annual report 2008

the source of innovation

KRKA

KRKA

contents

introduction

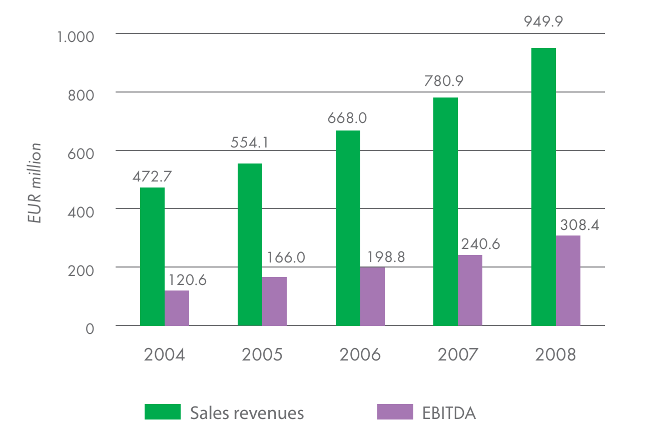
inspiration

The future belongs to those
who believe in the beauty of their dreams.

Eleanor Roosevelt

Significant achievements

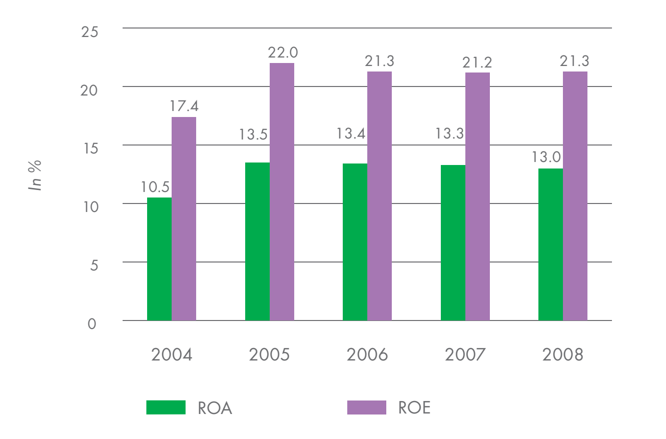
SALES REVENUES AND EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (EBITDA)



In 2008 sales revenues grew by 22%, largely due to growth in Regions Western Europe and Overseas Markets, Central Europe and East Europe.

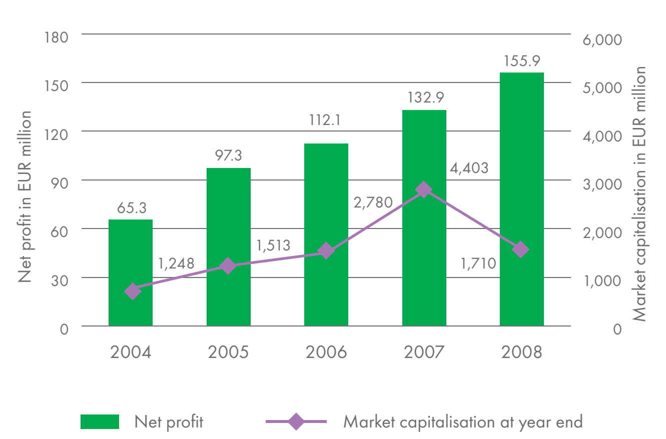
EBITDA grew by 28%, and the EBITDA margin was up by 1.7 percentage points.

RETURN ON ASSETS (ROA) AND RETURN ON EQUITY (ROE)



ROE was slightly up on the 2007 figure, and ROA was slightly down.

NET PROFIT AND MARKET CAPITALISATION



In 2008 the Krka Group's net profit grew by 17%, while market capitalisation decreased by 61%.

The Krka Group
financial highlights

EUR thousand	2008	2007	2006	2005	2004
Sales revenues	949,920	780,918	667,955	554,137	472,660
EBIT	236,781	183,642	151,079	120,250	77,460
EBITDA	308,390	240,586	198,783	166,042	120,627
Net profit	155,891	132,853	112,086	97,335	65,324
Non-current assets	812,158	749,447	574,586	502,526	445,772
Current assets	458,878	371,971	304,542	285,740	203,240
Equity	783,296	680,913	570,905	479,585	405,125
Non-current liabilities	257,526	252,379	163,941	151,804	156,301
Current liabilities	230,214	188,126	144,282	156,877	87,585
R&D costs	84,746	59,071	52,650	40,120	34,679
Investments	146,745	112,977	107,200	89,537	87,907

RATIOS	2008	2007	2006	2005	2004
Net profit margin (ROS)	16.4%	17.0%	16.8%	17.6%	13.8%
EBIT margin	24.9%	23.5%	22.6%	21.7%	16.4%
EBITDA margin	32.5%	30.8%	29.8%	30.0%	25.5%
ROE[1]	21.3%	21.2%	21.3%	22.0%	17.4%
ROA[2]	13.0%	13.3%	13.4%	13.5%	10.5%
Liabilities/Equity	0.623	0.647	0.540	0.644	0.602
R&D costs/Sales revenues	8.9%	7.6%	7.9%	7.2%	7.3%

NUMBER OF EMPLOYEES	2008	2007	2006	2005	2004
Year end	7602	6777	5759	5224	4781
Average	7294	6209	5494	5030	4678

SHARE INFORMATION[3]	2008	2007	2006	2005	2004
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]	4.61	3.92	3.30	2.88	1.93
Dividend per share in EUR	0.91	0.80	0.69	0.58	0.50
Share price at the end of year in EUR	48.27	124.29	78.48	42.72	35.24
Price/earnings ratio (P/E)	10.46	31.71	23.75	14.85	18.26
Book value of share in EUR[5]	22.11	19.22	16.12	13.54	11.44
Share price/book value (P/B)	2.18	6.47	4.87	3.16	3.08
Market capitalisation EUR thousand (31 December)	1,710,019	4,403,112	2,780,058	1,513,334	1,248,374

EXCHANGE RATES	2008	2007	2006	2005	2004
USD (average)	1.471	1.370	1.255	1.243	1.242
USD (31 December)	1.392	1.472	1.317	1.183	1.360

[1] Net profit/average equity balance over period
[2] Net profit/average total asset balance over period
[3] To aid comparison the new number of shares following the September 2007 1 : 10 share split are used in calculated data per share.
[4] Net profit of Krka Group majority shareholders/average number of shares issued in the period (no own shares)
[5] Share capital on 31 December/Total number of shares issued

ID Card
of the Krka Group

DATA ON THE CONTROLLING COMPANY

The controlling company is Krka, tovarna zdravil, d. d., Novo mesto (abbreviated to Krka, d. d., Novo mesto).

REGISTERED OFFICE:	Šmarješka cesta 6, 8501 Novo mesto, Slovenia
TELEPHONE:	+386 7 331 21 11
FAX:	+386 7 332 15 37
E-MAIL:	info@krka.biz
WEBSITE:	www.krka.si
BASIC ACTIVITY:	Production of pharmaceutical preparations
ACTIVITY CODE:	21.200
YEAR ESTABLISHED:	1954
REGISTRATION ENTRY:	1/00097/00, Novo mesto District Court
VAT NUMBER:	82646716
COMPANY ID NUMBER:	5043611
CALLED-UP CAPITAL:	EUR 59,126,194.28
NUMBER OF SHARES ISSUED:	35,426,120 ordinary no-par value shares

The Krka Group consists of the controlling company, Krka d. d. Novo mesto, and a number of subsidiaries in Slovenia and abroad. The Krka Group is engaged in the development, production, sale and marketing of human health products (prescription and self-medication pharmaceuticals and cosmetics), animal health products and health resort and tourist services. Production takes place in Slovenia, Poland, the Russian Federation, Croatia and Germany, while the remaining subsidiaries outside Slovenia are engaged in the marketing and/or sale of Krka products.

