageing structure of loans and receivables as at the reporting date

in EUR thousand	Gross value 2011	Allowance 2011	Gross value 2010	Allowance 2010
Not past due receivables	375,893	911	382,781	1,708
Past due 20 days	8,651	126	3,925	54
Past due 21 to 50 days	8,323	410	7,174	285
Past due 51 to 180 days	8,015	485	14,656	1,337
Past due over 180 days	20,118	13,685	13,853	10,780
Total	421,000	15,617	422,389	14,164

Movement of allowances for loans and receivables

in EUR thousand	2011	2010
Balance at 1 January	14,164	11,173
Formation of allowance	4,840	4,106
Write-off of receivables	-813	-619
Reversal of impairment	-2,404	-822
Exchange differences	-170	326
Balance at 31 December	15,617	14,164

Liquidity risk

Due to an accurate planning of cash flows, low indebtedness and credit lines that were agreed with the banks in advance, no liquidity problems occurred in 2011 and liabilities were settled promptly.

Maturity of financial liabilities

Financial liabilities in terms of maturity are outlined in the schedule below.

Maturity of financial liabilities as at 31 December 2011

in EUR thousand	Carrying amount	Contractual cash flows				
		Total	Up to 6 months	Between 6 and 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Non-current borrowings from banks	68,224	70,900	18,247	25,720	13,615	13,318
Current borrowings from banks	978	978	978	0	0	0
Other current borrowings	389	394	262	132	0	0
Trade and other payables	195,090	195,090	195,090	0	0	0
Total non-derivative financial liabilities	264,681	267,362	214,577	25,852	13,615	13,318
Total derivatives	0	0	0	0	0	0
Total	264,681	267,362	214,577	25,852	13,615	13,318

Maturity of financial liabilities as at 31 December 2010

in EUR thousand	Carrying amount	Contractual cash flows				
		Total	Up to 6 months	Between 6 and 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Non-current borrowings from banks	106,260	109,897	21,957	17,967	43,243	26,730
Current borrowings from banks	18,545	18,555	5,555	13,000	0	0
Other current borrowings	319	320	278	42	0	0
Trade and other payables	174,258	174,258	174,258	0	0	0
Total non-derivative financial liabilities	299,382	303,030	202,048	31,009	43,243	26,730
Total derivatives	0	0	0	0	0	0
Total	299,382	303,030	202,048	31,009	43,243	26,730

Foreign currency risk**Exposure to foreign currency risk**

in EUR thousand	31 Dec 2011					
	EUR*	USD	PLN	HRK	RUB	RON
Trade receivables	112,171	11,042	32,368	26,149	117,375	47,659
Borrowings from banks	-69,591	0	0	0	0	0
Trade payables	-76,566	-8,072	-1,327	-326	-3,424	-359
Financial position exposure (net)	-33,986	2,970	31,041	25,823	113,951	47,300
Forecasted sales	633,005	25,511	128,450	38,490	210,544	49,246
Forecasted purchases	-219,500	-103,100	-20,660	-11,900	-73,896	-4,300
Exposure (net)	413,505	-77,588	107,790	26,590	136,647	44,946
Net exposure	379,519	-74,618	138,831	52,413	250,598	92,246

* EUR is the functional currency and does not represent exposure to foreign currency risk

in EUR thousand	31 Dec 2010					
	EUR*	USD	PLN	HRK	RUB	RON
Trade receivables	109,365	18,520	46,501	30,736	123,353	31,069
Borrowings from banks	-125,124	0	0	0	0	0
Trade payables	-74,522	-10,667	-1,779	-316	-1,210	-667
Financial position exposure (net)	-90,281	7,853	44,721	30,420	122,143	30,402
Sales	628,695	19,295	108,904	34,602	185,410	47,392
Purchases	-209,094	-98,208	-19,676	-11,327	-70,392	-4,095
Exposure (net)	419,601	-78,913	89,228	23,275	115,019	43,297
Net exposure	329,320	-71,060	133,949	53,695	237,161	73,699

* EUR is the functional currency and does not represent exposure to foreign currency risk

Forecasted sales and purchases stated in the 2011 schedule ground on the Group's business plan for 2012, whereas sales and purchases stated in the 2010 schedule take account of the Group's actual sales and purchases made in 2011.

Significant foreign exchange rates

	Average exchange rate *		Final exchange rate *	
	2011	2010	2011	2010
USD	1.39	1.33	1.29	1.33
PLN	4.12	4.00	4.46	3.97
HRK	7.44	7.29	7.54	7.39
RUB	40.88	40.27	41.77	40.54
RON	4.24	4.21	4.32	4.29

* number of local currency's units for 1 euro

The above-stated exchange rates were used for the calculation of items in the financial statements as at 31 December and equal the exchange rate of the Bank of Slovenia effective on 30 December.

Sensitivity analysis

A 1% percent increase of the euro exchange rate in respect of currencies stated as at 31 December 2011 or 31 December 2010 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.

in EUR thousand	Impact on the profit or loss	
	2011	2010
USD	739	704
PLN	-1,375	-1,326
HRK	-519	-532
RUB	-2,481	-2,348
RON	-913	-730

A 1% decrease of the euro value in respect of currencies stated as at 31 December 2011 or 31 December 2010 would have the same effect – but in reverse direction - provided that all other elements remain unchanged.

Interest rate risk

Exposure to interest rate risk

in EUR thousand	2011	2010
Financial instruments at fixed interest rate	7,428	3,914
Financial assets	8,792	5,731
Financial liabilities	-1,364	-1,817
Financial instruments at variable interest rate	-67,226	-122,113
Financial assets	0	0
Financial liabilities	-67,226	-122,113

Analysis of sensitivity of the financial instrument's fair value by applying the fixed interest rate

The Group holds no derivatives with reference to fixed interest rate, recognised at fair value through profit or loss, and no derivatives designated as a fair value hedge. Thus, a change of the interest rate as at the reporting date would have no impact on the profit or loss due to changes in the fair value of interest bearing instruments.

Analysis of the cash flow's sensitivity by applying the variable interest rate

Decrease/increase of the interest rate by 100 basis points would increase/decrease the profit or loss for 2011 by EUR 672 thousand (2010: EUR 1,221 thousand). The analysis, prepared in the same manner for both years, assumes that all other remaining elements, in particular the foreign exchange rate, remain unchanged.

A detailed schedule of non-current and current borrowings is presented below.

Non-current borrowings

in EUR thousand	31 Dec 2011	31 Dec 2010
Non-current borrowings	67,226	105,113
– thereof current portion	41,726	37,899
Average balance of non-current borrowings	86,170	124,424
Interest paid (financial year)	2,526	3,071
Other cost of raising non-current borrowings	0	0
Average interest rate of non-current borrowings (financial year)	2.93%	2.48%
Maturity in three years or less	100%	88%
Maturity in more than three years	0%	12%
Currency structure of non-current borrowings:		
– euro	100%	100%
Structure of non-current borrowings in terms of interest rates:		
– variable	100%	100%

Current borrowings

in EUR thousand	31 Dec 2011	31 Dec 2010
Current borrowings including current portion of non-current borrowings	43,090	56,716
– from banks	42,704	56,399
– from other entities	386	317
Current borrowings exclusive of current portion of non-current borrowings	1,364	18,817
Average balance of current borrowings (financial year)	10,091	14,805
Interest paid (financial year)	410	494
Other cost of raising current borrowings	22	30
Average cost of current borrowings (financial year)	4.28%	3.54%
Currency structure of current borrowings		
– euro	100%	100%
Structure of current borrowings in terms of interest rates:		
– variable	0%	90%
– fixed	100%	10%

Fair value

in EUR thousand	2011		2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current loans	4,821	4,821	4,312	4,312
Financial assets available for sale	4,944	4,944	5,238	5,238
Current loans	1,050	1,050	1,227	1,227
Current investments	602	602	653	653
– instruments held for trading	68	68	93	93
– other current investments	534	534	560	560
Trade and other receivables	399,512	399,512	402,686	402,686
Cash and cash equivalents	20,187	20,187	7,789	7,789
Borrowings	-69,591	-69,972	-125,124	-123,624
Trade and other payables	-195,090	-195,090	-174,258	-174,258
Total	166,435	166,054	122,523	124,023

The manner of the fair value measurement of the individual types of financial instruments is outlined below.

Interest-bearing loans and borrowings

The fair value of loans and borrowings is calculated by applying the discounted cash flow of the principal and interest. The discount interest rate for both years was computed based on the 5-percent annual interest rate. The Group forecasts that it could raise a 5-year borrowing at the stated interest rate at the end of the year.

Financial instruments

The schedule illustrates the classification of financial instruments in terms of their fair value. Accordingly, the financial instruments form three levels, namely:

- level 1: assets and liabilities at fair value determined using quoted market prices;
- level 2: assets and liabilities that are not classified within level 1 and their value is determined directly or indirectly based on observable market data;
- level 3: assets and liabilities the value of which cannot be determined using observable market data.

in EUR thousand	31 Dec 2011			31 Dec 2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets available for sale	3,424	0	1,520	3,679	0	1,559
Instruments held for trading	68	0	0	93	0	0
Other current investments	534	0	0	560	0	0
Total	4,026	0	1,520	4,332	0	1,559

Instruments held for trading

The fair value is computed on the basis of the stock exchange quotation of the respective securities as at the reporting date, and it is not decreased by any costs that may arise upon the sale or purchase of securities.

Receivables and liabilities

Short-term receivables and liabilities are recorded at carrying amount which reflects their fair value.

30. Related party transactions

Data on groups of persons

By the end of the year, members of the Management Board of the controlling company held 37,050 of Krka shares i.e. 0.105% of total equity or 0.110 of voting rights, whereas members of the Supervisory Board of the controlling company held 13,845 shares i.e. 0.039% of total equity or 0.041% of voting rights, and the Managing Directors of subsidiaries held 4,665 of shares i.e. 0.073% of the total equity or 0.077% of voting rights.

A questionnaire on related entities is completed by the Management Board members and other management staff on a yearly basis, which is afterwards used by the Group to check the existence of any other business relations between the individual company and the employees. No such business relations were recorded in 2011.

Equity stakes held by members of the Management Board and the Supervisory Board and their shares of voting rights

	31 Dec 2011			31 Dec 2010		
	No. of shares	Equity share (in %)	Share of voting rights (in %)	No. of shares	Equity share (in %)	Share of voting rights (in %)
Management Board members						
Jože Colarič	22,500	0.0635	0.0674	22,500	0.0635	0.0666
Aleš Rotar	12,770	0.0360	0.0382	12,770	0.0360	0.0378
Zvezdana Bajc	1,660	0.0047	0.0050	1,660	0.0047	0.0049
Vinko Zupančič	120	0.0003	0.0004	120	0.0003	0.0004
Danica Novak Malnar	0	0.0000	0.0000	0	0.0000	0.0000
Total Management Board members	37,050	0.1045	0.1109	37,050	0.1045	0.1097
Supervisory Board members						
Jože Lenič	180	0.0005	0.0005	180	0.0005	0.0005
Julijana Kristl	230	0.0006	0.0007	230	0.0006	0.0007
Vincenc Manček	11,543	0.0326	0.0346	11,543	0.0326	0.0342
Mojca Osolnik Videmšek	452	0.0013	0.0014	452	0.0013	0.0013
Matjaž Rakovec	400	0.0011	0.0012	400	0.0011	0.0012
Sergeja Slapničar	0	0.0000	0.0000	0	0.0000	0.0000
Franc Šašek	540	0.0015	0.0016	540	0.0015	0.0016
Tomaž Sever	500	0.0014	0.0015	500	0.0014	0.0015
Mateja Vrečer	0	0.0000	0.0000	0	0.0000	0.0000
Total Supervisory Board members	13,845	0.0391	0.0415	13,845	0.0391	0.0410
Total	50,895	0.1436	0.1524	50,895	0.1436	0.1507

Remuneration paid to groups of persons

in EUR thousand	2011	2010
Management Board members in the controlling company	2,185	2,136
Managers of subsidiaries	1,969	1,573
Supervisory Board members in the controlling company	109	43
Supervisory Board and Management Board members in subsidiaries	82	71
Total remuneration paid to groups of persons	4,345	3,823

Remuneration paid to Management Board members in the controlling company and managers of subsidiaries includes wages and salaries, fringe benefits and any other earnings.

Remuneration paid to members of the Supervisory Board in the controlling company represent earnings in connection with exercising the function within the Supervisory Board. Remuneration paid to members of the Supervisory and Management Boards in subsidiaries, who simultaneously act as Management Board members in the controlling company or are employed under individual employment contracts, include also solely earnings for exercising the function within the Supervisory and Management Boards.

Gross earnings paid to employees employed under individual employment contracts were in 2011 recorded at EUR 17,113 thousand (2010: EUR 17,633 thousand).

Remuneration paid to Management Board members in the controlling company in 2011

	Salary – fixed part			Salary – variable part		Total	
	Gross	Net payout	Net bonuses and other earnings	Gross	Net	Gross	Net
in EUR thousand							
Jože Colarič	352	156	9	307	141	659	306
Aleš Rotar	281	123	12	240	110	521	245
Zvezdana Bajc	257	111	13	217	100	474	224
Vinko Zupančič	208	88	14	171	79	379	181
Danica Novak Malnar	132	61	7	20	10	152	78
Total Management Board members	1,230	539	55	955	440	2,185	1,034

	Net bonuses and other earnings					
	Executive health insurance	Additional pension insurance	Other bonuses	Refund of work-related costs	Vacation bonus	Total
in EUR thousand						
Jože Colarič	5,34	2,68	0,05	0,06	0,63	8,76
Aleš Rotar	4,26	2,68	3,33	0,86	0,63	11,77
Zvezdana Bajc	4,10	2,68	4,40	0,93	0,63	12,74
Vinko Zupančič	4,30	2,68	6,04	0,76	0,64	14,42
Danica Novak Malnar	1,88	2,68	0,74	0,86	0,65	6,80
Total Management Board members	19,88	13,42	14,55	3,47	3,18	54,49

Remuneration paid to Management Board members in the controlling company in 2010

	Salary – fixed part			Salary – variable part		Total	
	Gross	Net payout	Net bonuses and other earnings	Gross	Net	Gross	Net
in EUR thousand							
Jože Colarič	344	155	9	302	139	646	303
Aleš Rotar	277	121	13	236	109	513	243
Zvezdana Bajc	253	109	13	214	98	467	221
Vinko Zupančič	203	87	14	168	77	371	178
Danica Novak Malnar	128	60	6	10	5	139	71
Total Management Board members	1,206	532	56	930	428	2,136	1,016

in EUR thousand	Net bonuses and other earnings					
	Executive health insurance	Additional pension insurance	Other bonuses	Refund of work-related costs	Vacation bonus	Total
Jože Colarič	5,35	2,65	0,10	0,09	0,61	8,80
Aleš Rotar	4,29	2,65	4,84	0,75	0,61	13,13
Zvezdana Bajc	4,32	2,65	5,01	0,82	0,61	13,41
Vinko Zupančič	4,29	2,65	5,95	0,69	0,62	14,18
Danica Novak Malnar	1,86	2,65	0,05	0,81	0,63	5,99
Total Management Board members	20,10	13,23	15,94	3,16	3,08	55,51

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. Management Board members do not receive attendance fees and any other income for exercising their functions in the Management and Supervisory boards in subsidiaries.

Remuneration paid to Supervisory Board members in the controlling company in 2011

in EUR thousand	Basic pay for exercising the function		Attendance fees		Commuting allowances, personal income tax		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Jože Lenič	9.31	7.22	5.16	4.00	0.17	0.13	14.65	11.35
Julijana Kristl	7.76	6.01	2.96	2.29	0.51	0.40	11.23	8.70
Vincenc Manček	7.76	6.01	3.28	2.54	0.00	0.00	11.04	8.55
Mojca Osolnik Videmšek	8.54	6.62	3.88	3.01	0.60	0.47	13.01	10.09
Matjaž Rakovec	8.38	6.50	2.68	2.08	0.17	0.13	11.24	8.71
Sergeja Slapničar	7.76	6.01	3.37	2.61	0.75	0.58	11.89	9.21
Franc Šašek	8.38	6.50	3.59	2.78	0.00	0.00	11.97	9.28
Tomaž Sever	7.76	6.01	3.59	2.78	0.50	0.39	11.86	9.19
Mateja Vrečer	8.54	6.62	3.47	2.69	0.00	0.00	12.00	9.30
Total remuneration paid to Supervisory Board members	74.19	57.50	31.98	24.78	2.71	2.10	108.88	84.38

In accordance with a resolution adopted at the 16th Annual Meeting held on 7 July 2011, members of the controlling company's Supervisory Board are entitled to an attendance fee, which for each individual member of the controlling company's Supervisory Board amounts to EUR 275.00 gross. Members of the Supervisory Board Commission receive an attendance fee for their participation in sessions, which for each individual Commission member amounts to 80% of the attendance fee for Supervisory Board sessions. The attendance fee for participating in correspondence sessions amounts to 80% of the general attendance fee. Irrespective of the aforesaid or the number of attendances, each member of the Supervisory Board is in every financial year entitled to receive attendance fees until the total amount of these attendance fees – whether relating to sessions of the Supervisory Board or sessions of the Supervisory Board Commissions – reaches 50% of the basic pay for exercising the function for each Supervisory Board member taking into account the actual payouts on an annual level.

In addition to attendance fees, members of the controlling company's Supervisory Board receive on an annual basis also a basic pay for exercising the function in the amount of EUR 15,500 gross each. 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 the Supervisory Board member, whereas Vice-President of the Supervisory Board to an extra fee of

10% of the basic pay for exercising the function of the Supervisory Board member. 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 the Supervisory Board member. President of the Commission is further entitled to a bonus corresponding to 50% of the extra fee for exercising the function of the Supervisory Board Commission member.

Members of the controlling company's Supervisory Board and members of the Supervisory Board Commission receive a basic pay and an extra fee for exercising the function, in proportionate monthly payments to which they are entitled to during their mandate. The monthly payment amounts to one twelfth of the aforesaid annual amounts. Each member of the Supervisory Board Commission is in every financial year entitled - regardless of the above-mentioned or the number of commissions he is a member of or presides over – to receive bonuses until the total amount of these bonuses reaches 50% of the basic pay for exercising the function for each Supervisory Board member taking into account the actual payouts on an annual level.

Loans granted to groups of persons

	Balance		Repayments	
	31 Dec 2011	31 Dec 2010	2011	2010
in EUR thousand				
Management Board members in the controlling company	6	9	3	4
Managers of subsidiaries	0	0	0	15
Supervisory Board members in the controlling company	0	0	0	0
Supervisory Board and Management Board members in subsidiaries	0	0	0	0
Total loans to groups of persons	6	9	3	19

Loans granted to staff employed under individual employment contracts were as at 31 December 2011 recorded at EUR 88 thousand (2010: EUR 108 thousand). Repayments of the respective loans amounted in the reporting period to EUR 30 thousand (2010: EUR 31 thousand).

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

31. Group profile

Transactions between Group companies and the groups of persons were implemented on the basis of sale and purchase contracts. Market prices for products and services have been applied in transactions between related entities.

	Equity stake 31 Dec 2011	Share capital 31 Dec 2011	Currency	Number of employees at 31 Dec 2011	Number of employees at 31 Dec 2010
Controlling company					
KRKA, d. d., Novo mesto	100%	59,126,194	EUR	4379	4533
Subsidiaries					
Terme Krka, d.o.o., Novo mesto	100%	14,753,239	EUR	653	675
FARMA GRS, d.o.o., Novo mesto	99.7%	1,003,000	EUR	51	0
KRKA-FARMA d. o. o., Zagreb, Croatia	100%	143,027,200	HRK	182	178
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	37,000	RON	221	204
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	111,080	RSD	53	49
KRKA-FARMA DOOEL, Skopje, Macedonia	100%	49,060,618	MKD	29	24
KRKA FARMA, d. o. o., Sarajevo, Bosnia and Herzegovina	100%	20,000	BAM	1	1
OOO KRKA-RUS, Istra, Russian Federation	100%	1,111,374,765	RUB	177	176
OOO KRKA FARMA, Sergijev Posad, Russian Federation	100%	3,874,800	RUB	1253	1210
TOV KRKA UKRAINA, Kiev, Ukraine	100%	100,000	UAH	345	0
KRKA-POLSKA, Sp. z o. o., Warsaw, Poland	100%	17,490,000	PLN	755	791
KRKA ČR, s. r. o., Prague, Czech Republic	100%	100,000	CZK	236	195
KRKA Magyarország Kft, Budapest, Hungary	100%	44,880,000	HUF	195	128
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10,000	EUR	117	109
UAB KRKA Lietuva, Vilnius, Lithuania	100%	34,000	LTL	85	80
SIA KRKA Latvija, Riga, Latvia	100%	7,000	LVL		0
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650,000	EUR	174	175
KRKA Sverige AB, Stockholm, Sweden	100%	150,000	SEK	3	4
KRKA Pharma GmbH, Vienna, Austria	100%	36,500	EUR	14	19
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10,000	EUR	18	18
KRKA FARMACÉUTICA, S.L., Madrid, Spain	100%	10,000	EUR	4	0
KRKA Farmaceutici Milano, S.r.l., unico socio, Milan, Italy	100%	10,000	EUR	0	0
KRKA France, EURL, Paris, France	100%	10,000	EUR	0	0
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1,000	EUR	3	0
KRKA USA, LLC, Wilmington, USA	100%	10,000	USD	0	0

As at 31 December 2011 the subsidiary Terme Krka held a share of 63.10% in the company Golf Grad Otočec, d. o. o.

32. Educational structure of employees

	2011		2010	
	Headcount	Share (in %)	Headcount	Share (in %)
PhD	93	1.1	86	1.0
MSc	256	2.9	231	2.8
University education	4180	47.6	3929	47.2
Higher professional education	860	9.8	749	9.0
Vocational college education	254	2.9	248	3.0
Secondary school education	1735	19.7	1658	19.9
Skilled workers	1262	14.4	1269	15.2
Unskilled workers	149	1.7	158	1.9
Total (average for the period)	8789	100.0	8328	100.0

33. Transactions with the audit firm

The annual fee for auditing the Group in 2011 amounted to EUR 420 thousand (2010: EUR 399 thousand).

34. Event after the reporting period

The event that occurred in the period between the end of the reporting year and 29 February 2012, is outlined below.

In the period from 1 January 2012 to 29 February 2012, the controlling company repurchased 35,535 treasury shares at the Ljubljana Stock exchange. By the end of February 2012, Krka d. d. recorded 2,060,652 treasury shares, controlling a 5.8% stake in share capital.

The aforesaid event had no impact on the Group's financial statements for 2011.

Independent Auditor's Report



Independent Auditor's Report

To the Supervisory Board of KRKA, d.d., Novo mesto

We have audited the accompanying consolidated financial statements of the company KRKA, d.d. and its subsidiaries (KRKA Group), which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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 consolidated financial statements present fairly, in all material respects, the financial position of the KRKA Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Other matters

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying consolidated financial statements.

Borut Šterbenc, B.Sc.Ec.
Certified Auditor

Ljubljana, 5 March 2012

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Boris Drobnič, B.Sc.Ec.
Certified Auditor
Partner

KPMG Slovenija, d.o.o.

FINANCIAL STATEMENTS OF KRKA, D. D., NOVO MESTO

Statement of financial position

in EUR thousand	Notes	31 Dec 2011	31 Dec 2010
Assets			
Property, plant and equipment	13	520,929	513,683
Intangible assets	14	29,654	29,752
Investments in subsidiaries	15	225,444	227,409
Deferred tax assets	18	18,577	19,162
Non-current loans	16	9,571	12,206
Non-current investments	17	4,735	5,029
Other non-current assets		155	168
Total non-current assets		809,065	807,409
Inventories	19	193,299	163,974
Trade and other receivables	20	399,250	423,042
Current loans	16	46,209	49,686
Current investments	17	602	653
Cash and cash equivalents	21	15,023	1,547
Total current assets		654,383	638,902
Total assets		1,463,448	1,446,311
Equity			
Share capital	22	59,126	59,126
Treasury shares	22	-42,584	-21,749
Reserves	22	190,619	167,193
Retained earnings	22	933,324	853,584
Total equity		1,140,485	1,058,154
Liabilities			
Non-current borrowings	24	25,500	66,800
Provisions	25	97,505	101,632
Deferred revenue	26	3,439	2,668
Deferred tax liabilities	18	386	442
Total non-current liabilities		126,830	171,542
Trade payables	27	95,550	109,553
Current borrowings	24	60,556	57,189
Income tax liabilities		0	8,635
Other current liabilities	28	40,027	41,238
Total current liabilities		196,133	216,615
Total liabilities		322,963	388,157
Total equity and liabilities		1,463,448	1,446,311

Income statement

in EUR thousand	Notes	2011	2010
Revenues	6	957,653	932,366
Cost of sales		-383,258	-369,242
Gross profit		574,395	563,124
Other income	7	2,816	6,267
Distribution expenses		-253,377	-228,306
R&D costs		-87,202	-84,514
Administrative expenses		-56,334	-56,829
Operating profit		180,298	199,742
Financial income	11	16,004	10,637
Financial expenses	11	-15,928	-6,982
Net financial expenses		76	3,655
Profit before tax		180,374	203,397
Income tax expense	12	-29,982	-37,477
Profit for the period		150,392	165,920
Basic earnings per share (in EUR)	23	4.48	4.91
Diluted earnings per share (in EUR)	23	4.48	4.91

Statement of comprehensive income

in EUR thousand	Notes	2011	2010
Profit for the period	22	150,392	165,920
Other comprehensive income for the period			
Change in fair value of available-for-sale financial assets	22	-281	-421
Deferred tax effect - change in fair value of available-for-sale financial assets	22	56	84
Total other comprehensive income for the period		-225	-337
Total comprehensive income for the period		150,167	165,583

Statement of changes in equity

	Share capital	Treasury shares	Reserves					Retained earnings			Total equity
			Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserves	Other revenue reserves	Profit for the period	Retained earnings	
in EUR thousand											
Balance at 1 Jan 2011	59,126	-21,749	21,749	101,503	14,990	27,184	1,767	684,639	106,660	62,285	1,058,154
Profit for the period	0	0		0	0	0	0	0	150,392	0	150,392
Other comprehensive income for the period											0
Change in fair value of available-for-sale financial assets	0	0	0	0	0	0	-281	0	0	0	-281
Deferred tax effect - change in fair value of available-for-sale financial assets	0	0	0	0	0	0	56	0	0	0	56
Total other comprehensive income for the period	0	0	0	0	0	0	-225	0	0	0	-225
Total comprehensive income for the period	0	0	0	0	0	0	-225	0	150,392	0	150,167
Transactions with owners, recognised directly in equity											0
Formation of statutory reserves	0	0	0	0	0	2,816	0	0	-2,816	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board	0	0	0	0	0	0	0	15,000	-15,000	0	0
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0	0	0	-106,660	106,660	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0		0	0	0	0	60,972	0	-60,972	0
Formation of reserves for treasury shares	0	0	20,835	0	0	0	0	0	-20,835	0	0
Repurchase of treasury shares	0	-20,835	0	0	0	0	0	0	0	0	-20,835
Dividends paid	0	0	0	0	0	0	0	0	0	-47,001	-47,001
Total transactions with owners, recognised directly in equity	0	-20,835	20,835	0	0	2,816	0	75,972	-145,311	-1,313	-67,836
Balance at 31 Dec 2011	59,126	-42,584	42,584	101,503	14,990	30,000	1,542	760,611	111,741	60,972	1,140,485