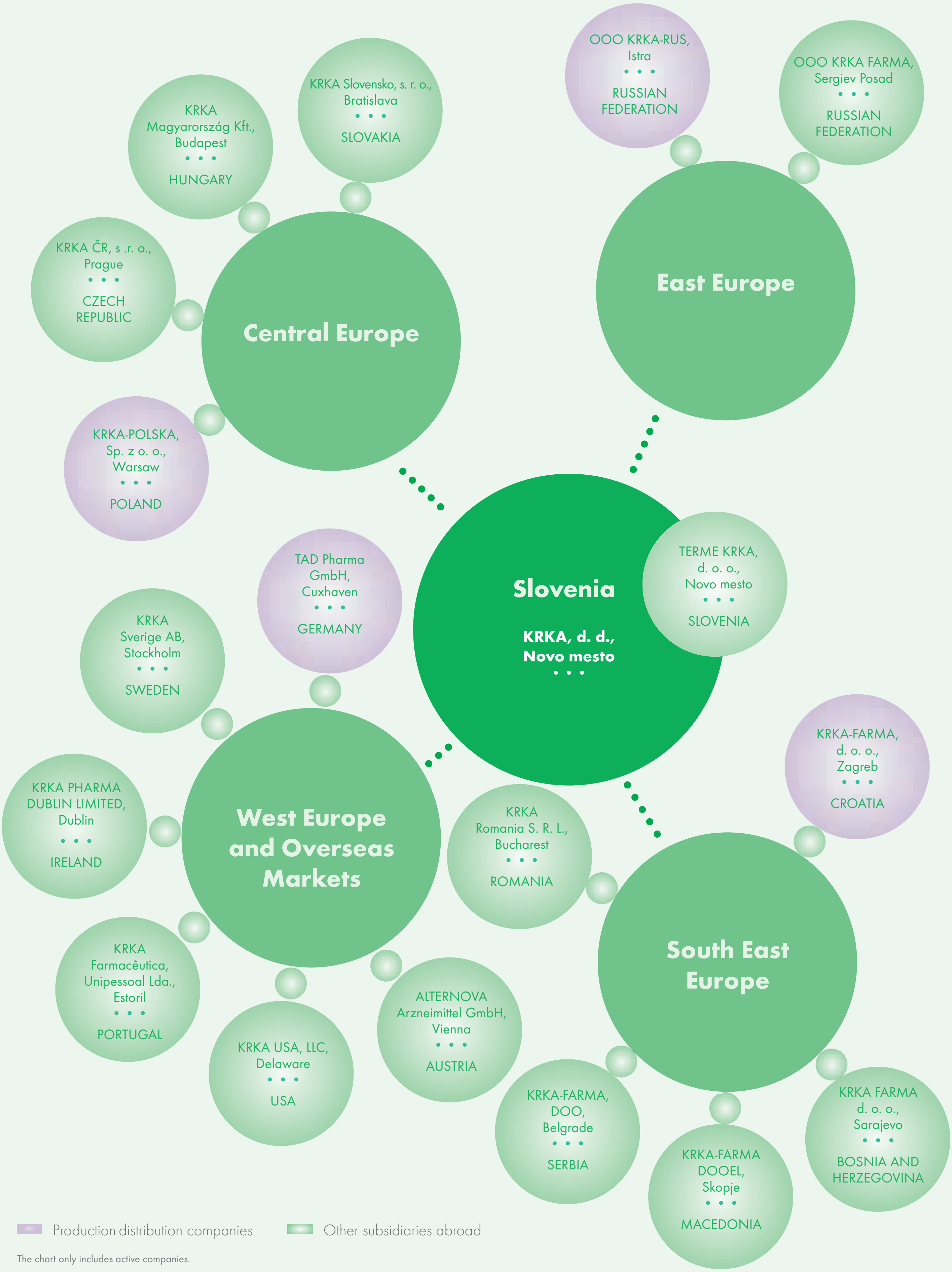
Two subsidiaries started operations in January 2008: KRKA ČR s. r. o. in the Czech Republic and KRKA Slovensko, s. r. o. in Slovakia, both 100%-owned by Krka. The Slovakian company is new, while the company in the Czech Republic was previously dormant. In the first half of 2008 in Germany, Krka merged two of its subsidiaries KRKA Aussenhandels GmbH, Munich and KRKA PHARMA GMBH, Frankfurt with TAD Pharma GmbH, Cuxhaven. TAD Pharma has therefore taken over all their assets, capital, rights and obligations. On 6 November 2008, the Krka Company signed a contract with the Danish company Paranova Group A/S, Ballerup to purchase a 100% stake in the company ALTERNOVA Arzneimittel GmbH, Vienna, Austria, making it a Krka subsidiary.

In January 2009 the subsidiaries KRKA ROMANIA S. R. L. in Bucharest, Romania (registered in mid-December 2008) and KRKA FARMA, d. o. o., Sarajevo, Bosnia-Herzegovina (registered in mid-January 2009) started operations; both are 100% owned by the Krka Company. The new company will replace the former representative office in Romania, while in Bosnia-Herzegovina the representative office will continue to operate alongside the newly established company.

The company Terme Krka, d. o. o., combines the business units of the health resorts (spas) and hotels Terme Dolenjske Toplice, Terme Šmarješke Toplice, Hoteli Otočec and Hotel Krka in Novo mesto. In autumn 2008, Terme Krka purchased the 49% stake in Terme Krka – Strunjan held by the Slovenian Association of War Veterans' Organisations, becoming the 100% owner. Terme Krka is also the majority owner of the company Golf Grad Otočec, d. o. o.

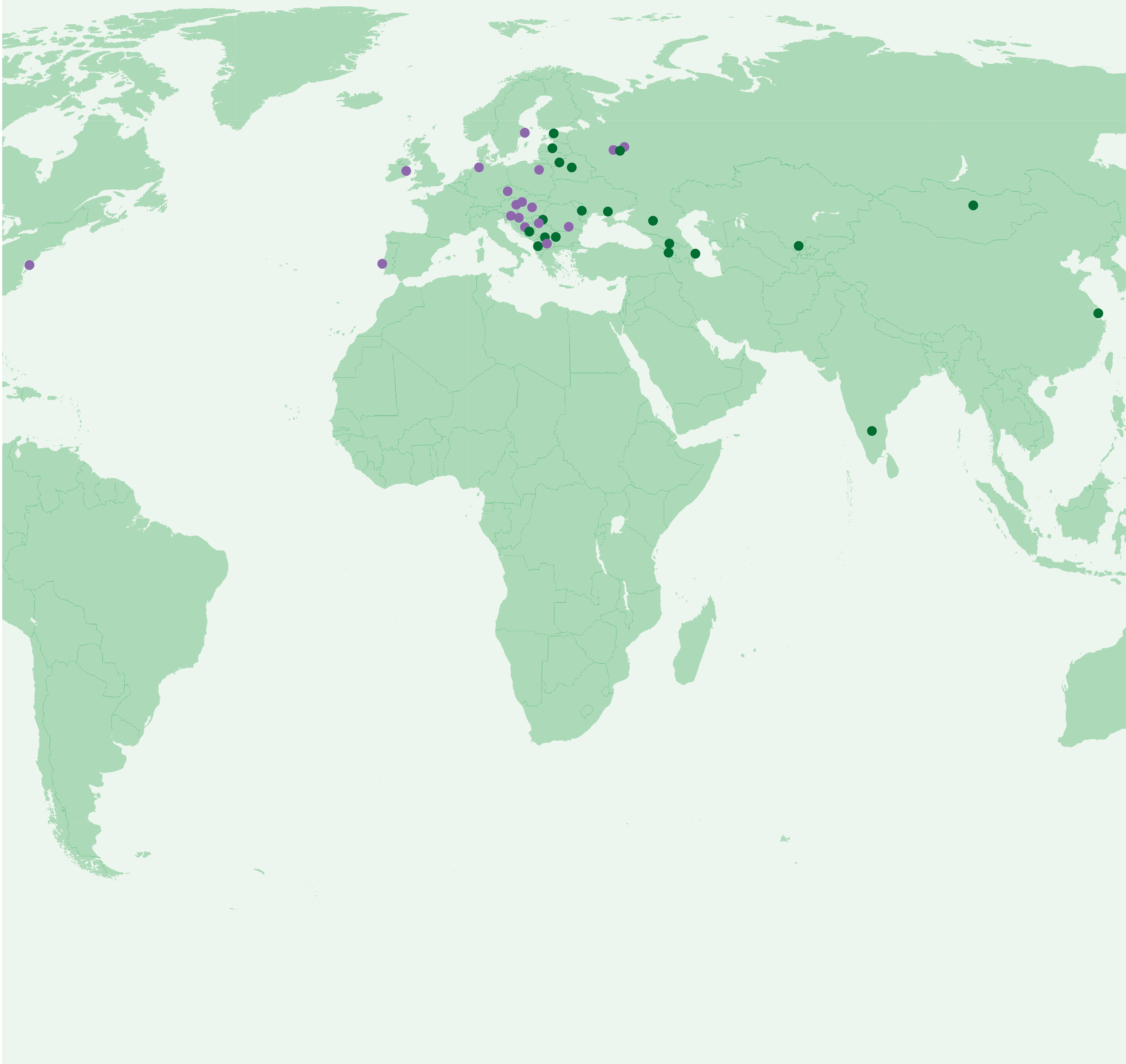
Abbreviated company names are used in the text below.

Organisational chart
of the Krka Group



The chart only includes active companies.

Map of companies
and representative offices abroad



Overview of significant events and awards in 2008

JANUARY

Septolete®, Septolete® D and Septolete® plus acquired a new visual identity, in line with the modern image of Neoseptolete®. The common denominator is the galaxy, while individual members of the Septolete® product range are distinguished by colour.

FEBRUARY

A new granulator was added to the Ljutomer plant, where mineral-vitamins products, vitamin drinks, granules for oral use, and some tablets are produced, together with the modern, automatic weighing facility, completed a major investment cycle, worth over EUR 17 million.

According to research entitled Influential Companies on the Russian Pharmaceutical Markets in 2007, Krka ranked second among the top ten most influential foreign companies in the Russian Federation. Krka was top of the table meanwhile with the product Enap® which was the number one prescription medicine in the Russian Federation.

APRIL

In the Dnevnik newspaper's Golden Thread awards, Krka received the 2007 employer of the year award in the large enterprise category.

Krka opened a new business centre in Macedonia, providing the company with 1000 m² of space for product storage and customs operations, and offices for administration and promotion activities.

At the Human Resource Conference in Portorož, Planet GV awarded Krka's HR Director, Dr Boris Dular, the award of Human Resource Manager of 2008.

MAY

Enap® won the 2007 "Platinum Ounce" award in the best prescription medicine category in the Russian Federation, repeating last year's success.

Krka-Rus won first place in a competition on working conditions and safety at work in organisations and companies in the Istra region of the Russian Federation.

For the second consecutive year, the Krka ČR company in Prague was ranked among the ten best employers in the Czech Republic.

JUNE

The Krka-Polska company, with its headquarters in Warsaw, received the prestigious 'Gepard' business award for the most dynamic company in the Mazovian Voivodship, which is the most powerful economic region in Poland.

Krka signed a contract of cooperation with the University of Ljubljana's Pharmacy Faculty for the implementation of a new study programme in Industrial Pharmacy.

JULY

With a 7.5% stake, Krka became a minority owner in two private chemical-pharmaceutical companies in China: Cejang Menovo Pharmaceuticals Co., Ltd., from Shangyu and Anhui Menovo Pharmaceuticals Co., Ltd., from Guangde. Krka works with the companies in the synthesis of key chemicals and intermediates.

The 13th Annual General Meeting took place, at which Krka shareholders passed a resolution to bring the articles of association into line with a provision enabling Krka Company employees to participate in the company's accumulated profit.

In the Slovakian magazine, Novy čas, Septolete® was ranked in first place as the most popular self-medication pharmaceutical in Slovakia in the sore throat category. Nalgesin® S was in third place in the category for flu, cold and pain products.

SEPTEMBER

Krka specialist staff won a silver award from the Slovenian Chamber of Commerce and Industry for a new and original procedure to synthesise olanzapine and intermediates and for a multiple unit dosage form with prolonged release containing venlafaxine.

Overview of significant events and awards in 2008

OCTOBER

Krka opened new, highly equipped chemical development laboratories, which function as a centre for synthesis-related and analytical knowledge and represent the result of their own complementary specialist, innovation and invention-related knowledge.

At the awards ceremony for IR Magazine Continental Europe Awards in Amsterdam, Krka won the award for the best investor relations by a Slovenian company for the third consecutive year.

Terme Krka became the 100% owner of Terme Krka-Strunjan d. o. o. after purchasing the 49% stake that had been held by the Slovenian Association of War Veterans' Organisations.

The 38th Krka Prizes for research achievements were presented to the successful young researchers.

The annual capacity of the Notol solid dosage form production plant was increased to 3.5 billion tablets and capsules.

The installation of a modern granulation line in the production plant in Croatia concluded the equipping process for every phase of solid dosage form pharmaceutical production.

For the 13th consecutive year, Krka successfully passed an inspection by SIQ (Slovenian Institute of Quality and Methodology), which affirms the continual improvement of key processes in the established integrated management system in line with Krka strategy.

NOVEMBER

Krka signed a contract with the Paranova Group on the purchase of a 100% ownership stake in the company Alternova Arzneimittel GmbH, Vienna. The purchase price was EUR 1.3 million.

In the Russian Federation, Krka received the 2008 Recept goda award for the advertising-information campaign of Neoseptolete®.

DECEMBER

For the second consecutive year, the Ljubljana Stock Exchange awarded Krka with a 2008 Portal prize, for the best corporate communications with investors in Slovenia.

Krka won the TOP 10 Management Training 2008 award for systematic investment in knowledge and care for employee education and training.

Krka won the 2007 first prize in the business analysis and plans category, in the annual report of the year award organised by the Slovenian business newspaper, Finance.

The Krka subsidiary, Terme Krka, opened the modern Hotel Balnea in Dolenjske Toplice, which is classified as a superior four-star hotel.

Introduction of invoice cockpit and website cycle to SAP system.

Events
after the accounting period

IMPORTANT BUSINESS EVENTS IN THE KRKA GROUP

In January 2009 the subsidiaries KRKA ROMANIA S. R. L. in Bucharest, Romania (registered in mid-December 2008) and KRKA FARMA, d. o. o., Sarajevo, Bosnia-Herzegovina (registered in mid-January 2009) started operations; both are 100% owned by the Krka Company. The new company will replace the former representative office in Romania, while in Bosnia-Herzegovina the representative office will continue to operate alongside the newly established company.

In February 2009 a Krka representative office was registered in Yerevan, Armenia.

On 13 January 2009 the Ljubljana District Court temporarily suspended Krka's production and marketing of the pharmaceutical Valsaden due to alleged violations of patent belonging to Novartis AG, Basel, Switzerland, EP 0914 119 or EP 1 410 797 in Slovenia. The subject of both patents is the production procedure for solid pharmaceutical forms (tablets), which contain a combination of valsartan and hydrochlorothiazide. The court issued its resolution ex parte, on 17 February 2009 the decision was rescinded on the basis of an appeal, but at the time of publication the decision was not yet final. Novartis AG has also filed a suit to determine the alleged violation. A case is also before the same court to issue a temporary injunction against patent EP 1 410 797 due to alleged violations for products containing the API valsartan. The process has not yet concluded.

On 26 January 2009 the subsidiary Krka-Polska Sp. z o. o., Warsaw (Krka Polska) received a resolution from the commercial court in Warsaw, with which the court temporarily prevented Krka Polska from selling, producing, marketing and importing the pharmaceutical Monkasta®, which contains the API montelukast, in Poland, due to an alleged violation of the patent PL 178 671, held by Merck & Co., USA. The court issued the resolution ex parte, without receiving a response from Krka Polska. Krka Polska subsequently issued an appeal against the resolution. Merck & Co. also filed a suit due to an alleged patent violation. Patent PL 178 671 protects one of the procedures for the production of the API montelukast. Krka produces the API montelukast using a different procedure, and that procedure does not violate the cited patent of Merck & Co. in Poland to the best of its knowledge.

On 23 February 2009 Krka received a decision from the Ljubljana District Court, in which the court rejected the claim for a temporary injunction with which Novartis AG, Switzerland intended to prevent Krka from producing and marketing Valsacor, film-coated tablets in all strengths or any other product that could infringe EP 1 410 797 in Slovenia. The decision is not yet final, as Novartis may still appeal against the decision.

On 12 March 2009, the subsidiary Krka Sverige AB received a decision from the Supreme Court in Oslo reversing the temporary injunction issued on 18 November 2008 by a court in Oslo in a dispute involving the alleged infringement of a patent protecting the process for producing the API donepezil in Norway between the companies, Pfizer AS with registered office in Norway and Eisai Co, Ltd., Japan (the plaintiffs) and Krka Sverige, in which the court prohibited Krka Sverige from producing and marketing medicines containing donepezil in Norway. Krka Sverige will immediately start marketing products with donepezil in Norway. The proceedings relating to the alleged patent infringement are still underway. Given the facts and legal argument in the proceedings to issue a temporary injunction, Krka considers that Krka Sverige will successfully prove that it is not infringing the plaintiffs' patent in the case addressing the alleged infringement.

The five-year term-in-office of Krka Management Board members expires on 31 December 2009. To ensure that procedures to appoint the new management board move forward on time, at its meeting on 21 January 2009 the Supervisory Board re-appointed the current President of the Management Board, Jože Colarič, as President of the Management Board for the next six-year term-in-office, which will start on 1 January 2010. At the same time the Board charged him, as President of the Management Board and Chief Executive to prepare a proposal for the Supervisory Board on the appointment of members of the management board in accordance with the company's Articles of Association by no later than the end of August 2009.

On 13 March 2009, Krka's Polish subsidiary, Krka-Polska Sp. z o. o, Warsaw, received an action filed at the Warsaw district court by the company Novartis AG, Switzerland alleging an infringement of a patent protecting a solid pharmaceutical form (tablet) containing the API valsartan and excipients. The plaintiff is filing for an order on Krka Polska prohibiting it on Polish territory from producing, using, selling, offering, marketing and importing the pharmaceutical Valsacor or any film-coated tablet under any commercial name that contains the API valsartan. In 2008 the Supreme Court in Warsaw rejected as final the plaintiff's claim for a temporary injunction due to alleged patent infringement. Krka-Polska will file its response to the action within the statutory time limit. Krka considers it has not infringed the patent. In 2005 Krka filed an action to cancel a patent, which Novartis alleged had been infringed.

BUSINESS ENVIRONMENT AT THE START OF 2009

In early 2009 foreign exchange risk has increased in the countries of central, eastern and south-eastern Europe strengthened. Krka is actively monitoring financial developments in these regions, using various mechanisms to adapt to market fluctuations on an ongoing basis, to mitigate their impact on operating results. One such measure is actively adapting its pricing policy in response to major exchange rate fluctuations, which enables Krka to retain its competitive pricing on its major markets.

Statement
by the President of the Management Board

Jože Colarič

DEAR SHAREHOLDERS AND BUSINESS PARTNERS AND EMPLOYEES,

It is with great satisfaction that I can report on another successful business year, in which we have achieved all our key business objectives despite more difficult economic conditions, and made ambitious plans for the current year.

In 2008 the Krka Group's sales increased by 22%, reaching EUR 950 million, while generating profits of EUR 156 million. Although an extremely difficult business period lies ahead of us, we have set optimistic objectives; we plan to increase our sales to EUR 1,062 million, meaning growth of 12%. We are sure that with our new products, which contributed the highest shares of sales in 2008, and with a strong position on promising foreign markets we will achieve double-digit sales figures in future. One of the biggest challenges that we face at the break of the year 2009 are also disadvantageous foreign exchange movements on many of our key markets. We adjust to these changes by applying active price policies. We estimate, however, that foreign exchange movements will have a bigger impact on our business results than before.