	Share capital	Treasury shares	Reserves					Retained earnings			Total equity
			Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserves	Other revenue reserves	Profit for the period	Retained earnings	
in EUR thousand											
Balance at 1 Jan 2010	59,126	-19,489	19,489	101,503	14,990	22,184	2,104	570,354	103,812	57,937	932,010
Profit for the period	0	0	0	0	0	0	0	0	165,920	0	165,920
Other comprehensive income for the period			0								
Change in fair value of available-for-sale financial assets	0	0	0	0	0	0	-421	0	0	0	-421
Deferred tax effect - change in fair value of available-for-sale financial assets	0	0	0	0	0	0	84	0	0	0	84
Total other comprehensive income for the period	0	0	0	0	0	0	-337	0	0	0	-337
Total comprehensive income for the period	0	0	0	0	0	0	-337	0	165,920	0	165,583
Transactions with owners, recognised directly in equity											
Formation of statutory reserves	0	0	0	0	0	5,000	0	0	-5,000	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board	0	0	0	0	0	0	0	52,000	-52,000	0	0
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0	0	0	-103,812	103,812	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	0	0	62,285	0	-62,285	0
Formation of reserves for treasury shares	0	0	2,260	0	0	0	0	0	-2,260	0	0
Repurchase of treasury shares	0	-2,260	0	0	0	0	0	0	0	0	-2,260
Dividends paid	0	0	0	0	0	0	0	0	0	-37,179	-37,179
Total transactions with owners, recognised directly in equity	0	-2,260	2,260	0	0	5,000	0	114,285	-163,072	4,348	-39,439
Balance at 31 Dec 2010	59,126	-21,749	21,749	101,503	14,990	27,184	1,767	684,639	106,660	62,285	1,058,154

Statement of cash flows

in EUR thousand	Notes	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		150,392	165,920
Adjustments for:		88,872	99,740
– amortisation /depreciation	13,14	66,414	60,735
– foreign exchange differences		735	-75
– investment income		-14,265	-3,479
– investment expense		2,711	1,497
– interest expense and other financial expense		3,295	3,585
– income tax	12	29,982	37,477
Operating profit before changes in net operating current assets		239,264	265,660
Change in trade and other receivables		28,967	-84,198
Change in inventories		-29,325	-25,362
Change in trade payables		-14,003	21,019
Change in provisions		-4,127	1,553
Change in deferred revenue		771	1,324
Change in other current liabilities		-1,310	4,004
Income taxes paid		-43,206	-20,992
Cash generated from operations		177,031	163,008
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		2,021	2,462
Dividends received		16	9
Proportionate profit of subsidiaries		11,978	429
Proceeds from sale of property, plant and equipment		1,762	2,101
Purchase of intangible assets	14	-6,248	-5,961
Purchase of property, plant and equipment	13	-71,405	-85,864
Acquisition of subsidiaries and a share of minority interest without obtained assets	15	-1,220	-9
Refund of subsequent payments in subsidiaries	15	3,185	185
Non-current loans		-2,641	-6,043
Proceeds from repayment of non-current loans		6,822	7,795
Acquisition of non-current investments		-50	-36
Proceeds from sale of non-current investments		60	35
Payments/Proceeds in connection with current investments and loans		1,763	-11,578
Net cash used in investing activities		-53,957	-96,475
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		-3,416	-4,056
Repayment of non-current borrowings	24	-37,036	-37,373
Repayment /Acquisition of current borrowings		-776	8,539
Dividends paid		-46,902	-37,097
Repurchase of treasury shares	22	-20,835	-2,260
Net cash used in financing activities		-108,965	-72,247
Net increase/decrease in cash and cash equivalents		14,109	-5,714
Cash and cash equivalents at beginning of period		1,547	7,487
Effect of exchange rate fluctuations on cash held		-633	-226
Net cash and cash equivalents at end of period		15,023	1,547

Notes to the financial statements

Krka, d. d., Novo mesto is the ultimate controlling company in the Krka Group with its registered seat at Šmarješka cesta 6, 8501 Novo mesto, Slovenia.

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

1. Basis for the preparation of financial statements

Statement of compliance

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

The financial statements of the Company were approved by the Management Board on 17 February 2012.

Basis of measurement

The financial statements have been prepared on the historical cost basis, with the exception of derivative financial instruments, financial instruments at fair value through profit or loss and financial assets available for sale, where the fair value has been taken into account. Methods applied in the measurement of fair value are presented in Note 3.

Functional and reporting currency

The financial statements are presented in euro, which is the Company's functional currency. All financial information presented in euro has been rounded to the nearest thousand.

The use of estimates and judgements

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

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

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

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

2. Significant accounting policies

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

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

Foreign currencies

Foreign currency transactions

Transactions and balances in foreign currencies are translated to euro (i.e. the Company's functional currency) at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to euro at the exchange rate at that date. Non-monetary assets and liabilities initially denominated in foreign currencies are retranslated to euro at the exchange rate effective at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, which are recognised directly in comprehensive income. Non-cash items measured at historical cost in foreign currency are translated into the functional currency by applying the exchange rate valid at the date of transaction.

Financial instruments

Non-derivative financial instruments

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

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

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

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

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

Accounting for financial income and expenses is discussed in Note '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 Company's investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Receivables and loans

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

Investments in subsidiaries

Non-current investments made in equity of subsidiaries included in consolidated financial statements are valued at cost. Participation in the profit of subsidiary is recognised in the income statement of the controlling company when an appropriate resolution referring to profit distribution has been adopted. If the investment is required to be impaired due to subsidiary's loss, the amount of loss due to impairment is measured as a difference between the carrying amount and the present value of expected future cash flows.

Share capital

Repurchase of share capital (treasury shares)

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

Dividends

Dividends are recognised as a liability in the period in which they are declared by the Annual Meeting.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (see accounting policy 'Impairment'). The cost of property, plant and equipment as at 1 January 2004, the date of transition to IFRS, is determined by reference to its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other directly attributable cost of preparing the asset for its intended use, and (if applicable) costs of dismantling and removing the items and restoring the site on which they are located, as well as capitalised borrowing costs in accordance with the relevant policies. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within 'other income' or 'other expenses' in profit or loss.

Subsequent costs

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

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land and assets being acquired are not depreciated.

The estimated useful lives are as follows:

- for buildings 15 to 60 years
- for plant and equipment 2 to 20 years
- for furniture 5 years
- for computer equipment 4 to 6 years, and
- for means of transportation 5 to 15 years.

Intangible assets

Research and development

All other costs referring to the research and development work within the Company are recognised in profit or loss as incurred.

Other intangible assets

Other intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses (see accounting policy 'Impairment').

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use.

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

Inventories

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

An inventory unit of raw materials and materials, as well as supporting and packaging materials is valued at cost including all direct cost of purchase. Inventories of material are measured using the moving average cost method. Inventories of finished products and work in progress are carried at standard cost, which in addition to direct cost of material includes also cost of production, such as: direct labour cost, direct cost of depreciation, direct cost of services, energy, maintenance and quality management. Fixed price variances are determined in accordance with the current evaluating of inventories using production costs. An inventory unit of merchandise is valued at cost including cost of purchase, import duties and all costs directly attributable to the acquisition, decreased by discounts. Inventories of merchandise are measured using the moving average cost method.

Impairments

Financial assets

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

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

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in other comprehensive income is transferred to profit or loss.

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

Non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to the assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

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

Short-term employee benefits

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

Long-term employee benefits

Provisions for retirement benefits and anniversary bonuses

Pursuant to the local legislation, the Company is liable to pay to its employees anniversary bonuses and retirement benefits. For these obligations, provisions are formed. There is no other obligation in respect of pension.

Provisions are determined by discounting, at the reporting date, the estimated future benefits in respect of retirement benefits and anniversary bonuses paid to employees in those countries, where this legal obligation exists. The obligation is calculated by estimating the costs of retirement benefits upon retirement and the costs of all expected anniversary bonuses until retirement.

Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the estimated future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions for lawsuits

The Company discloses provisions for lawsuits referring to alleged patent infringements. The eligibility of provisions formed in terms of the lawsuit's favourable or unfavourable outcome is assessed on an annual basis. The amounts of provisions are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated potential amount, if the indemnification claim is not yet disclosed.

Revenues

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

Transfers of risks and rewards vary depending on the individual terms of the contract of sale, but usually transfer occurs when the product has left the Company's warehouse.

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

Deferred revenue

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

Financial income and expenses

Financial income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss,

foreign exchange gains and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the shareholder's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Financial expenses comprise interest expense on borrowings, foreign exchange losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method, except those that are attributable to property, plant and equipment under construction.

Income tax expense

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

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

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

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

Earnings per share

The Company presents basic and diluted earnings per share (EPS) data. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS equals the basic EPS, as all shares of the Company belong to the same class of ordinary registered shares.

Segment reporting

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

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

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

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

New standards and interpretations not yet adopted

Amendments to standard and interpretations that are not yet effective for the year ended 31 December 2011, and have thus not been applied in preparing the financial statements are presented below.

1. Amendments to IFRS 7 Disclosures - Transfers of Financial Assets (Effective for annual periods beginning on or after 1 July 2011; to be applied prospectively. Earlier application is permitted.)

The Amendments require disclosure of information that enables users of financial statements:

- to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and
- to evaluate the nature of, and risks associated with, the company's continuing involvement in derecognised financial assets.

The Amendments define "continuing involvement" for the purposes of applying the disclosure requirements.

The Company estimates that, given the nature of operations and the type of its financial assets, the amendments to IFRS 7 will not have a significant impact on the financial statements.

3. Determination of fair values

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

Investments in equity 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 calculated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Non-derivative financial liabilities

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

4. Financial risk management

A brief summary of financial risk management policies is given below. Detailed information is given in Note 30 (Financial instruments) of the financial statements.

Credit risk

The credit control procedure includes the credit rating of customers who on an annual basis purchase from the controlling company and subsidiaries products worth EUR 100,000 and more; the control procedure includes also

active monitoring of payments by customers. More than 400 customers of the Group are jointly included in the credit control system.

Extension of payment deadlines to end buyers ceased in 2011, therefore also the growth in total trade receivables stopped, compared to the sales. Fluctuations in the level of trade receivables that are recorded during the year are highest at the end of the quarterly periods. Past due receivables have remained at a level that Krka considers normal and acceptable.

The quality of trade receivables in terms of maturity structure and assessed customer risk are estimated to have remained unchanged on average. On account of our active management of receivables and past due receivables in 2011, we have not recorded any major write-offs of receivables.

Liquidity risk

The liquidity risk is managed on a centralised basis, thus assuring clear and effective cash management as well as enabling financing under most favourable terms and conditions. A strong cash flow from operations, conservative capital structure and successful performance of Krka continued to assure an excellent solvency rating of the controlling company and its subsidiaries in 2011, as well as favourable financing terms.

The controlling company optimizes the bank balances of subsidiaries, carries out cash planning and provides financing sources. Possible cash deficits are secured in advance by banks based on agreed-upon credit lines, while occasional cash surplus is allocated to short-term bank deposits.

Due to low indebtedness, good performance and numerous risk hedging activities we estimate that the liquidity risk was low in 2011.

Currency risk

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

The Company's statement of financial position shows a surplus of assets over liabilities in all the currencies mentioned, which is considered a long currency position. The following key accounting categories are listed in the long currency position: trade receivables, trade payables and payables and receivables of the controlling company in relation to its subsidiaries.

Fluctuations in key foreign exchange currencies were unstable in 2011. First half of 2011 recorded a gradual appreciation of key foreign currencies which resulted in exchange gains in the first half of the year. Over the third quarter the currency positions in Russian roubles, the Romanian leu, the Croatian kuna and the Polish zloty witnessed a decrease, resulting in exchange losses. In particular for this reason the Group generated foreign exchange losses in 2011. Additional information relating to the currency risk is provided within the financial statements under the note 'Financial instruments'.

Currency positions were not hedged in 2011. The costs of foreign exchange hedges for the key currencies are high.

Interest rate risk

No new non-current borrowings were raised in the reporting period. As the annual instalments are regularly repaid, the long-term indebtedness of Krka dropped to the level where market interest rate changes no longer have a decisive impact on the Group's overall financial expense.

Capital management

The Company's management decided to maintain a large amount of equity in order to keep the confidence and to secure further development of the Company. It defined return on equity as one of the key strategic ratios, namely as a relation between the generated profit and the average value of the equity. For the past five years, the average return on equity (ROE) was recorded at 18.5% (at the end of 2010, the average five-year return on equity (ROE) was recorded at 20.0%).

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

The dividend policies of Krka were modified in 2011, significantly increasing the dividend payout for the financial year 2010 (by 27%). In the past, the upper limit of for dividend payout was one quarter of the generated profit. Now, the upper limit of for dividend payout is one third of the profit. In 2011 the ratio between the gross dividend per share divided by earnings per share in the previous period for the Company corresponded to 29% (in 2010: 22%).