In 2008 we achieved the highest level of growth on western European markets and our traditional markets of Central and Eastern Europe. In Region Western Europe and Overseas Markets, which already represents 24% of sales by value, we increased sales by 39%, while growth in Regions Eastern and Central Europe was 27% and 25% respectively. With similar proportions in sales, these regions together represented three-quarters of all Krka Group sales. In the Russian Federation, which remains our largest individual market and is a key market in Region East Europe, we achieved 30% growth, with product sales worth EUR 158 million. Independent sources cited us as the company with the highest sales growth in prescription pharmaceuticals and self-medication products in the final quarter. Last year in Poland, which is a key Krka market in the Region Central Europe, Krka received the 'Gepard' business award for the most dynamic company, and we increased our sales by almost 28%. In Region South-East Europe we increased sales on all markets, except Romania, where the fall in sales was largely due to changes in the prescription system and the devaluation of the local currency. We also strengthened our position in Slovenia, where despite a reduction in prices we achieved growth of 3%.

New products are vital to long-term growth in sales and profit, so in 2008 Krka committed considerable energy to research and development, which enables us to be the first generic supplier on the market with some products. Krka's new products are the result of work by over five hundred R&D employees and our vertically integrated business model, which offers total process management from raw materials to the final product. It was these factors that led us to achieve first marketing authorisations for 21 new products, together with 637 marketing authorisations on a range of markets. The result of our knowledge has been 30 new inventions, which were patented in 2008.

Prescription pharmaceuticals represent the core of our sales and have been increasing as a proportion of overall sales year by year. In 2008 our prescription pharmaceutical sales were worth EUR 782 million (82% of sales), which means that this product group alone reached

Statement
by the President of the Management Board

overall Krka Group sales in 2007. Self-medication products contribute significantly to our ability to offer a broad range of products, and at EUR 99 million were worth almost 11% of overall sales, while cosmetics and animal health products also enhance our product diversity. Another key element of realising our mission, Living a healthy life, is provided by health and tourism services, sales of which grew by 5% last year, and were worth EUR 32 million.

Last year will be remembered for the financial crisis, which has affected every sector, and led to a major fall in share prices on stock exchanges. Krka's share price was no exception, but the sector in which Krka operates is less sensitive to the economic cycle than some others. Our successful operations and low level of debt, means that the Krka Group has a very high level of liquidity, and debt financing costs represent just a small proportion of the operating profit. For these reasons, I believe that better times will come for our shares, since in 2009 we will also be organising roadshows for potential financial investors from western Europe, and for the first time also for investors from the United States.

I am sure that the right answer to the current global economic conditions is to create foundations for continued sales growth, while ensuring we are prudent in spending. We will continue to invest in development, since the best response to the crisis is producing new ideas and new products. We will also be investing in new production capacity, since the economic crisis is a transition period, and we must be ready with modern capacity already in place when it ends. In 2008 we allocated EUR 147 million to increasing and modernising capacity, including the expansion of the modern Notol plant for solid dosage form production and opening modern chemical development laboratories. In 2009 we intend to increase that amount to over EUR 160 million.

Our investments are not only directed towards achieving the best possible business results, but also towards strengthening relations with the wider social community, and other stakeholders. I believe that sustainable development, environmental protection and listening to the needs of the society in which we work are among the key foundations of our success. In 2008 the Krka Group therefore made a contribution to the quality of life on all its markets through sponsorships, donations and humanitarian campaigns.

Employees are another key factor in our success. Employees with knowledge and enthusiasm for their work have always been welcome at Krka. In 2008 we increased the number of employees by over 800 or 12%, while we also increased sales per employee due to greater operational effectiveness. Increases in the number of employees in future will continue to be adapted to conditions on individual markets. According to our plans, soon half of all Krka employees will be employed outside Slovenia.

Our results show that knowledge, intelligent and effective work, and the experience of each individual at Krka together promise well for our future. We know that the results we achieve depend mostly on us.

On behalf of the Management Board and my colleagues I assure you that we will face challenges and opportunities decisively, but also with great care. I believe that to the benefit of the company, owners, customers, the community and Krka employees, we will continue to achieve the growth that will pave our way for further progress.

Jože Colarič
President of the Management Board
and Chief Executive

2008 Report
of the Supervisory Board

Gregor Gomišček, PhD

DEAR SHAREHOLDERS,

The composition of the Supervisory Board was as follows in 2008: the shareholder representatives were Mateja Božič, MSc, Gregor Gomišček, PhD, Anton Rous, Draško Veselinovič, PhD, and Alojz Zupančič; the employee representatives were Sonja Kermc, Tomaž Sever, MSc, and Mateja Vrečer, PhD. Most members of the Board attended every meeting. One member was absent on one occasion for health reasons, while one member did not participate in two meetings because she was on maternity leave.

THE WORK OF THE SUPERVISORY BOARD

The Supervisory Board met six times in 2008, and monitored and supervised Krka's operations with due care. Due to positive mutual cooperation, its members are able to make competent decisions in line with its legal powers. Material for meetings was always produced in time for members to prepare and discuss individual agenda items. The expertise, and above all the diversity of Board members' knowledge and experience, both shareholder and employee representatives, again contributed to positive work of the Board and its two committees in 2008. The Supervisory Board has three members holding doctorates (two in natural sciences, and one in economics and finance), two with MBAs, two experts with bachelor's degrees, and one member with a higher education qualification. Their fields of expertise are very diverse, covering economics, law and finance, pharmacy, physics, chemistry and engineering, with the theoretical and practical knowledge they have gathered at home and abroad proving complementary knowledge. Board members operate independently, but outwards act as a collective, putting forward differing opinions and criticisms at meetings, but always reconciling different views through constructive dialogue.

The Supervisory Board has dedicated most attention to adopting strategies and increasing the economic efficiency of company operations. It is always informed of current events at Krka.

The content to which the Supervisory Board dedicated most time at its first three meetings in 2008 related to the previous year's operations and the preparation of the 2007 Annual Report. It assessed operations as positive, approved the 2007 Annual Report for the Krka Company and Group, and discussed the special report by the auditing company KPMG Slovenija and its positive, unqualified opinions. The report included a verification of the Group's financial revenues and expenses along with the regular annual audit of the Krka Group's 2007 Financial Statements. The Supervisory Board had no comments on the auditor's work and the Auditor's Report. It discussed and adopted the report on its own work in 2007, and together with the Management Board compiled the Statement of Krka's Compliance with the Corporate Governance Code. It supported with the Company Management Board's proposal on the use of the accumulated profit, and proposed to the General Meeting that it issue its approval (discharge of liability) to the Management and Supervisory Boards for 2007. The Supervisory Board also studied the 2008 business plan of the Krka Company and Group at its final meeting of 2007, and an updated 2008 business plan for Krka Group operations at its first meeting of 2008, which took into account the acquisition of TAD Pharma GmbH, Cuxhaven.

The Supervisory Board monitored and supervised the work of the Management Board and the results of its work. In accordance with the relevant rules, it set the performance bonus for Management Board members in 2007 and the first half of 2008. It supported an amendment to Krka's Articles of Association enabling employees of Krka d. d. Novo mesto to participate in the company's accumulated profit on the basis of a General Meeting resolution. As in previous years, the Supervisory Board proposed that KPMG Slovenija, podjetje za revidiranje, d. o. o., Ljubljana be appointed as the company auditor for the 2008 financial year.

The Human Resources sector made a detailed presentation to the Supervisory Board of the results of a survey of the organisational climate in the Krka Group in 2007. Every three months, the Supervisory Board discussed the interim reports on the operations of the Krka Company and Group. As each year the Management Board prepared an overview of the Krka Group's operating results in comparison to select pharmaceutical companies, for 2007 and the first half of 2008. Based on the Rules on Treasury Shares, the Supervisory Board also studied a report on the acquisition and disposal of treasury shares each quarter. It also studied the state of legal claims brought by foreign companies against the Krka, d. d., Novo mesto and Group subsidiaries.

On the basis of a resolution of the 13th Annual General Meeting, the Supervisory Board adopted the fair copy of the Articles of Association of Krka d. d. Novo mesto, in which Item 3, Activity of the Company, has been harmonised with the standard classification of activities, and Item 6.16 has been amended with a provision on the possibility of employee participation in the company's accumulated profit. The Annual General Meeting approved the Supervisory Board's proposal that the terms-in-office of the Management Board and Supervisory Board members representing shareholder interests should be brought into compliance with the provisions in the company's Articles of Association and extended the terms-in-office by one year. The Supervisory Board approved the Rules on Trading in the Financial Instruments of the Company and brought the provisions of the Rules of Procedure for the Supervisory Board into compliance with the company's Articles of Association. On 1 August, it appointed a new secretary to the Supervisory Board.

At the Supervisory Board's final meeting in 2008, a special item on the agenda was devoted to studying the medium-term programme for new product development and the 2009 business plan of the Krka Company and Group. Board members investigated the possible impact of the global financial and economic crisis on Krka's future operations. They also defined how their work will proceed, approved the work schedule and set out the anticipated agenda for meetings of the Supervisory Board and the two committees (Audit Committee and Human Resource Committee) for 2009.

Krka's Management Board regularly informs the Supervisory Board in its meetings about current events within the Krka Group. This included information on the purchase of 17 hectares of land in Krško, where Krka plans to construct additional capacity for the production of specific chemical substances used in pharmaceutical ingredient production, the purchase of the 49% stake in Terme Krka-Strunjan d.o.o. from the partner, the Slovenian Association of War Veterans' Organisations, and the acquisition of the Vienna-based company Alternova Arzneimittel GmbH. Five members of the Supervisory Board attended the Anual General Meeting at the beginning of July 2008, and the Krka Awards ceremony in October. On 3 October, six members of the board attended the opening of the new chemical development laboratories, the opening of the new road named Andrijaničeva cesta in Novo mesto, and the unveiling of a sculpture at the crossroads there, while four members attended the opening of Hotel Balnea in Dolenjske Toplice in December 2008.

THE WORK OF THE SUPERVISORY BOARD COMMITTEES

The **Audit Committee**, chaired by Veselinovič, PhD, met twice. Andrej Korinšek, a certified auditor from KPMG Slovenija, attended the first meeting.

The Audit Committee proposed that the Supervisory Board approve the Krka Group and Company's 2007 Annual Report, the 2007 Auditor's Report, the Supervisory Board's report, and agreed that the Supervisory Board should propose that the Annual General Meeting issue their approval (discharge of liability) to the Management and Supervisory Boards of Krka d. d., Novo mesto. It also proposed that the General Meeting should reappoint KPMG Slovenija, podjetje za revidiranje d. o. o., Ljubljana as auditor for the 2008 business year.

It charged the certified auditor with the production of a detailed report on the financial revenues and expenses of the Krka Group in 2007 and a report on the inclusion of TAD Pharma GmbH in the Krka Group to be studied by the Supervisory Board. The Audit Committee discussed the report in 2009, when it reviewed the draft 2008 Annual Report of the Krka Group.

The Audit Committee gave its consent to the 2007 Annual Report on the work of the Internal Audit Department, to the report on the work of the Internal Audit Report for January to June 2008, to the Internal Audit Department's 2009 work programme, and the IAD's medium-term work programme for 2009 to 2013.

It studied the Rules on the Trading in the Financial Instruments of the Company and proposed their adoption by the Supervisory Board. It also discussed the proposal from the Human Resource Committee on the method of forming and the amount of the Supervisory Board's participation in the accumulated profit and supported it.

The **Human Resource Committee** met four times during 2008, chaired by Alojz Zupančič. It proposed to the Supervisory Board the level of performance bonus for Management Board members for 2007, and the advance payment of the bonus for the first half of 2008.

On the basis of government recommendations, it defined the level of Supervisory Board members' participation in Krka's accumulated

2008 Report
of the Supervisory Board

profit for 2007, and the method of dividing this amount among individual members, taking into account that the President of the Supervisory Board and chairs of the two committees were entitled to a slightly higher bonus due to the greater volume of work and greater responsibility.

It advised the Supervisory Board to propose that the General Meeting adopt a resolution extending the terms-in-office of the shareholder representative members of the Supervisory Board by one year, and prepared a proposal on the candidature of a replacement for a shareholder representative member of the Supervisory Board. Since the candidate withdrew from the candidature shortly before the General Meeting, the procedure to appoint a new Supervisory Board member is still underway.

At the proposal of its President, the Supervisory Board charged the specialist services with preparing, for discussion at the first meeting in 2009, draft amendments to the Rules on the Definition of the Bonus Element of Management Board Remuneration, so that the performance criteria will not only take into account a comparison of values achieved in the current and past year, but also with the average values for performance criteria since the start of the Management Board's term-in-office.

EVALUATION OF WORK OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The full complement of the Management Board participated in all meetings of the Supervisory Board. In general, Management Board members, most often the President, prepared additional introductory explanations for each agenda item, which they then expanded on with reports on ongoing events in the development and marketing of pharmaceutical products and raw materials, and responded exhaustively to frequent questions from Supervisory Board members.

The Supervisory Board evaluated the work of the Management Board on each occasion that it discussed the operating results for a period, with a particular focus on the twice-yearly meetings that include setting the performance bonus on the basis of the Rules. Every Management Board member was fully committed to fulfilling the annual business plan and achieving the strategic objectives, and the results achieved were very good. Since there were no problems or difficulties in relations between the Management Board and Supervisory Board, the Supervisory Board found there was no reason for members of the Management Board not to participate in any of the Supervisory Board meetings or discussion of any specific agenda item. The same applied to meetings of the Supervisory Board committees, which are usually only attended by the President of the Management Board and the Board member Zvezdana Bajc, who is responsible for economics and information processing.

Cooperation between the Supervisory Board and Management Board at meetings was optimal, direct communication between the Presidents of the two Boards also took place in between individual meetings. Krka's specialist services also carefully monitored the work of the Supervisory Board, introducing possible improvements on an ongoing basis, and working to ensure that the Board's work was well organised and that meetings ran as smoothly as possible.

In 2008 the Supervisory Board introduced self-assessment to its discussion of the Annual Report, and found that all members were well qualified and performed their work professionally. They worked as a coordinated unit, carrying out measures on a regular basis to improve the effectiveness of the Supervisory Board's work, and realised their objectives without difficulty.

The Supervisory Board members have continually demonstrated their willingness to engage in continual education and professional development. Draško Veselinovič, PhD, holds a B-licence for supervisory board membership, while the other members all received statements of qualification to serve as supervisory board and management board members in 2006. In 2008 individual members participated in one-day training sessions organised by the Association of the Supervisory Board Members, where they studied innovations in supervisory board operations.

No conflicts of interest arose in relation to the discussion of an item on the agenda or in Supervisory Board decision making.

All members of the Supervisory Board were closely involved in the work of the Board and its committees in 2008, which took place in accordance with legal provisions, the Corporate Governance Code, and other recommendations of the Ljubljana Stock Exchange, the Association of Supervisory Board Members, and the Managers' Association.

APPROVAL OF THE ANNUAL REPORT AND SUBMISSION OF THE PROPOSAL FOR USE OF THE 2008 ACCUMULATED PROFIT

The Supervisory Board examined the 2008 Annual Report of the Krka Company and Krka Group within the legal deadline. It also discussed the auditor's report, in which the auditing company KPMG Slovenija d.o.o. stated that the financial statements that are part of this Annual Report give a true and fair view of the financial position of the Krka Company and the Krka Group, the results of operations, its cash flows and changes in equity. The Supervisory Board did not make any comments on the auditor's report.

The Supervisory Board verified the 2008 Annual Report of the Krka Company and Krka Group in depth. Since it had no comments or reservations, it unanimously approved the Annual Report on 8 April 2009. With this, the Annual Report was formally adopted in accordance with Article 282 of the Companies Act and Krka's Articles of Association.

At the same time as approving the Annual Report, the Supervisory Board approved the proposal for the use of the accumulated profit. In 2008 the Company achieved a net profit of EUR 161,129,832.62, of which EUR 3,000,000.00 was appropriated to statutory reserves and EUR 50,000,000.00 to other revenue reserves. The remaining net profit of EUR 108,129,832.62 and the retained net profit of EUR 43,233,158.03 together comprise the accumulated profit, which stood at EUR 151,362,990.65 on 31 December 2008. The Management Board and Supervisory Board propose that the General Meeting appropriates the accumulated profit as follows:

- EUR 35,489,475.00 for dividends (EUR 1.05 gross per share),
- EUR 57,936,757.83 for other revenue reserves, and
- EUR 57,936,757.82 to be carried forward to next year.

In summary, Krka's operations in 2008 were very good. This is demonstrated, inter alia, by the numerous prestigious awards granted to Krka and some of its employees. The 2008 Annual Report, reviewed and unanimously approved by the Supervisory Board at its meeting on 8 April 2009 also demonstrates the positive operating results.

Dear shareholders, the members of the Supervisory Board are looking forward to 2009 with optimism, despite the unfavourable global conditions. Our optimism is based on our good business results over the past year, and an awareness that Krka can boast high quality, motivated managers and staff, who have successfully come through many crises in the past.

Gregor Gomišček, PhD
President of the Supervisory Board

business report

orientation

Man cannot discover new oceans
unless he has the courage to lose sight of the shore.

André Gide

Statement
on Corporate Governance

Krka's principles of corporate governance are based on valid legal norms in the Republic of Slovenia, the company's internal acts, and established best practice. The governance system operates with a two-tier system, where the management board manages the company, and the supervisory board supervises the work of the management board.

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

Krka responsibly exercises its rights and fulfils its obligations in relation to a range of stakeholders (shareholders, employees, creditors, customers, suppliers, the business environment, and the state). The strategy for communicating with various stakeholders is described in the chapter Communications.

GENERAL MEETING

The General Meeting is the highest body of the company, where the company's shareholders can participate directly and make fundamental and statutory decisions. Each share represents one vote at the general meeting. Krka does not have shares with restricted voting rights. Treasury shares do not offer any voting rights at the general meeting.

The Management Board normally convenes a regular general meeting once a year. The notice convening the annual general meeting is published at least 30 days before the general meeting is to be held. Shareholders recorded in the shareholder register on the date of record published in the notice convening the general meeting have the right to attend and exercise voting rights, and their representatives and proxies have the same rights, if they submit the appropriate power of attorney when registering for a general meeting.

At the General Meeting the Management Board provides shareholders with the necessary data, information and clarifications to assess the content of the general meeting agenda, taking into account any legal or other restrictions on the information disclosure.