At the 14th Annual Meeting held on 2 July 2009, the shareholders adopted a resolution authorising the Management Board of the controlling company to acquire treasury shares, with the proviso that the combined share of all treasury shares acquired and already held, could not exceed 10% of share capital or 3,542,612 of shares. Based on this authorisation, the Company was allowed to acquire treasury shares on the regulated market at respective market prices. The Company was also allowed to acquire shares outside regulated market. When purchasing treasury shares on regulated market or non-regulated market, the purchase price was not allowed to be lower than the book value based on the last published audited financial statements of the Krka Group. Also, the purchase price was not allowed to exceed 30-fold the earnings per share held by the majority stakeholders as stated in the last published audited financial statements of the Krka Group.

At the 16th Annual Meeting held on 7 July 2011, the shareholders revoked the authorisation that had been adopted at the 14th Annual Meeting and adopted a new resolution. According to the new resolution, the Company may acquire treasury shares on the regulated market at respective market prices. The Company may acquire treasury shares also outside the regulated market. When purchasing treasury shares on the regulated market or non-regulated market, the purchase price must not be lower than the book value based on the last published audited financial statements of the Krka Group. Furthermore, the purchase price must not exceed 30-fold the earnings per share held by the majority stakeholders as stated in the last published audited financial statements of the Krka Group.

Treasury shares acquired on the basis of this authorisation as well as previous authorisations from the General Meetings held on 5 November 1997 and 2 July 2009, may be disposed of in the following way:

- to be exchanged for equity-stakes in other companies, based on its M&A strategy;
- to be sold to a strategic partner;
- to be used for listing of Krka shares on stock exchange markets outside the Republic of Slovenia.

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

5. Segment reporting

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

Segment reporting

in EUR thousand	European Union		South-East Europe		Eastern Europe		Other markets		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Revenues	609,762	569,816	82,143	88,950	242,698	253,163	23,050	20,437	957,653	932,366
Revenues from reversal of provisions and other income	2,171	6,267	79	0	566	0	0	0	2,816	6,267
Operating profit	148,119	161,689	16,840	18,553	13,327	19,167	2,012	333	180,298	199,742
Interest revenue	1,757	2,156	0	0	201	278	0	0	1,958	2,434
Interest expenses	-3,200	-3,480	0	0	0	0	0	0	-3,200	-3,480
Net financial income/expenses	8,888	2,234	-587	349	-7,029	992	-1,196	80	76	3,655
Income tax expense	-24,689	-30,337	-2,770	-3,481	-2,192	-3,596	-331	-63	-29,982	-37,477
Profit for the period	132,318	133,586	13,483	15,421	4,106	16,563	485	350	150,392	165,920
Investments in property, plant and equipment, and intangible assets	77,653	91,824	0	0	0	0	0	0	77,653	91,824
Depreciation of property, plant and equipment	47,910	43,948	2,459	2,798	9,609	7,709	487	411	60,465	54,866
Amortisation of intangible assets	3,788	3,587	510	560	1,508	1,594	143	128	5,949	5,869
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Total assets	1,154,960	1,101,437	60,845	73,163	235,380	258,786	12,263	12,925	1,463,448	1,446,311
Total liabilities	205,393	237,223	27,684	37,031	82,159	105,395	7,727	8,508	322,963	388,157

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

6. Revenues

in EUR thousand	2011	2010
Revenues from the sale of products	859,151	829,894
Revenues from the sale of services	5,637	5,092
Revenues from the sale of material and merchandise	92,785	97,295
Other revenues	80	85
Total revenues	957,653	932,366

7. Other income

in EUR thousand	2011	2010
Reversal of deferred revenue	770	620
Gain on sale of property, plant and equipment and intangible assets	219	556
Other income	1,827	5,091
Total other income	2,816	6,267

8. Costs by nature

in EUR thousand	2011	2010
Cost of goods and material	273,672	261,697
Cost of services	269,358	242,036
Employee benefits cost	164,555	168,323
Depreciation and amortisation expense	66,414	60,735
Other expenses	24,559	17,458
Total costs	798,558	750,249
Change in the value of inventories	-18,387	-11,358
Total	780,171	738,891

9. Employee benefits cost

in EUR thousand	2011	2010
Gross wages and salaries and continued pay	131,045	128,574
Social security contributions and payroll tax	26,362	26,260
Retirement benefits and anniversary bonuses	-583	5,785
Other employee benefits cost	7,731	7,704
Total employee benefits cost	164,555	168,323

The item of retirement benefits and anniversary bonuses refers to the reversal of related provisions as explained in Note 25.

Other employee benefits cost primarily includes the vacation bonus and commuting allowances.

Compulsory pension and disability insurance (comprising both the employee's and the employer's contribution) payable in 2011 amounted to EUR 31,476 thousand (2010: EUR 31,230 thousand). Additional pension insurance amounted to EUR 4,703 thousand (2010: EUR 4,478 thousand).

10. Other expenses

in EUR thousand	2011	2010
Grants and assistance for humanitarian and other purposes	1,419	1,545
Environmental levies	2,035	2,112
Other taxes and levies	9,161	4,085
Loss on the sale of property, plant and equipment and intangible assets and write-offs	2,548	1,445
Write-offs and write-downs for inventories	7,474	6,323
Other costs	1,922	1,948
Total other expenses	24,559	17,458

11. Financial income and expenses

in EUR thousand	2011	2010
Net foreign exchange gain	0	7,713
Interest income	1,958	2,434
Change in fair value of investments through profit or loss	0	52
Gains from the sale of securities	0	0
Dividend income	12,083	438
Collection of bad debts from previous periods	1,958	0
Other income	5	0
Total financial income	16,004	10,637
Net foreign exchange loss	-8,363	0
Interest expense	-3,200	-3,480
Change in fair value of investments through profit or loss	-155	-53
– change in fair value	0	0
Impairment and write-off of receivables	-4,106	-3,345
Other expenses	-104	-104
Total financial expenses	-15,928	-6,982
Net financial income	76	3,655

12. Income tax expense

Adjustment to effective tax rate

in EUR thousand	2011	2010
Income tax	29,397	37,662
Deferred tax	585	-185
Total income tax	29,982	37,477
Profit before tax	180,374	203,397
Income tax calculated using the 20-percent tax rate	36,075	40,679
Tax exempt expenses	1,919	2,253
Tax incentives	-5,716	-5,373
Revenues decreasing the tax base	-2,296	-82
Total income tax expenses	29,982	37,477
Effective tax rate	16.6%	18.4%

Investments in research and development account for the major portion of tax incentives; other tax incentives include additional pension insurance, donations, part of the salaries and wages paid out to the disabled, etc.

13. Property, plant and equipment

in EUR thousand	31 Dec 2011	31 Dec 2010
Property	18,579	17,283
Plant	229,580	201,335
Equipment	252,874	223,746
Property, plant and equipment under construction	19,896	71,319
Total property, plant and equipment	520,929	513,683

As for 2011 the Company's largest investment in the amount of EUR 21,712 thousand was the construction of the plant for production of solid pharmaceutical forms (2010: EUR 40,102 thousand). EUR 11,238 thousand were invested in the construction of the Research and control centre no. 3 (2010: EUR 8,879 thousand), EUR 3,808 thousand in the second phase of the sterile product production plant (it is a new project, hence no related expenses were recorded in 2010), EUR 2,221 thousand in the construction of the Sinteza 1 plant in Krško for the production of ingredients (2010: EUR 1,007 thousand), EUR 2,206 thousand were invested in the Sinteza 4 plant with the purpose to increase its capacities (another new project that was started in 2011 and hence without any expenses recorded in 2010) and for the construction of a multi-purpose facility close to the administration building in Ločna EUR 1,778 thousand (EUR 422 thousand).

EUR 4,774 thousand were earmarked for information technology and telecommunications projects (2010: EUR 5,149 thousand) and EUR 2,706 thousand for infrastructural projects (2010: EUR 3,519 thousand).

Movement of property, plant and equipment (PPE)

in EUR thousand	Property	Plant	Equipment	PPE under construction	Total
Cost of purchase					
Balance at 1 Jan 2010	17,228	353,408	506,605	47,306	924,547
Additions	0	0	0	85,864	85,864
Capitalisation – transfer from PPE under construction	220	18,255	43,376	-61,851	0
Disposals	-165	-791	-12,845	0	-13,801
Transfer within intangible assets	0	-51	51	0	0
Balance at 31 Dec 2010	17,283	370,821	537,187	71,319	996,610
Balance at 1 Jan 2011	17,283	370,821	537,187	71,319	996,610
Additions	0	0	0	71,405	71,405
Capitalisation – transfer from PPE under construction	1,296	45,963	75,569	-122,828	0
Disposals, deficits, surplus	0	-4,264	-15,500	0	-19,764
Transfer from intangible assets	0	0	199	0	199
Balance at 31 Dec 2011	18,579	412,520	597,455	19,896	1,048,450
Accumulated depreciation					
Balance at 1 Jan 2010	0	-154,999	-283,895	0	-438,894
Depreciation	0	-15,061	-39,805	0	-54,866
Disposals	0	558	10,275	0	10,833
Transfers within PPE	0	16	-16	0	0
Balance at 31 Dec 2010	0	-169,486	-313,441	0	-482,927
Balance at 1 Jan 2011	0	-169,486	-313,441	0	-482,927
Depreciation	0	-16,534	-43,931	0	-60,465
Disposals, deficits, surplus	0	3,080	12,970	0	16,050
Transfer from intangible assets	0	0	-179	0	-179
Balance at 31 Dec 2011	0	-182,940	-344,581	0	-527,521
Carrying amount					
Balance at 1 Jan 2010	17,228	198,409	222,710	47,306	485,653
Balance at 31 Dec 2010	17,283	201,335	223,746	71,319	513,683
Balance at 1 Jan 2011	17,283	201,335	223,746	71,319	513,683
Balance at 31 Dec 2011	18,579	229,580	252,874	19,896	520,929

Based on the contracts that had been signed in connection with the ongoing investments, the Company accounted for EUR 28,009 thousand of future liabilities in 2011 resulting from acquisition of property, plant and equipment.

No borrowing costs refer to the item of property, plant and equipment in the reporting period.

14. Intangible assets

in EUR thousand	31 Dec 2011	31 Dec 2010
Concessions, patents, licences and similar rights	29,654	29,752
Total intangible assets	29,654	29,752

Intangible assets refer to software and registration documentation for new drugs.

Movement of intangible assets (IA)

in EUR thousand	Concessions, patents, licences and similar rights	Total
Cost of purchase		
Balance at 1 Jan 2010	58,259	58,259
Additions	5,960	5,960
Disposals	-25	-25
Balance at 31 Dec 2010	64,194	64,194
Balance at 1 Jan 2011	64,194	64,194
Additions	6,248	6,248
Disposals	-965	-965
Transfer to PPE	-199	-199
Balance at 31 Dec 2011	69,278	69,278
Accumulated amortisation		
Balance at 1 Jan 2010	-28,576	-28,576
Amortisation	-5,869	-5,869
Disposals	3	3
Balance at 31 Dec 2010	-34,442	-34,442
Balance at 1 Jan 2011	-34,442	-34,442
Amortisation	-5,949	-5,949
Disposals	588	588
Transfer to PPE	179	179
Balance at 31 Dec 2011	-39,624	-39,624
Carrying amount		
Balance at 1 Jan 2010	29,683	29,683
Balance at 31 Dec 2010	29,752	29,752
Balance at 1 Jan 2011	29,752	29,752
Balance at 31 Dec 2011	29,654	29,654

15. Investments in subsidiaries

Movements of investments in subsidiaries in 2011

in EUR thousand	Investments in subsidiaries
Cost of purchase at 1 Jan 2011	227,409
Establishment of new companies	1,220
Refund of subsequent payments	-3,185
Balance at 31 Dec 2011	225,444
Carrying amount at 1 Jan 2011	227,409
Carrying amount at 31 Dec 2011	225,444

Movements of investments in subsidiaries in 2010

in EUR thousand	Investments in subsidiaries
Cost of purchase at 1 Jan 2010	227,585
Establishment of new companies	9
Refund of subsequent payments	-185
Balance at 31 Dec 2010	227,409
Carrying amount at 1 Jan 2010	227,585
Carrying amount at 31 Dec 2010	227,409

Interests in subsidiaries

in EUR thousand	Share in equity	Share capital	Value of share – carrying amount	
	31 Dec 2011	31 Dec 2011	31 Dec 2011	31 Dec 2010
Terme Krka, d. o. o., Novo mesto, Slovenia	100%	14,753	45,407	45,407
Farma GRS, d. o. o., Novo mesto, Slovenia	99.7%	1,003	1,000	0
KRKA-FARMA d. o. o., Zagreb, Croatia	100%	18,977	19,738	19,738
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	9	10	10
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	1	1,279	1,279
KRKA-FARMA DOOEL, Skopje, Macedonia	100%	791	802	802
KRKA FARMA, d. o. o., Sarajevo, Bosnia and Herzegovina	100%	10	10	10
OOO KRKA-RUS, Istra, Russian Federation	100%	26,610	33,019	33,019
OOO KRKA FARMA, Sergiev Posad, Russian Federation	100%	93	492	492
KRKA UKRAINE LLC, Kiev, Ukraine	100%	9	9	9
KRKA-POLSKA, Sp. z o. o., Warsaw, Poland	100%	3,923	18,697	18,697
KRKA ČR, s. r. o., Prague, Czech Republic	100%	4	1,403	3,403
KRKA Magyarország Kft, Budapest, Hungary	100%	143	1,103	1,288
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	10	610	1,610
UAB KRKA Lietuva, Vilnius, Lithuania	100%	10	10	10
SIA Krka Latvija, Riga, Latvia	100%	10	10	0
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650	97,000	97,000
KRKA Sverige AB, Stockholm, Sweden	100%	17	16	16
KRKA Pharma GmbH, Vienna, Austria	100%	37	2,344	2,344
Krka France, Paris, France	100%	10	10	0
KRKA Farmaceutici Milano, S.r.l., unico socio, Milan, Italy	100%	10	10	0
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10	2,266	2,266
Krka Espana, S.L., Madrid, Spain	100%	10	190	0
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1	1	1
KRKA USA, LLC, Wilmington, USA	100%	8	8	8
Total			225,444	227,409

In 2011, the representative office in Riga in Latvia was transformed to a subsidiary SIA KRKA Latvija, Riga, Latvia, whose sole owner is Krka d.d. The following companies were newly established in 2011 Krka France in Paris, France, Krka Espana, S.L in Madrid, Spain and KRKA Farmaceutici Milano, S.r.l., unico socio in Milan, Italy, whose sole owner is Krka d.d.

A subsidiary Farma GRS, farmacevtsko gospodarsko razvojno središče, d. o. o. was founded by Krka d.d. with the following partners: Metronik, Iskra Pio and Chamber of Commerce of Dolenjska and Bela krajina. As the controlling company, Krka, d. d., Novo mesto holds a 99.7-percent share in Farma GRS.

16. Loans

in EUR thousand	31 Dec 2011	31 Dec 2010
Non-current loans	9,571	12,206
– non-current loans to subsidiaries	5,064	8,210
– non-current loans to other entities	4,507	3,996
Current loans	46,209	49,686
– current portion of loans due next year	2,363	3,998
– current loans to subsidiaries	43,596	45,302
– current loans to other entities	87	160
– current interest receivable	163	226
Total loans	55,780	61,892

Non-current loans to other entities comprise non-current loans that are extended by the Company to its employees in accordance with internal acts of the Company. These loans are used for housing. Loans bear the annual interest rate, which equals the contractually agreed rate set by the Minister of Finance in accordance with the Corporate Income Tax Act that defines the interest rate for related parties. In 2011 the interest rate ranged between 2.284% and 2.987%. The repayment period must not exceed 15 years.

Loans granted to subsidiaries including related short-term interest receivables

in EUR thousand	31 Dec 2011	31 Dec 2010
Non-current loans to subsidiaries	5,108	8,312
KRKA ROMANIA S.R.L., Bucharest, Romania	2,449	2,448
OOO KRKA FARMA, Sergiev Posad, Russian Federation	590	5,017
UAB KRKA Lietuva, Vilnius, Lithuania	829	830
TAD Pharma GmbH, Cuxhaven, Germany	0	17
TOV KRKA UKRAINA, Kiev, Ukraine	1,240	0
Current loans to subsidiaries	45,309	48,701
Terme Krka, d. o. o., Novo mesto, Slovenia	43,710	45,424
TAD Pharma GmbH, Cuxhaven, Germany	0	1,629
OOO KRKA FARMA, Sergiev Posad, Russian Federation	1,599	1,648
Total loans to subsidiaries	50,417	57,013

17. Investments

in EUR thousand	31 Dec 2011	31 Dec 2010
Non-current investments	4,735	5,029
– financial assets available for sale	4,735	5,029
Current investments, including derivatives	602	653
– instruments held for trading	68	93
– other current investments	534	560
Total investments	5,337	5,682

EUR 512 thousand of financial assets available for sale refer to investments in shares made in Slovenia (2010: EUR 677 thousand), whereas EUR 4,223 thousand to investments in shares made abroad (2010: EUR 4,352 thousand).

Other current investments refer to Slovenian mutual funds in the amount of EUR 276 thousand (2010: EUR 287 thousand) and assets under management in the amount of EUR 258 thousand (2010: EUR 273 thousand).

Movement of financial assets available for sale

in EUR thousand	Financial assets available for sale
Balance at 1 Jan 2010	5,449
Adjustment to market value	-420
Balance at 31 Dec 2010	5,029
Balance at 1 Jan 2011	5,029
Purchase	89
Adjustment to market value	-383
Balance at 31 Dec 2011	4,735

Adjustments of non-current investments (i.e. available-for-sale financial assets) to the market value or fair value are recognised among comprehensive income in the amount of EUR -282 thousand (2010: EUR -420 thousand) and through profit or loss in the amount of EUR -101 thousand (2010: EUR 0).

18. Deferred tax assets and deferred tax liabilities

in EUR thousand	Assets		Liabilities		Assets - liabilities	
	2011	2010	2011	2010	2011	2010
Financial assets available for sale	20	0	386	442	-366	-442
Receivables	1,230	1,010	0	0	1,230	1,010
Provisions for lawsuits	9,800	9,800	0	0	9,800	9,800
Provisions for retirement benefits	7,527	8,352	0	0	7,527	8,352
Total	18,577	19,162	386	442	18,191	18,720

in EUR thousand	Balance at 1 Jan 2010	Recognised in profit or loss	Recognised in comprehensive income	Balance at 31 Dec 2010	Recognised in profit or loss	Recognised in comprehensive income	Balance at 31 Dec 2011
Financial assets available for sale	-526	0	84	-442	20	56	-366
Receivables	557	453	0	1,010	220	0	1,230
Provisions for lawsuits	9,800	0	0	9,800	0	0	9,800
Provisions for retirement benefits	8,620	-268	0	8,352	-825	0	7,527
Total	18,451	185	84	18,720	-585	56	18,191

19. Inventories

in EUR thousand	31 Dec 2011	31 Dec 2010
Material	83,058	70,254
Work in progress	44,809	42,790
Products	57,770	46,731
Merchandise	7,662	4,199
Total inventories	193,299	163,974

The write down of inventories to net realisable value amounted to EUR 271 thousand (2010: EUR 709 thousand), whereas the write-off of inventories amounted to EUR 7,203 thousand (2010: EUR 5,614 thousand).

20. Trade and other receivables

in EUR thousand	31 Dec 2011	31 Dec 2010
Short-term receivables due from subsidiaries	205,637	238,952
Trade receivables due from customers other than Group companies	169,746	166,472
Other receivables	23,867	17,618
Total trade receivables	399,250	423,042

Short-term receivables due from subsidiaries

in EUR thousand	31 Dec 2011	31 Dec 2010
KRKA-FARMA d. o. o., Zagreb, Croatia	16,398	28,752
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	8,464	7,885
KRKA-FARMA DOOEL, Skopje, Macedonia	5,408	5,839
OOO KRKA-RUS, Istra, Russian Federation	59,090	48,248
OOO KRKA FARMA, Sergiev Posad, Russian Federation	83,779	105,127
TOV KRKA UKRAINA, Kiev, Ukraine	1,446	0
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	15,181	31,146
TAD Pharma GmbH, Cuxhaven, Germany	12,067	6,220
KRKA Sverige AB, Stockholm, Sweden	2,346	4,278
KRKA Pharma GmbH, Vienna, Austria	842	618
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	427	687
Receivables due from other Group companies	189	152
Total short-term receivables due from subsidiaries	205,637	238,952

Trade receivables due from customers other than Group companies

in EUR thousand	Gross value	Allowances for doubtful and disputable receivables	Net value at 31 Dec 2011	Net value at 31 Dec 2010
Domestic customers (other than Group companies)	11,140	136	11,004	12,726
Foreign customers (other than Group companies)	168,293	9,551	158,742	153,746
Total trade receivables	179,433	9,687	169,746	166,472

The receivable write-offs and allowances for receivables that are disclosed among financial expenses amounted to EUR 4,106 thousand in 2011 and EUR 3,345 thousand in 2010.

39% of trade receivables payable by a customer other than a Group company were secured with the SID – Prva kreditna zavarovalnica d.d. In 2010, 9% of trade receivables were secured.

Other receivables

Other receivables in the amount of EUR 23,867 thousand refer mostly to receivables arising from VAT and receivables arising from advances.

As at 31 December 2011, the Company recorded EUR 3,603 thousand of advances for property, plant and equipment (2010: EUR 1,639 thousand), EUR 336 thousand of advances for services (2010: EUR 132 thousand), while there were no advances for inventories recorded at year-end (2010: EUR 317 thousand).

21. Cash and cash equivalents

in EUR thousand	31 Dec 2011	31 Dec 2010
Cash in hand	8	8
Bank balances	15,015	1,539
Total cash and cash equivalents	15,023	1,547

The Company concluded contracts with three different banks on the authorised overdraft limit on bank accounts in the total amount of EUR 2,000 thousand (2010: EUR 2,000 thousand). No negative balances were recorded on these bank accounts as at the reporting date, hence no overdraft limits were used.

22. Equity

Share capital

Share capital of the Company consists of 35,426,120 ordinary registered no-par value shares. There is 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 of the reporting date the Company recorded 2,025,117 treasury shares i.e. 5.72% of the share capital value.

At the 14th Annual Meeting held on 2 July 2009, the shareholders adopted a resolution authorising the Management Board of the controlling company to acquire treasury shares, with the proviso that the combined share of all treasury shares acquired and already held, could not exceed 10% of share capital or 3,542,612 of shares. Based on this authorisation, the Company was allowed to acquire treasury shares on the regulated market at respective market prices. The Company was also allowed to acquire shares outside regulated market. When purchasing treasury shares on regulated market or non-regulated market, the purchase price was not allowed to be lower than the book value based on the last published audited financial statements of the Krka Group. Also, the purchase price was not allowed to exceed 30-fold the earnings per share held by the majority stakeholders as stated in the last published audited financial statements of the Krka Group.

At the 16th Annual Meeting held on 7 July 2011, the shareholders revoked the authorisation that had been adopted at the 14th Annual Meeting and adopted a new resolution. According to the new resolution, the Company may acquire treasury shares on the regulated market at respective market prices. The Company may acquire treasury shares also outside the regulated market. When purchasing treasury shares on the regulated market or non-regulated market, the purchase price must not be lower than the book value based on the last published audited financial statements of the Krka Group. Furthermore, the purchase price must not exceed 30-fold the earnings per share held by the majority stakeholders as stated in the last published audited financial statements of the Krka Group.

Treasury shares acquired on the basis of this authorisation as well as previous authorisations from the General Meetings held on 5 November 1997 and 2 July 2009, may be disposed of in the following way:

- to be exchanged for equity-stakes in other companies, based on its M&A strategy;
- to be sold to a strategic partner;
- to be used for listing of Krka shares on stock exchange markets outside the Republic of Slovenia.

362,836 of treasury shares were repurchased in 2011 in the total amount of EUR 20,835 thousand.

Repurchase of treasury shares in 2011

	Number of shares	Average share price (in EUR)	Value of shares (in EUR thousand)
Balance at 31 Dec 2010	1,662,281		21,749
Total repurchase of shares in 2011	362,836	57.42	20,835
Balance at 31 Dec 2011	2,025,117		42,584

The 2011 repurchase of treasury shares in terms of days is illustrated within Enclosure 1 to the Financial Statements of the Krka d.d. and the Krka Group.

Reserves

The Company's reserves comprise reserves for treasury shares, the share premium, legal and statutory reserves and fair value reserves.

Reserves for treasury shares amounted to EUR 42,584 thousand as at the reporting date and increased by EUR 20,835 thousand based on formation of reserves as a result of additional purchase of treasury shares.

The *share premium* is to be used under the terms and purposes as defined by the applicable act. The share premium was recorded at EUR 101,503 as at 31 December 2011 and consists of the general equity revaluation adjustment (EUR 90,659 thousand) that was included among share premium during the transfer to IFRS, and the share premium (EUR 10,844 thousand) formed pursuant to a special regulation applicable in the ownership transformation of the controlling company. The amount may be used solely for the purpose of increasing share capital. No movements in share premium were recorded in 2011.

Legal reserves are to be formed up to 30% of the share capital. They amounted to EUR 14,990 thousand as at 31 December 2011 and remained unchanged over the previous period.

Statutory reserves amounted to EUR 30,000 thousand as at the reporting date and grew by EUR 2,816 thousand over the previous year. The increase of reserves was approved by the Company's management based on statutory provisions. Statutory reserves may be formed up to the amount of EUR 30 million. Statutory reserves may be used for loss coverage, formation of reserves for treasury shares, for decreasing share capital by share withdrawal, and for regulating the dividend policy.

The *fair value reserve* includes the cumulative change in the fair value of available-for-sale financial assets. Compared to the previous period the fair value reserve decreased by EUR 225 thousand and as at 31 December 2011 amounted to EUR 1,542 thousand. The total change results from a decrease in the fair value of available-for-sale investments (by EUR 281 thousand) and an increase of EUR 56 thousand referring to the related deferred tax effect.

Retained earnings

Retained earnings grew based on the profit for the period recorded in the amount of EUR 150,392 thousand. The decrease, on the other hand, is a result of allocation of accumulated profit to dividend payout (EUR 47,001 thousand) in accordance with the resolution adopted by the 16th Annual Meeting held on 7 July 2011, of an additional formation of statutory reserves (EUR 2,816 thousand), as well as additional reserves for treasury shares formed for the related purchase by the Company in 2011 (EUR 20,835 thousand).