The Thirteenth General Meeting of the Krka Company was held on 3 July 2008, and shareholders:
- discussed information on the Annual Report and the Supervisory Board's Report for 2007,
- decided on the appropriation of the accumulated profit and the dividend pay out,
- adopted the proposed amendments to the articles of association,
- decided on harmonising the term-in-office of Supervisory Board members with the provisions of the articles of association, and
- appointed the auditor for 2008.

The resolutions adopted by the 13th Annual General Meeting were published in the Delo newspaper, on the SEOnet electronic information system, and the Krka website (www.krka.si/en/finance/info/skupscine/).

The full material was available for viewing at the company's registered office, from the day the General Meeting notice was issued.

The 2009 Annual General Meeting (14th AGM) is scheduled for 2 July 2009. The announcement convening the General Meeting with the proposed resolutions and location of the meeting will be published on the Ljubljana Stock Exchange's SEOnet information system and in the Delo newspaper, and the entire text of the proposed resolutions, conditions for participation and material will be available on the Company's website.

Statement
on Corporate Governance

Seated from left: Anton Rous, Gregor Gomišček, PhD, Sonja Kermc. Standing from left: Draško Veselinovič, PhD, Mateja Vrečer, PhD, Alojz Zupančič, Tomaž Sever, MSc.

SUPERVISORY BOARD

The **main role** of the Supervisory Board is to supervise company operations and the management of them. The Supervisory Board also selects and appoints the members of the Management Board. The Supervisory Board meets at least four times per year, normally after each quarter of the business year.

The **composition** of the Supervisory Board is defined by the Company's Articles of Association. Members of the Supervisory Board are appointed for a period of five years and can be re-appointed.

The Supervisory Board also has an Audit Committee and Human Resource Committee to improve its work.

The **salaries, reimbursement and other benefits** for 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. Krka has not introduced a remuneration system for Supervisory Board members that includes share option programmes.

The same chapter also covers Supervisory Board members' **ownership of shares** in the company. Members of the Supervisory Board report any acquisition or disposal of company shares to the Company and competent institutions. Krka makes this information public.

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.si/en/finance/druzba/dokumenti/). Members of the Supervisory Board primarily take into account the Company objectives in their operations, and must subordinate any personal interests or interests of any third parties to those objectives. Each Supervisory Board member must notify the Supervisory Board of membership in the supervisory board of any other company.

The composition and function of the Supervisory Board and its committees in 2008 are presented in the Report of the Supervisory Board.

Statement
on Corporate Governance

SHAREHOLDER REPRESENTATIVES

Gregor Gomišček, PhD, 52 years
President of the Supervisory Board

Gregor Gomišček completed his natural science studies at the University of Ljubljana, and attained a doctorate from the Vienna University of Technology. He completed the General Management Programme at the IEDC Bled School of Management. He worked at the Institute of Medicinal Physics at Vienna University for almost 10 years, and is now employed at the Institute of Biophysics at the Faculty of Medicine in Ljubljana as an assistant professor. He also lectures at the Faculty of Social Sciences on technological policy in the United States.

Mateja Božič, MSc, 42 years
Deputy President of the Supervisory Board

Mateja Božič's master's degree is in management and organisation. She was first employed at the Petrol company, where she was actively involved in the restructuring process and the company's strategic development. Since 2003 she has worked as a consultant to the member of the Management Board for finance and energy management, being involved in controlling and the implementation of activity-based costs (ABC). She is currently a member of the Management Board of Kapitalska Družba (KAD).

Draško Veselinovič, PhD, 50 years
President of the Supervisory Board's Audit Committee

Draško Veselinovič attained his doctorate at the Faculty of Economics in Ljubljana. He completed specialisation studies in global finance, international marketing and international banking abroad. From 1989 to 2004 he was the founding president and CEO of the Ljubljana Stock Exchange. He is associate professor of international finance and capital markets at the Faculty of Economics in Ljubljana, and visiting lecturer for postgraduate programmes at the IEDC Bled School of Management and the Faculty of Economics and Business in Maribor, and a number of foreign faculties. He is a member – and representative of all new EU member states – of the European Payments Council within the European Banking Federation. Until the end of January 2009, he was the President of the Management Board of Deželna Banka Slovenije d. d., Ljubljana, and on 1 February 2009 became President of the Management Board of Nova Ljubljanska banka d. d, Ljubljana.

Anton Rous, 69 years

Anton Rous graduated from Faculty of Law in Ljubljana. In 1970 he began his 11-year mandate as managing director of Avtoradgona, before taking the post of CEO of SOZD Integral and then director of group business at Hidromontaža Maribor. After four and half years as president of the executive council of the City of Maribor he took early retirement. Until November 2008 he was a senior secretary in the Office of the Prime Minister of the Republic of Slovenia.

Alojz Zupančič, 70 years
President of the Supervisory Board's Human Resource Committee

Alojz Zupančič is a university graduate engineer in chemical technology and master's degree candidate in organisational and management studies at the Faculty of Economics of the University of Ljubljana. After working in Novo mesto, first at the INIS glass factory and then at IMV Motor Engineering he worked for Krka from 1969 until his retirement in 1998, first on development programmes as director of marketing for auxiliary pharmaceuticals, while his final position was consultant to the director of animal health products. In 2000 he briefly returned to the workplace as member and deputy president of the Management Board of Kapitalska Družba (KAD), Ljubljana. Since 1990 he has been a member of the municipal council of the City of Novo mesto.

EMPLOYEE REPRESENTATIVES

Sonja Kermc, 57 years

Sonja Kermc started her employment in Krka in 1976 as a graduate chemical engineer. She is currently head of the Applied Water Service and in charge of applied media systems and cooperation with the technological and technical engineering in the developing of new systems. She is currently serving her third term-in-office as member of the Works Council, and in the current 2004 to 2008 mandate is the council president.

Mateja Vrečer, PhD, 42 years

Mateja Vrečer started working for Krka in 1990 as a university graduate in pharmacy, and later gained a master's degree, doctorate and specialist examination in pharmaceutical engineering. She was first employed in the Research and Development sector, and is now Deputy Director of Quality Management. Since 2007 she has also been head of the International Quality Assurance Service. She is an internal auditor of Krka's quality systems and of our contractual partners, as well as a quality training supervisor.

Tomaž Sever, MSc, 41 years

Tomaž Sever attained a master's degree in organisational and management studies, following his first degree in mechanical engineering. From 1992 to 1995 he worked for IBM Slovenija d. o. o. in the field of information systems. He has been employed at Krka since 1995 and is currently Deputy Director of Sales and Director of Region Central Europe, primarily entrusted with Krka's strategy for individual markets and building up sales networks abroad.

Statement
on Corporate Governance

From left to right: Aleš Rotar, PhD, Zvezdana Bajc, Jože Colarič, Danica Novak Malnar, Janez Poljanec.

MANAGEMENT BOARD

The Management Board has the following **tasks**:
- to manage the Company and make business decisions directly and independently,
- to adopt the company's development strategy,
- to ensure appropriate management of risk, and
- to act with the care of a conscientious and honest manager and protect the business secrets of the Company.

The Management Board **comprises** five members:
- the President of the Management Board ,
- three members, and
- the worker director.

The Worker Director represents the interests of the employees in relation to human resource and social issues, but is not authorised to represent the Company.

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

The Rules of Procedure of the Management Board regulate the **management board's work** and the duties of individual members. It operates by coordinating opinions, and making 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 tasks, as may be seen from the presentation of their responsibilities. Each member is also responsible for a number of organisational units, which facilitates direct cooperation between the Management Board and the executive directors.

The following company bodies support the work of the Management Board:
- board of directors,
- development committee,
- quality committee,
- investment committee,
- human resource committee,
- information technology committee,
- sales committee,
- economics and finance committee, and
- corporate identity committee.

Statement
on Corporate Governance

The committees bring together specialists 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. The Rules on the definition of the Bonus Element of Management Board Remuneration, adopted by the Supervisory Board, define the performance bonus for Management Board members, depending on Krka Group's performance. Krka has not introduced a remuneration system for Management Board members that includes share option programmes. All salaries and reimbursements paid to Management Board members in 2008 are presented in the financial report, in the notes entitled Transactions with Related Persons.

The same chapter also covers Management Board members' **ownership of shares** in the company. Members of the Management Board and persons related to them report any acquisition or disposal of shares in the company or associated companies to the company and competent institutions. Krka makes this information public.

Management Board members must disclose the existence of any **conflicts of interest** to the Supervisory Board and also notify other members of the Management Board. Members of the Management Board are not at the same time members of the managing or supervisory bodies of unrelated companies.

MEMBERS OF THE MANAGEMENT BOARD

Jože Colarič, 53 years
President of the Management Board and Chief Executive

Jože Colarič graduated from the Faculty of Economics in Ljubljana. He has worked for Krka since 1982, and began work in the Finance sector. In 1989 he took charge of the Exports Service within the Import-Export sector. In 1993 he was named as the deputy to the Chief Executive for the area of marketing and finance, and in September of the same year started work as the Director of Marketing and Sales. In 1997 he was appointed as a Member of the Management Board. The following year the company's Supervisory Board appointed him as Deputy President of the Board, and in 2002 recognised him as future President of the Management Board, placing him in charge of the proposal for the new Management Board team. At the meeting of 12 July 2004, the Supervisory Board appointed him the President of the Management Board and the Chief Executive. His current term-in-office expires on 31 December 2009, but at its meeting of 21 January 2009 the Supervisory Board entrusted him with a new term-in-office, lasting 6 years.