The amount of the dividend payout, shown in the statement of cash flows, differs from the figure, confirmed by the Annual Meeting and included in the statement of changes in equity, by the amount of change between the opening and closing balance of liabilities for dividend payout in the amount of EUR 98 thousand (2010: EUR 82 thousand).

Dividends per share

As for 2011 the declared gross dividend per share amounted to EUR 1.40 (2010: EUR 1.10).

Accumulated profit

in EUR thousand	2011	2010
Compulsory appropriation of profit		
Profit for the period	150,392	165,920
– to cover the loss from previous periods	0	0
– allocation to legal reserves	0	0
– allocation to reserves for treasury shares	-20,835	-2,260
– allocation to statutory reserves	-2,816	-5,000
Profit after compulsory appropriation	126,741	158,660
– formation of other income reserves pursuant to a decision adopted by the Management Board and Supervisory Board	-15,000	-52,000
Surplus of profit	111,741	106,660
Identification of accumulated profit		
– surplus of profit	111,741	106,660
– retained earnings from previous periods	60,972	62,285
Accumulated profit	172,713	168,945

23. Earnings per share

Basic earnings per share amounted to EUR 4.48 in 2011 and declined by 8.8% over the previous year (2010: EUR 4.91). The calculation of earnings per share took account of the profit for the period attributable to the majority stockholders in the amount of EUR 150,392 thousand (2010: EUR 165,920 thousand). The weighted average number of shares was accounted for in the calculation for both years i.e. 33,582,965 shares for 2011 and 33,797,418 shares for 2010. Treasury shares were eliminated from the calculation.

All shares issued by the Company are ordinary shares; hence the diluted earnings per share ratio equalled the basic earnings per share.

24. Borrowings

in EUR thousand	31 Dec 2011	31 Dec 2010
Non-current borrowings	25,500	66,800
– borrowings from domestic banks	25,500	66,800
Current borrowings	60,556	57,189
– portion of non-current borrowings due next year	41,300	37,036
– borrowings from Group companies	17,798	143
– borrowings from domestic banks	0	18,500
– borrowings from other entities	386	317
– interest payable	1,072	1,193
Total borrowings	86,056	123,989

Non-current borrowings

in EUR thousand	Currency	Maturity	31 Dec 2011		31 Dec 2010	
			Par value	Carrying amount	Par value	Carrying amount
Borrowing from domestic bank	EUR	2011	0	0	40,000	3,636
Borrowing from domestic bank	EUR	2012	25,000	5,000	25,000	10,000
Borrowing from domestic bank	EUR	2012	79,000	23,700	79,000	39,500
Borrowing from domestic bank	EUR	2014	30,000	20,100	30,000	26,700
Borrowing from domestic bank	EUR	2014	30,000	18,000	30,000	24,000
Total non-current borrowings			164,000	66,800	204,000	103,836

No new non-current borrowings were raised by the Company in 2011.

Non-current borrowings obtained from banks are neither secured by mortgages nor by bank guarantees.

Current borrowings are denominated in euro and were extended for the period of one year. These borrowings were not secured.

Borrowings from subsidiaries, including short-term interest payables

in EUR thousand	31 Dec 2011	31 Dec 2010
Current borrowings from subsidiaries	17,871	144
Terme Krka, d. o. o., Novo mesto, Slovenia	94	144
Farma GRS, d. o. o., Novo mesto, Slovenia	2,743	0
TAD Pharma GmbH, Cuxhaven, Germany	15,034	0
Total current borrowings from subsidiaries	17,871	144

25. Provisions

in EUR thousand	Balance at 31 Dec 2010	Reversal	Utilisation	Balance at 31 Dec 2011
Provisions for retirement benefits and anniversary bonuses	52,632	-583	-3,544	48,505
Provisions for lawsuits	49,000	0	0	49,000
Total provisions	101,632	-583	-3,544	97,505

The amounts of provisions for lawsuits referring to intellectual property are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated amount, if the indemnification claim is not yet disclosed. External advisors for litigations referring to intellectual property are engaged for defining the anticipated amounts. Furthermore, the management each year verifies the calculated amount of provisions for each individual claim that is not yet closed.

Provisions for lawsuits remained unchanged in 2011.

Provisions for retirement benefits and anniversary bonuses are based on a calculation performed by a certified actuary and they were accounted for under the following assumptions:

- discount rate of 5.75% in the reporting period (2010: 4.50%) referring to the harmonised 10-term government bond yield within the eurozone (Source: ECB);
- currently applicable amounts of retirement benefits and anniversary bonuses as defined by internal acts of the Company;
- employee turnover depending in particular upon the employees' age;
- mortality level calculated on the basis of last mortality tables available;
- increase in wages by 3% (2010: 3.6%).

The estimates and the assumptions that have been applied reflect the actual state of affairs during the preparation of the calculation of the actuary. The projected unit method was applied in the calculation. Actuarial deficits or surpluses that have occurred in connection with retirement benefits and anniversary bonuses were recognised as decrease in employee benefits cost in the amount of EUR 583 thousand (further details in Note 9).

26. Deferred revenue

in EUR thousand	Balance at 31 Dec 2010	Deferred revenue received	Reversal of deferred revenue	Balance at 31 Dec 2011
Grants received for the Beta plant in Šentjernej	125	0	-44	81
Grants by the European Regional Development Fund	26	0	-5	21
Grants by the European Fund – development of new technologies (FBD project)	926	31	-129	828
Properties, plant and equipment received for free	591	1	-13	579
Emission coupons	22	21	-36	7
Other deferred revenue	978	1,488	-543	1,923
Total deferred revenue	2,668	1,541	-770	3,439

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

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

27. Trade payables

in EUR thousand	31 Dec 2011	31 Dec 2010
Payables to subsidiaries	26,973	28,643
Payables to domestic suppliers	32,469	40,188
Payables to foreign suppliers	35,355	40,540
Payables from advances	753	182
Total trade payables	95,550	109,553

Trade payables to subsidiaries

in EUR thousand	31 Dec 2011	31 Dec 2010
Terme Krka, d.o.o., Novo mesto, Slovenia	109	82
Farma GRS, d. o. o., Novo mesto, Slovenia	589	0
KRKA-FARMA d. o. o., Zagreb, Croatia	2,060	5,054
KRKA ROMANIA S.R.L., Bucharest, Romania	4,181	1,725
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	504	268
KRKA-FARMA DOOEL, Skopje, Macedonia	283	408
KRKA FARMA, d. o. o., Sarajevo, Bosnia and Herzegovina	12	13
OOO KRKA FARMA, Sergiev Posad, Russian federation	64	2,218
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	6,538	7,742
KRKA Magyarország Kft, Budapest, Hungary	1,324	2,280
KRKA ČR, s. r. o., Prague, Czech Republic	2,689	4,494
KRKA Slovensko, s.r.o., Bratislava, Slovakia	1,069	1,792
TAD Pharma GmbH, Cuxhaven, Germany	4,445	1,333
KRKA Sverige AB, Stockholm, Sweden	18	0
KRKA Pharma GmbH, Vienna, Austria	133	119
KRKA USA, LLC, Wilmington, USA	3	2
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	295	386
UAB KRKA Lietuva, Vilnius, Lithuania	738	693
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	91	34
TOV KRKA UKRAINA, Kiev	1,828	0
Total trade payables to subsidiaries	26,973	28,643

28. Other current liabilities

in EUR thousand	31 Dec 2011	31 Dec 2010
Accrued contractual discounts on products sold to other customers	11,543	13,138
Payables to employees – gross wages, other charges	23,903	23,777
Other	4,581	4,323
Total other current liabilities	40,027	41,238

29. Contingent liabilities

in EUR thousand	31 Dec 2011	31 Dec 2010
Guarantees issued	14,896	5,591
Other	620	620
Total contingent liabilities	15,516	6,211

As for the guarantees, the highest figure refers to the performance guarantee issued in connection with the Farma GRS project (EUR 5,300 thousand), followed by the guarantee issued for the receivables TAD Farma (EUR 3,000 thousand), a counter guarantee for the timely payment of any liabilities relating to the issued customs bond in Belarus (EUR 2,880 thousand) and the Customs Administration of the Republic of Slovenia (EUR 2,000 thousand).

The item 'Other' includes the affected property in Serbia (EUR 620 thousand).

30. Financial instruments

Long-term stability of the Company's performance is managed by means of active risk management policies as presented in detail under Note 4. Due to the extensive scope of international import and export business, the Company is primarily exposed to foreign exchange and interest rate risks, as well as to credit risks. No derivative financial instruments were applied in 2011 for hedging against foreign exchange and interest rate risks.

Credit risk

Credit risk exposure

The carrying amount of financial assets represents the biggest exposure to credit risk. As at the reporting date, the balances were as follows:

in EUR thousand	Notes	31 Dec 2011	31 Dec 2010
Loans	16	55,780	61,892
Receivables	20	399,250	423,042
– thereof trade receivables (including subsidiaries)		375,383	405,424
Cash and cash equivalents	21	15,023	1,547
Total		470,053	486,481

Loans and receivables are mostly exposed to credit risk if considering the value. Their maximum exposure to credit risk is shown in terms of geographic regions:

in EUR thousand	31 Dec 2011	31 Dec 2010
Slovenia	78,792	77,747
South-East Europe	83,683	81,211
Eastern Europe	179,730	194,372
Central Europe	47,589	60,844
Western Europe and overseas markets	65,236	70,760
Total	455,030	484,934

39% of trade receivables payable by entities other than Group companies were secured. Receivables are secured with the SID – Prva kreditna zavarovalnica d.d. In 2010, 9% of trade receivables were secured.

Ageing structure of loans and receivables as at the reporting date

in EUR thousand	Gross value 2011	Allowance 2011	Gross value 2010	Allowance 2010
Not past due receivables	425,523	472	444,875	1,204
Past due 20 days	8,623	70	7,934	31
Past due 21 to 50 days	6,089	191	13,034	178
Past due 51 to 180 days	7,166	242	17,016	1,164
Past due over 180 days	17,366	8,762	10,404	5,752
Total	464,767	9,737	493,263	8,329

Movement of allowances for loans and receivables

in EUR thousand	2011	2010
Balance at 1 Jan	8,329	5,372
Formation of allowance	4,097	3,291
Write-off of receivables	-735	-345
Collection of bad debts	-1,958	0
Exchange differences	4	11
Balance at 31 Dec	9,737	8,329

Liquidity risk

Due to an accurate planning of cash flows, low indebtedness and credit lines that were agreed with the banks in advance, no liquidity problems occurred in 2011 and liabilities were settled promptly.

Maturity of financial liabilities

Financial liabilities in terms of maturity are outlined in the schedule below.

Maturity of financial liabilities as at 31 December 2011

in EUR thousand	Carrying amount	Contractual cash flows				
		Total	Up to 6 months	Between 6 and 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Non-current borrowings from banks	67,797	70,480	17,900	25,647	13,615	13,318
Current borrowings from banks	0	0	0	0	0	0
Other current borrowings	18,259	18,422	18,197	225	0	0
Trade and other payables	135,577	135,577	135,577	0	0	0
Total non-derivative financial liabilities	221,633	224,479	171,674	25,872	13,615	13,318
Total derivatives	0	0	0	0	0	0
Total	221,633	224,479	171,674	25,872	13,615	13,318

Maturity of financial liabilities as at 31 December 2010

in EUR thousand	Carrying amount	Contractual cash flows				
		Total	Up to 6 months	Between 6 and 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Non-current borrowings from banks	104,981	109,415	21,729	17,860	43,096	26,730
Current borrowings from banks	18,545	18,555	5,555	13,000	0	0
Other current borrowings	463	470	278	192	0	0
Trade and other payables	159,426	159,426	159,426	0	0	0
Total non-derivative financial liabilities	283,415	287,866	186,988	31,052	43,096	26,730
Total derivatives	0	0	0	0	0	0
Total	283,415	287,866	186,988	31,052	43,096	26,730

Foreign currency risk

Exposure to foreign currency risk

in EUR thousand	31 Dec 2011				
	EUR*	USD	PLN	RUB	RON
Trade and other receivables	136,165	10,965	21,636	156,727	47,668
Borrowings from banks	-86,056	0	0	0	0
Trade payables	-69,337	-15,136	-6,538	-56	-1,674
Financial position exposure (net)	-19,228	-4,171	15,098	156,671	45,994
Forecasted sales	645,896	25,364	128,422	160,723	49,246
Forecasted purchases	-498,800	-103,800	-45,300	-63,200	-11,900
Exposure (net)	147,096	-78,436	83,123	97,523	37,346
Net exposure	127,868	-82,607	98,221	254,193	83,340

* EUR is the functional currency and as such it does not increase the exposure to foreign currency risk.

in EUR thousand	31 Dec 2010				
	EUR*	USD	PLN	RUB	RON
Trade and other receivables	149,753	18,381	38,905	165,035	31,069
Borrowings from banks	-123,989	0	0	0	0
Trade payables	-85,670	-10,724	-7,757	-2,158	-1,727
Financial position exposure (net)	-59,906	7,657	31,148	162,877	29,342
Sales	639,345	19,033	96,558	150,473	47,392
Purchases	-470,602	-97,925	-42,702	-59,650	-11,233
Exposure (net)	168,743	-78,892	53,856	90,822	36,160
Net exposure	108,837	-71,235	85,004	253,699	65,502

* EUR is the functional currency and as such it does not increase the exposure to foreign currency risk.

Forecasted sales and purchases stated in the 2011 schedule ground on the Company's business plan for 2012, whereas sales and purchases stated in the 2010 schedule take account of the Company's actual sales and purchases made in 2011.