Janez Poljanec, 62 years
Member of the Management Board and Director of Product Supply

Janez Poljanec is a graduate of the Faculty of Natural Science and Technology and has worked for Krka since 1974. In 1979 he was made Director of the Overseas Division within the Import-Export sector, and later became director of the entire sector. From 1985 to 1989, he worked for Krka through Generalexport in Combick, Frankfurt, and in 1990, he again took over management of the Import-Export sector. In 1993 he became director of Procurement and Logistics, and four years later the Supervisory Board appointed him to the Management Board. He began his second term-in-office as a Management Board member on 31 July 2002, and was reappointed for the period 31 July 2007 to 31 December 2009. Since 2002 he has been Director of Product Supply.

Aleš Rotar, PhD, 49 years
Member of the Management Board and Director of Research and Development

Aleš Rotar attained his doctorate from the Faculty of Natural Science and Technology in Ljubljana, and completed the international MBA at the IEDC centre in Brdo. He started his work in Krka in 1984 in the Stability Department. In 1991 he was made head of the Division for Pharmaceutical Technology, and two years later became Head of Pharmaceutical Development in the Research and Development sector. In 1998, he became the Deputy Director of R&D, and in 1999 was made Director. He became a member of the Management Board in 2001, and began his second term-in-office on 31 July 2002. He was reappointed for the period 31 July 2007 to 31 December 2009. He has been Director of Research and Development since 2002.

Zvezdana Bajc, 56 years
Member of the Management Board and Director of Economics and Information Processing

Zvezdana Bajc is a graduate of the Faculty of Economics in Ljubljana and has worked for Krka since 1977. Her career began in the Economics sector, and in 1979 she moved to the Investment Services. In 1986 she took over as director of the Economic Planning Division. Since 1999 she has been the Director of Economics and Information Processing. Her term-in-office as Management Board member started on 1 April 2005, and she remains Director of Economics and Information Processing. Her term-in-office expires on 31 December 2009.

Danica Novak Malnar, 52 years
Member of the Management Board – Worker Director and Head of Pharmaceutical Production

Danica Novak Malnar is a graduate of the Faculty of Natural Science and Technology in Ljubljana and has worked for Krka since 1982. In 1986 she became Head of the Pharmaceutical Division in Ljutomer, and then for six years led the Division for Operative Production Planning. In 1994 she was placed in charge of the Production Planning Department. In 1998 she was appointed to the Management Board as the worker director, and was most recently reappointed by the Works Council and approved by the Supervisory Board in 2007, with her current term-in-office beginning on 1 January 2008. Since 1999 she has been in charge of pharmaceutical production.

GOVERNANCE OF THE KRKA GROUP

The Krka Group consists of the controlling company Krka d. d., Novo mesto, a subsidiary in Slovenia, and a number of subsidiaries abroad. All functioning subsidiaries are 100% owned by the Krka Company.

The operations of these companies take place in accordance with local legislation and mandatory rules and instructions for the operation of companies in the Krka Group, which are adopted by the Management Board of the controlling company.

To improve the cohesion of the Group and offer the best possible supervision of subsidiaries' operations, the Krka Company's Management Board functions as the general meeting for the subsidiaries. The members of the Management Board, depending on the provisions of the legislation of the country in which the company operates, also function as members of the supervisory boards, supervisory committees or board of directors of the subsidiaries, but do not receive any separate payment for that work.

Krka also manages the companies within the Group at the functional level, particularly in the field of marketing, development, supply chain, financing, human resources and IT support.

INTERNAL AUDITING

Internal auditors carry out their mission within the Krka Group on the basis of the medium-term work plan for 2006 to 2009. In line with the 2008 annual work programme, 13 regular internal audits were carried out. The first audit cycle was successfully concluded in 2008. The work plans and reports on the work of the internal audit service are adopted and approved by the Management Board and the Supervisory Board's Audit Committee.

Internal auditing objectives related primarily to gaining assurances that internal control systems were in place and functioning and to assess their efficacy. The main focus was on verifying the realisation of set objectives and the performance of individual organisational units within the Krka Group.

Internal audits were carried out in the fields of marketing, sales, IT, human resources, training, quality control and management, energy supply and public relations. The internal auditors were able to give assurance that the internal controls for these processes were in place and functioning effectively, and supported risk management. Two subsidiaries and a number of representative offices abroad were also subject to internal audits.

In some areas the internal auditors found there were still possibilities for improving processes. Internal auditors set out numerous recommendations in that regard, and later checked if they had been implemented.

Internal auditors also performed consultancy work and were involved in individual company projects. They also work with external auditors, certified information system auditors (CISA) and the Supervisory Board's Audit Committee.

In 2009 internal auditors have been preparing for an independent external assessment, since Krka wants to acquire an opinion on the compliance of its work with Internal Audit Standards.

INTERNAL CONTROLS AND RISK MANAGEMENT RELATING TO FINANCIAL REPORTING

Internal controls are guidelines and procedures that the Krka Group has put in place and implements at every level of operation to manage risk relating to financial reporting. The purpose of internal controls is to ensure operational efficiency and effectiveness, the reliability of financial reporting and compliance with applicable legislation and other internal and external regulations.

The main accounting controls are:
- controlling the accuracy of financial data, which is achieved with various methods (e.g. reconciling open positions with customers and suppliers);
- controlling the completeness of data capture (e.g. document numbering, checking document sequence);
- controlling the division of responsibilities and duties (e.g. record-keeping separate from payments);
- controlling supervision and checking the work and training of employees who work with financial data.

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 record keeping from payments, professionalism of 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.

Statement on Corporate Governance

EXTERNAL AUDITING

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

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

Transactions between the Krka Company and the auditing company KPMG Slovenija, podjetje za revidiranje, d.o.o. and transactions between companies within the Group and individual auditing companies are disclosed in the notes to the financial statements entitled Transactions with Auditing Companies.

Statement on Corporate Governance

CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT

The Management Board and Supervisory Board of Krka, tovarna zdravil, d. d., Novo mesto hereby state that in 2008 individual members of the Management and Supervisory Boards, and the Management and Supervisory Boards as bodies of a public limited company have acted in compliance with the principles of governance for public limited companies and have worked to ensure their implementation within the company.

Krka complies with almost all the provisions of the Corporate Governance Code in their entirety, which has been valid since 5 February 2007, and is published in Slovene and English on the website www.ljse.si.

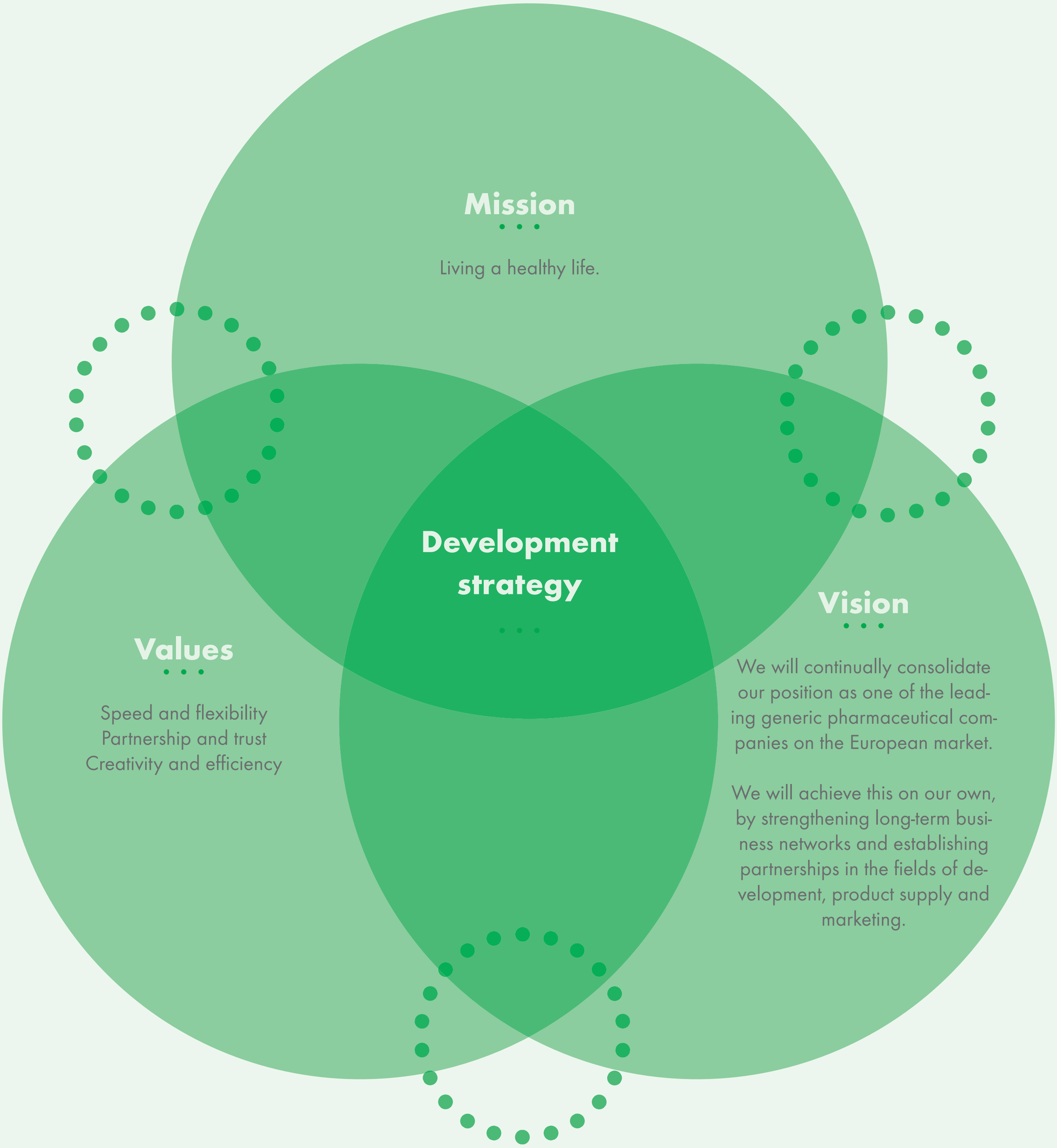
The exception is Point 1.2.6. Organised Collection of Proxies. The Company operates and publishes information as transparently as possible via public media and its own website, and the special issue of the Utrip review, which small shareholders receive before each general meeting, which encourages all shareholders to actively and responsibly exercise their rights. Nevertheless, the company does not organise the collection of proxies, which encourages shareholders to participate in general meetings in person, or to exercise their rights of governance at general meetings via proxies they select themselves.