Significant foreign exchange rates

	Average exchange rate *		Final exchange rate *	
	2011	2010	2011	2010
USD	1.39	1.33	1.29	1.33
PLN	4.12	4.00	4.46	3.97
RUB	40.88	40.27	41.77	40.54
RON	4.24	4.21	4.32	4.29

* number of local currency's units for 1 euro

The above-stated exchange rates were used for the calculation of items in the financial statements as at 31 December and equal the exchange rate of the Bank of Slovenia effective on 30 December.

Sensitivity analysis

A 1% percent increase of the euro exchange rate in respect of currencies stated as at 31 December 2011 or 31 December 2010 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.

in EUR thousand	Impact on the profit or loss	
	2011	2010
USD	818	705
PLN	-972	-842
RUB	-2,517	-2,512
RON	-825	-649

A 1% decrease of the euro value in respect of currencies stated as at 31 December 2011 or 31 December 2010 would have the same effect – but in reverse direction - provided that all other elements remain unchanged.

Interest rate risk

Exposure to interest rate risk

in EUR thousand	2011	2010
Financial instruments at fixed interest rate	37,912	56,725
Financial assets	56,096	58,543
Financial liabilities	-18,184	-1,818
Financial instruments at variable interest rate	-64,353	-117,661
Financial assets	2,447	3,317
Financial liabilities	-66,800	-120,978

Analysis of sensitivity of the financial instrument's fair value by applying the fixed interest rate

The Company holds no derivatives with reference to fixed interest rate, recognised at fair value through profit or loss, and no derivatives designated as a fair value hedge. Thus, a change of the interest rate as at the reporting date would have no impact on the profit or loss due to changes in the fair value of interest bearing instruments.

Analysis of the cash flow's sensitivity by applying the variable interest rate

Decrease/increase of the interest rate by 100 basis points would increase/decrease the profit or loss for 2011 by EUR 644 thousand (2010: EUR 1,177 thousand). The analysis, prepared in the same manner for both years, assumes that all other remaining elements, in particular the foreign exchange rate, remain unchanged.

A detailed schedule of non-current and current borrowings is presented below.

Non-current borrowings

in EUR thousand	31 Dec 2011	31 Dec 2010
Non-current borrowings	66,800	103,836
– thereof current portion	41,300	37,036
Average balance of non-current borrowings	85,318	122,523
Interest paid (financial year)	2,500	3,020
Other cost of raising non-current borrowings	0	0
Average interest rate of non-current borrowings (financial year)	2.93%	2.46%
Maturity in three years or less	100%	85%
Maturity in more than three years	0%	15%
Currency structure of non-current borrowings:		
– euro	100%	100%
Structure of non-current borrowings in terms of interest rates:		
– variable	100%	100%

Current borrowings

in EUR thousand	31 Dec 2011	31 Dec 2010
Current borrowings including current portion of non-current borrowings	59,484	55,996
– from banks	41,300	55,536
– from other entities	18,184	460
Current borrowings exclusive of current portion of non-current borrowings	18,184	18,960
Average balance of current borrowings (financial year)	18,572	14,691
Interest paid (financial year)	685	439
Other cost of raising current borrowings	22	30
Average cost of current borrowings (financial year)	3.81%	3.19%
Currency structure of current borrowings		
– euro	100%	100%
Structure of current borrowings in terms of interest rates:		
– variable	0%	90%
– fixed	100%	10%

Fair value

	2011		2010	
	Carrying amount	Fair value	Carrying amount	Fair value
in EUR thousand				
Non-current loans	9,571	9,332	12,206	11,995
Financial assets available for sale	4,735	4,735	5,029	5,029
Current loans	46,209	46,209	49,686	49,686
Current investments	602	602	653	653
– instruments held for trading	68	68	93	93
– other current investments	534	534	560	560
Trade and other receivables	399,250	399,250	423,042	423,042
Cash and cash equivalents	15,023	15,023	1,547	1,547
Borrowings	-86,056	-86,438	-123,989	-122,487
Trade and other payables	-135,577	-135,577	-159,426	-159,426
Total	253,757	253,136	208,748	210,039

The manner of the fair value measurement of the individual types of financial instruments is outlined below.

Interest bearing loans and borrowings

The fair value of loans and borrowings is calculated by applying the discounted cash flow of the principal and interest. The discount interest rate for both years was computed based on the 5-percent annual interest rate. The Company forecasts that it could raise a 5-year borrowing at the stated interest rate at the end of the year.

Financial instruments

The below schedule illustrates the classification of financial instruments in terms of their fair value. Accordingly, the financial instruments form three levels, namely:

- level 1: assets and liabilities at fair value determined using quoted market prices;
- level 2: assets and liabilities that are not classified within level 1 and their value is determined directly or indirectly based on observable market data;
- level 3: assets and liabilities the value of which cannot be determined using observable market data.

	31 Dec 2011			31 Dec 2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
in EUR thousand						
Financial assets available for sale	3,424	0	1,311	3,679	0	1,350
Instruments held for trading	68	0	0	93	0	0
Other current investments (points of mutual funds and assets under management)	534	0	0	560	0	0
Total	4,026	0	1,311	4,332	0	1,350

Instruments held for trading

The fair value is computed on the basis of the stock exchange quotation of the respective securities as at the reporting date, and it is not decreased by any costs that may arise upon the sale or purchase of securities.

Receivables and liabilities

Short-term receivables and liabilities are recorded at carrying amount which reflects their fair value.

31. Related party transactions

Intragroup transactions

Transactions with Group companies in 2011 are presented below.

in EUR thousand	Sales	Expenses	Borrowings	Loans
Terme Krka, d. o. o., Novo mesto, Slovenia	217	991	93	22,998
Farma GRS, d. o. o.	23	1,564	4,982	10,250
KRKA-FARMA d. o. o., Zagreb, Croatia	36,321	18,719	0	0
KRKA ROMANIA S.R.L., Bucharest, Romania	0	11,137	0	0
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	6,927	2,176	0	0
KRKA-FARMA DOOEL, Skopje, Macedonia	11,710	1,268	0	0
KRKA FARMA, d. o. o., Sarajevo, Bosnia and Herzegovina	4	181	0	0
OOO KRKA-RUS, Istra, Russian federation	43,101	824	0	0
OOO KRKA FARMA, Sergiev Posad, Russian federation	82,315	58,771	0	0
KRKA UKRAINE LLC, Kiev, Ukraine	0	12,801	0	1,232
KRKA-POLSKA, Sp. z o. o., Warsaw, Poland	81,342	41,884	0	0
KRKA ČR, s. r. o., Prague, Czech Republic	196	15,200	0	0
KRKA Magyarország Kft, Budapest, Hungary	0	17,622	0	0
KRKA Slovensko, s.r.o., Bratislava, Slovakia	0	6,818	0	0
UAB KRKA Lietuva, Vilnius, Lithuania	0	5,162	0	0
TAD Pharma GmbH, Cuxhaven, Germany	22,975	13,909	15,500	0
KRKA Sverige AB, Stockholm, Sweden	14,721	95	0	0
KRKA Pharma GmbH, Vienna, Austria	880	1,206	0	0
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	2,116	441	0	0
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	196	235	0	0
KRKA USA, LLC, Wilmington, USA	0	9	0	0
Total	303,044	211,013	20,575	34,480

* Including the subsidiary Golf Grad Otočec, d. o. o.

The transactions between the Company and the above-mentioned Group companies were based on sales contracts, which included the rendering of products and services at market prices.

The balance of loans to Group companies is presented in Note 16, the balance of borrowings from subsidiaries is presented in Note 24, the balance of receivables due from Group companies is presented in Note 20 and the balance of short-term operating liabilities to Group companies is presented in Note 27.

Data on groups of persons

As at the year-end, the members of the Management Board of the Company held 37,050 shares in Krka d.d., representing 0.105% of the total equity and 0.110% of the voting rights.

As at the reporting date, the members of the current Supervisory Board of the Company held 13,845 shares in the Company, representing 0.039% of the total equity and 0.041% of voting rights.

Equity stakes held by members of the Management Board and the Supervisory Board in the Company and their shares of voting rights

	31 Dec 2011			31 Dec 2010		
	Number of shares	Share (in %)	Share in voting rights (in %)	Number of shares	Share (in %)	Share in voting rights (in %)
Management Board members						
Jože Colarič	22,500	0.0635	0.0674	22,500	0.0635	0.0666
Aleš Rotar	12,770	0.0360	0.0382	12,770	0.0360	0.0378
Zvezdana Bajc	1,660	0.0047	0.0050	1,660	0.0047	0.0049
Vinko Zupančič	120	0.0003	0.0004	120	0.0003	0.0004
Danica Novak Malnar	0	0.0000	0.0000	0	0.0000	0.0000
Total Management Board members	37,050	0.1045	0.1109	37,050	0.1045	0.1097
Supervisory Board members						
Jože Lenič	180	0.0005	0.0005	180	0.0005	0.0005
Julijana Kristl	230	0.0006	0.0007	230	0.0006	0.0007
Vincenc Manček	11,543	0.0326	0.0346	11,543	0.0326	0.0342
Mojca Osolnik Videmšek	452	0.0013	0.0014	452	0.0013	0.0013
Matjaž Rakovec	400	0.0011	0.0012	400	0.0011	0.0012
Sergeja Slapničar	0	0.0000	0.0000	0	0.0000	0.0000
Franc Šašek	540	0.0015	0.0016	540	0.0015	0.0016
Tomaž Sever	500	0.0014	0.0015	500	0.0014	0.0015
Mateja Vrečer	0	0.0000	0.0000	0	0.0000	0.0000
Total Supervisory Board members	13,845	0.0391	0.0415	13,845	0.0391	0.0410
Total	50,895	0.1436	0.1524	50,895	0.1436	0.1507

Treasury shares were eliminated from the calculation of voting rights (2,025,117 treasury shares as at 31 December 2011 and 1,662,281 treasury shares as at 31 December 2010).

A questionnaire on related entities is filled in by the members of the Management Board and other management staff on a yearly basis, which is afterwards used by the Company to check the occurrence of any other business relations between the Company and the employees. No such business relations were recorded in 2011.

Remuneration paid to groups of persons

in EUR thousand	2011	2010
Members of the Management Board	2,185	2,136
Members of the Supervisory Board	109	43
Total remuneration paid to groups of persons (gross amounts)	2,294	2,179

Gross earnings paid to persons employed under individual employment contracts were in 2011 recorded at EUR 15,292 thousand (2010: EUR 15,966 thousand).

Remuneration paid to the Management Board in 2011

	Salary – fixed part			Salary – variable part		Total	
	Gross	Net payout	Net bonuses and other earnings	Gross	Net	Gross	Net
in EUR thousand							
Jože Colarič	352	156	9	307	141	659	306
Aleš Rotar	281	123	12	240	110	521	245
Zvezdana Bajc	257	111	13	217	100	474	224
Vinko Zupančič	208	88	14	171	79	379	181
Danica Novak Malnar	132	61	7	20	10	152	78
Total Management Board members	1,230	539	55	955	440	2,185	1,034

	Net bonuses and other earnings					
	Executive health insurance	Additional pension insurance	Other bonuses	Refund of work-related costs	Vacation bonus	Total
in EUR thousand						
Jože Colarič	5.34	2.68	0.05	0.06	0.63	8.76
Aleš Rotar	4.26	2.68	3.33	0.86	0.63	11.77
Zvezdana Bajc	4.10	2.68	4.40	0.93	0.63	12.74
Vinko Zupančič	4.30	2.68	6.04	0.76	0.64	14.42
Danica Novak Malnar	1.88	2.68	0.74	0.86	0.65	6.80
Total Management Board members	19.88	13.42	14.55	3.47	3.18	54.49

Remuneration paid to the Management Board in 2010

	Salary – fixed part			Salary – variable part		Total	
	Gross	Net payout	Net bonuses and other earnings	Gross	Net payout	Gross	Net
in EUR thousand							
Jože Colarič	344	155	9	302	139	646	303
Aleš Rotar	277	121	13	236	109	513	243
Zvezdana Bajc	253	109	13	214	98	467	221
Vinko Zupančič	203	87	14	168	77	371	178
Danica Novak Malnar	128	60	6	10	5	139	71
Total Management Board members	1,206	532	56	930	428	2,136	1,016

	Net bonuses and other earnings					
	Executive health insurance	Additional pension insurance	Other bonuses	Refund of work-related costs	Vacation bonus	Total
in EUR thousand						
Jože Colarič	5.35	2.65	0.10	0.09	0.61	8.80
Aleš Rotar	4.29	2.65	4.84	0.75	0.61	13.13
Zvezdana Bajc	4.32	2.65	5.01	0.82	0.61	13.41
Vinko Zupančič	4.29	2.65	5.95	0.69	0.62	14.18
Danica Novak Malnar	1.86	2.65	0.05	0.81	0.63	5.99
Total Management Board members	20.10	13.23	15.94	3.16	3.08	55.51

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. Management Board members do not receive attendance fees and any other income for exercising their functions in the Management and Supervisory boards in subsidiaries.

Remuneration paid to the Supervisory Board in 2011

	Basic pay for exercising the function		Attendance fees		Commuting allowances, personal income tax		Total	
	Gross amount	Net amount	Gross amount	Net amount	Gross amount	Net amount	Gross amount	Net amount
in EUR thousand								
Jože Lenič	9.31	7.22	5.16	4.00	0.17	0.13	14.65	11.35
Julijana Kristl	7.76	6.01	2.96	2.29	0.51	0.40	11.23	8.70
Vincenc Manček	7.76	6.01	3.28	2.54	0.00	0.00	11.04	8.55
Mojca Osolnik Videmšek	8.54	6.62	3.88	3.01	0.60	0.47	13.01	10.09
Matjaž Rakovec	8.38	6.50	2.68	2.08	0.17	0.13	11.24	8.71
Sergeja Slapničar	7.76	6.01	3.37	2.61	0.75	0.58	11.89	9.21
Franc Šašek	8.38	6.50	3.59	2.78	0.00	0.00	11.97	9.28
Tomaž Sever	7.76	6.01	3.59	2.78	0.50	0.39	11.86	9.19
Mateja Vrečer	8.54	6.62	3.47	2.69	0.00	0.00	12.00	9.30
Total remuneration paid to Supervisory Board members	74.19	57.50	31.98	24.78	2.71	2.10	108.88	84.38

In accordance with a resolution adopted at the 16th Annual Meeting held on 7 July 2011, members of the Supervisory Board are entitled to an attendance fee, which for each individual Supervisory Board member amounts to EUR 275.00 gross. Members of the Supervisory Board Commission receive an attendance fee for their participation in sessions, which for each individual Commission member amounts to 80% of the attendance fee for Supervisory Board sessions. The attendance fee for participating in correspondence sessions amounts to 80% of the general attendance fee. Irrespective of the aforesaid or the number of attendances, each member of the Supervisory Board is in every financial year entitled to receive attendance fees until the total amount of these attendance fees – whether relating to sessions of the Supervisory Board or sessions of the Supervisory Board Commissions – reaches 50% of the basic pay for exercising the function for each Supervisory Board member taking into account the actual payouts on an annual level.

In addition to attendance fees, members of the Supervisory Board receive on an annual basis also a basic pay for exercising the function in the amount of EUR 15,500 gross each. 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 the Supervisory Board member, whereas Vice-President of the Supervisory Board to an extra fee of 10% of the basic pay for exercising the function of the Supervisory Board member. 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 the Supervisory Board member. President of the Commission is further entitled to a bonus corresponding to 50% of the extra fee for exercising the function of the Supervisory Board Commission member.

Members of the Supervisory Board and members of the Supervisory Board Commission receive a basic pay and an extra fee for exercising the function, in proportionate monthly payments to which they are entitled to during their mandate. The monthly payment amounts to one twelfth of the aforesaid annual amounts. Each member of the Supervisory Board Commission is in every financial year entitled - regardless of the above-mentioned or the number of commissions he is a member of or presides over – to receive bonuses until the total amount of these bonuses reaches 50% of the basic pay for exercising the function for each Supervisory Board member taking into account the actual payouts on an annual level.

Loans granted to groups of persons

in EUR thousand	Balance		Repayments	
	31 Dec 2011	31 Dec 2010	2011	2010
Management Board members	6	9	3	4
Members of the Supervisory Board in the Company (employee representatives)	0	0	0	0
Total loans to groups of persons	6	9	3	4

Loans granted to persons employed under individual employment contracts were as at 31 December 2011 recorded at EUR 71 thousand (2010: EUR 90 thousand). Repayments of the respective loans amounted to EUR 25 thousand in the reporting period (2010: EUR 26 thousand).

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

32. Educational structure of employees

	2011		2010	
	Headcount	Share (in %)	Headcount	Share (in %)
PhD	74	1.7	77	1.7
MSc	197	4.5	190	4.1
University education	1,276	29.2	1,606	34.7
Higher professional education	378	8.6	368	7.9
Vocational college education	189	4.3	180	3.9
Secondary school education	1,120	25.6	1,061	22.9
Skilled workers	1,060	24.3	1,061	22.9
Unskilled workers	76	1.7	90	1.9
Total (average for the period)	4,370	100.0	4,633	100.0

33. Transactions with the audit firm

The fee for the audit services performed in 2011 by the audit company KPMG Slovenija, podjetje za revidiranje, d.o.o. amounted to EUR 119 thousand (2010: EUR 130 thousand). No other services were performed for the Company by the audit company in 2011.

34. Event after the reporting period

The event that occurred in the period between the end of the reporting year and 29 February 2012 is outlined below.

In the period from 1 January 2012 to 29 February 2012, the Company repurchased 35,535 treasury shares at the Ljubljana stock exchange. By the end of February 2012, the Company recorded 2,060,652 treasury shares, controlling a 5.8% stake in share capital.

The aforesaid event had no impact on the Company's financial statements for 2011.

Independent Auditor's Report



Independent Auditor's Report

To the Supervisory Board of KRKA, d.d., Novo mesto

We have audited the accompanying financial statements of the company KRKA, d.d., which comprise the statement of financial position as at 31 December 2011, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of KRKA, d.d. as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Other matters

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

Borut Šterbenc, B.Sc.Ec.
Certified Auditor

Ljubljana, 5 March 2012

KPMG SLOVENIJA,

podjetje za revidiranje, d.o.o.

Boris Drobnič, B.Sc.Ec.
Certified Auditor
Partner

KPMG Slovenija, d.o.o.
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ENCLOSURE 1:

Repurchased treasury shares in 2011 by days

Date	Number of shares	Average share price (in EUR)	Value of treasury shares (in EUR thousand)	Date	Number of shares	Average share price (in EUR)	Value of treasury shares (in EUR thousand)	Date	Number of shares	Average share price (in EUR)	Value of treasury shares (in EUR thousand)
Balance at 31 Dec 2010	1,662,281		21,749								
Purchases in 2011											
21 Jan 11	5,374	64.36	346	7 Mar 11	3,027	60.79	184	18 Apr 11	1,829	59.45	109
24 Jan 11	3,112	63.87	199	8 Mar 11	2,268	60.61	137	19 Apr 11	1,124	59.02	66
25 Jan 11	2,207	64.30	142	9 Mar 11	1,627	60.55	99	20 Apr 11	2,604	58.68	153
26 Jan 11	1,986	64.05	127	10 Mar 11	1,459	60.39	88	21 Apr 11	3,007	58.77	177
27 Jan 11	720	64.13	46	11 Mar 11	1,751	60.69	106	26 Apr 11	1,737	58.27	101
28 Jan 11	1,855	64.29	119	14 Mar 11	2,105	60.53	127	28 Apr 11	1,015	58.49	59
31 Jan 11	2,638	63.95	169	15 Mar 11	2,869	60.14	173	13 May 11	3,013	59.49	178
1 Feb 11	2,567	64.00	164	16 Mar 11	4,334	59.42	258	16 May 11	4,560	60.21	276
2 Feb 11	4,994	64.17	321	17 Mar 11	2,850	59.31	169	17 May 11	2,295	60.05	138
3 Feb 11	2,545	63.86	163	18 Mar 11	4,497	59.95	269	18 May 11	2,128	60.04	128
4 Feb 11	1,463	63.82	93	21 Mar 11	4,124	60.69	251	19 May 11	2,440	60.08	147
7 Feb 11	2,507	63.67	160	22 Mar 11	1,216	60.50	74	20 May 11	1,934	59.90	116
9 Feb 11	3,486	64.01	223	23 Mar 11	1,397	60.56	85	23 May 11	2,402	60.15	144
10 Feb 11	2,561	63.77	163	24 Mar 11	3,790	60.62	230	24 May 11	2,200	60.56	133
11 Feb 11	1,890	63.80	121	25 Mar 11	4,100	60.92	250	25 May 11	2,528	60.16	152
14 Feb 11	1,391	63.60	89	28 Mar 11	7,926	60.92	484	26 May 11	1,800	60.14	108
15 Feb 11	2,586	63.27	164	29 Mar 11	2,097	60.67	127	27 May 11	3,201	60.00	192
16 Feb 11	3,215	63.70	205	30 Mar 11	1,112	60.16	67	30 May 11	1,750	60.05	105
17 Feb 11	1,651	63.35	105	31 Mar 11	2,151	60.00	129	31 May 11	992	60.15	60
4 Mar 11	3,597	61.07	220	15 Apr 11	5,192	59.81	311	1 Jun 11	1,761	60.23	106

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 Jun 11	2,134	59.89	128	24 Aug 11	1,104	56.41	62	3 Oct 11	2,132	50.79	109
3 Jun 11	1,985	59.97	119	25 Aug 11	1,521	57.18	87	4 Oct 11	1,830	51.49	94
6 Jun 11	2,209	60.01	133	26 Aug 11	2,079	56.85	119	5 Oct 11	2,644	51.86	137
7 Jun 11	1,301	60.01	78	29 Aug 11	824	57.18	47	6 Oct 11	1,419	52.22	74
8 Jun 11	1,096	59.91	66	30 Aug 11	963	57.70	55	7 Oct 11	975	52.48	51
9 Jun 11	1,768	60.21	106	31 Aug 11	628	57.67	36	10 Oct 11	746	52.13	39
10 Jun 11	1,782	60.37	108	1 Sep 11	2,782	57.28	160	11 Oct 11	933	52.36	49
13 Jun 11	981	59.95	59	2 Sep 11	1,164	56.91	66	12 Oct 11	1,131	52.59	60
14 Jun 11	1,064	60.05	64	5 Sep 11	537	55.92	30	13 Oct 11	664	53.53	36
15 Jun 11	904	59.93	54	6 Sep 11	787	55.00	43	14 Oct 11	926	53.60	50
16 Jun 11	3,714	60.03	223	7 Sep 11	1,920	57.05	110	17 Oct 11	1,507	54.05	81
17 Jun 11	3,547	60.03	213	8 Sep 11	1,703	57.12	97	18 Oct 11	805	53.55	43
20 Jun 11	3,103	60.03	186	9 Sep 11	1,800	57.17	103	19 Oct 11	2,020	52.87	107
21 Jun 11	4,919	59.98	296	12 Sep 11	1,205	56.25	68	20 Oct 11	631	53.39	34
22 Jun 11	1,481	60.04	89	13 Sep 11	1,647	55.04	91	21 Oct 11	540	53.12	29
23 Jun 11	3,536	60.05	212	14 Sep 11	2,363	55.00	130	24 Oct 11	439	53.40	23
11 Jul 11	3,481	60.13	209	15 Sep 11	4,358	55.10	240	25 Oct 11	587	53.50	31
12 Jul 11	2,347	59.82	140	16 Sep 11	562	54.80	31	26 Oct 11	1,748	53.31	93
13 Jul 11	2,477	60.03	149	19 Sep 11	3,429	53.25	182	27 Oct 11	564	53.20	30
14 Jul 11	3,592	59.88	215	20 Sep 11	4,472	51.50	231	28 Oct 11	691	53.60	37
29 Jul 11	1,330	60.55	81	22 Sep 11	1,873	51.05	95	2 Nov 11	1,614	52.60	85
16 Aug 11	3,718	58.29	217	23 Sep 11	1,873	50.15	94	3 Nov 11	1,304	52.31	68
17 Aug 11	2,751	58.45	161	26 Sep 11	6,654	49.67	331	18 Nov 11	2,174	51.16	111
18 Aug 11	3,847	58.06	224	27 Sep 11	2,402	50.58	121	21 Nov 11	2,396	51.24	123
19 Aug 11	4,055	56.20	228	28 Sep 11	2,716	50.60	137	22 Nov 11	948	50.33	48
22 Aug 11	3,585	55.67	199	29 Sep 11	2,775	50.17	139	23 Nov 11	989	49.70	49
23 Aug 11	2,123	55.63	118	30 Sep 11	2,614	50.64	132	24 Nov 11	1,512	49.29	75

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 Nov 11	1,232	49.90	61	7 Dec 11	809	50.00	40	19 Dec 11	1,791	49.93	90
28 Nov 11	1,080	49.89	54	8 Dec 11	1,253	50.02	63	21 Dec 11	2,219	50.24	111
29 Nov 11	2,840	49.50	141	9 Dec 11	1,410	50.00	71	22 Dec 11	3,067	50.36	155
30 Nov 11	2,315	49.55	115	12 Dec 11	1,649	49.93	82	23 Dec 11	3,362	50.64	171
1 Dec 11	2,042	49.70	101	13 Dec 11	2,148	50.05	108	27 Dec 11	3,506	51.38	180
2 Dec 11	1,771	49.55	88	14 Dec 11	2,747	50.11	138	28 Dec 11	2,253	51.00	115
5 Dec 11	1,981	49.78	99	15 Dec 11	2,070	50.11	104	29 Dec 11	759	52.12	40
6 Dec 11	1,238	50.04	62	16 Dec 11	3,283	50.20	165	Total purchases in 2011	362,836	57.42	20,835
								Balance at 31 Dec 2011	2,025,117		42,584

SIGNING OF THE 2011 ANNUAL REPORT AND ITS CONSTITUENT PARTS

The Chairman and Management Board members of Krka, d. d., Novo mesto hereby confirm to be acquainted with the content of constituent parts of the 2011 annual report for the Company and the Krka Group. It is herewith adopted and confirmed by respective signatures.

A blue ink signature consisting of a large, sweeping loop followed by a horizontal line.

Jože Colarič,
President of the Management Board
and Chief Executive

A blue ink signature with several vertical strokes on the left and a horizontal line extending to the right.

dr. Aleš Rotar,
Member of the Management Board

A blue ink signature that appears to read 'Z. Bajc' in a stylized, cursive script.

Zvezdana Bajc,
Member of the Management Board

A blue ink signature with a large, stylized 'V' and a horizontal line.

dr. Vinko Zupančič,
Member of the Management Board

A blue ink signature that appears to read 'Novak Malnar' in a stylized, cursive script.

Danica Novak Malnar,
Member of the Management Board –
Worker Director