Jože Colarič
President of the Management Board

Gregor Gomišček, PhD
President of the Supervisory Board

Novo mesto, 8 April 2009

The Krka Group
development strategy



The Krka Group
development strategy

KEY STRATEGIES AND OBJECTIVES – TO 2012
Achieving over 10% average annual growth in sales, expressed in euros.
Maintaining the proportion of new products in overall sales above at least 40%.
Strengthening the competitive advantage of the product portfolio by maintaining vertical product integration and launching selected products as the first generic on selected key markets.
Improving performance indicators.
Making effective use of assets and improving product cost-effectiveness.
Improving competitiveness in the management of intellectual potential.
Increasing innovation.
Maintaining independence.

The Krka Group's development strategy for 2008 to 2012 was adopted at the end of 2007. At the same time the performance criteria were updated, used to assess the implementation of the strategy at all three levels: at the Group level, independent product group level, and individual business function level. The Group performance criteria are monitored by the Management Board, while criteria at the level of product groups and business functions, which have been combined with improvement objectives for greater transparency and standardisation are monitored by the relevant committees. The guiding principle in managing the criteria system is to increase the competitiveness of individual companies and the entire Group.

The dynamism of the pharmaceutical sector means that the Krka Group modernises its development strategy every two years. The Krka Group strategy for 2010-2014 is currently in preparation, and is set for adoption by the end of 2009.

KEY STRATEGIES – TO 2012
Prioritising focus on European and central Asian markets.
Prioritising the strengthening of pharmaceutical and chemical activities.
Strengthening vertical integration.
Developing generic medicines and preparing marketing authorisation documentation at least three years before the expiry of the patent for the original medicine.
Strengthening competitiveness in western European markets by establishing its own marketing companies.
Strengthening the professional and cost synergy of the Krka Group, and maximising utilisation of competitive advantages in the business environments of Krka companies abroad.
Restructuring the purchasing market to ensure the continual reduction of purchase prices.
Strengthening the internationalisation of all business functions.
Reducing the impact of financial risk and economic risk on Krka Group's operations.
Pursuing a moderate dividend increase policy.
Continued growth of market shares through the purchase of local pharmaceutical companies or business acquisition in selected markets.
Maintaining our economic, social and protection responsibilities for the environment in which we operate.
Operating according to principles of business excellence.

KRKA GROUP'S BUSINESS OBJECTIVES FOR 2009
The product and service sales target is EUR 1,062 million (12% growth).
The planned proportion of sales on markets outside Slovenia is 89%.
Prescription pharmaceuticals, with growth anticipated at 9%, will remain the most important product group, and are expected to represent 81% of overall sales.
Numerous new prescription pharmaceutical products will be marketed in key indication groups.
The planned net profit is EUR 161 million.
At the end of 2009 the Group will have 8055 employees, almost 48% of them abroad.
Investments worth a planned EUR 161 million will primarily be aimed at increasing and modernising R&D, production capacity and infrastructure.

Macroeconomic forecast for 2009

Global macroeconomic conditions in 2009 offer new challenges and opportunities. The anticipated macroeconomic conditions in 2009 on Krka's key markets and countries in which the volume of sales almost match the key markets are presented below. Health policies and health-care expenditure are less cyclical in nature than the general national or global economic conditions, so even in 2009 we can expect double-digit growth.

MACROECONOMIC ENVIRONMENT FORECASTS FOR 2009

Country	Growth in pharmaceuticals market (%)	Forecast value of pharmaceuticals market	FX-rate (currency/EUR)
SLOVENIA	5	EUR 500 million	Eurozone
CROATIA	3–5	EUR 680-700 million	7.45
RUSSIAN FEDERATION	5–8	EUR 9,300 million	49.0
POLAND	0	EUR 4,900 million	4.70
WESTERN EUROPE	2	EUR 150,000-155,000 million**	Mainly Eurozone
ROMANIA	5	EUR 1,800 million	4.25
UKRAINE	Minimal growth	EUR 1,450 million	9.50*
CZECH REPUBLIC	–3	EUR 1,780 million	28.20
HUNGARY	–18	EUR 1,650 million	300

Sources: European Commission, Raiffeisen, Economist.com
* Exchange rate to US dollar.
** Forecast value for entire pharmaceutical market in 2009 for 11 countries in western Europe (Austria, Belgium, France, Germany, Ireland, Italy, Netherlands, Portugal, Spain, Switzerland and the UK) taking forecast growth into account.

SLOVENIA

Given the slowdown in economic growth on key Slovenian export markets and the reduction in investment activity, particularly in infrastructure and real estate, a reduction in GDP of several per cent is expected. We anticipate that government measures will facilitate renewed strengthening of the economy by the end of the year, or at least prevent any greater fall in GDP. Inflation is expected to fall, due mainly to reduced demand and lower oil prices. The increase in public spending, such as social transfers and public sector labour costs, and a slight reduction in tax revenues means a budget deficit is anticipated, which will probably be reduced in 2010 as the economy strengthens.

With anticipated growth of 5%, the Slovenian pharmaceuticals market should reach a value of approximately EUR 500 million in 2009.

CROATIA

Following an extended period of high economic growth, the impact of the financial crisis in Croatia has been relatively limited to date. In 2009, given the more difficult financing conditions on the domestic and foreign credit markets, one can expect a slowdown in economic growth, particularly due to a reduction in exports and the country's relatively high external debt. The major challenges awaiting Croatia are economic reforms, particularly in healthcare and shipbuilding, and EU negotiations. Despite this, Croatia has maintained a relatively positive macroeconomic position compared to other countries in the region, since it already fulfils many of the accession criteria for EU entry, while also being one of the most developed. One remaining challenge is the Croatian economy's high level of foreign debt. The kuna's exchange rate in the latter half of 2008 surprisingly strengthened, which was due in part to high interest rates on the money market, so this is unlikely to be a long-term trend.

Predictions suggest that in 2009 the Croatian pharmaceuticals market will grow by 3 to 5% to a value of around EUR 700 million.

RUSSIAN FEDERATION

In 2008 the Russian Federation recorded strong economic growth for the tenth consecutive year. The average growth over the period from 1999 to 2008 was around 7% per annum. Low economic growth is expected in 2009, particularly due to the spread of the financial crisis into the real economy, a poorer trading position due to lower oil prices, and a reduction in demand. The rouble exchange rate against the euro will probably fall in 2009 compared to 2008, and the Russian central bank is expected to persist in its policy of managing a balanced floated exchange rate. The country's budget surplus will probably halve over the next two years as a percentage of GDP due to the fall in oil prices, but will remain around 3%. The European Commission has forecast economic growth of 1% for the Russian Federation, which will be helped in particular by the government's stimulation package, and a somewhat lower exchange rate for the rouble, which will assist exporters. The economy will start to regain strength in 2010, when GDP is expected to exceed 2%.

The pharmaceuticals market will be worth around EUR 9.3 billion, with growth between 5 and 8%.

Macroeconomic forecast for 2009

POLAND

Despite a sound economic basis, a slowdown is also expected in Poland. The state has experienced a considerable drain of investors and capital, but its financial system, which is based on 'universal bank' operations, supported by deposit financing, seems robust. It is expected that some smaller and medium sized banks, which are partially foreign owned, may face problems in acquiring external sources of financing. A reduction in household and investment spending is expected in 2009, which together with the reduction in exports will lead to lower level of economic growth, however, at almost 2% it will still significantly outstrip growth in the Eurozone. According to Polish central bank forecasts, the annual inflation figure will drop below 3.5%. This will be facilitated by stricter conditions on the credit market, falling economic growth and lower growth in salaries. The same forecast suggests that employment will also fall in the coming year.

Forecasts suggest that the value of the Polish pharmaceutical market will remain at the 2008 level, i.e. EUR 4.9 billion.

WESTERN EUROPE

In the opinion of the European Commission, the economic prospects for 2009 are not very positive, since economies in the Eurozone and the EU, which were significantly affected by the financial crisis in 2008, will on average probably remain at the same level or even fall slightly. The economic situation will depend mainly on the extent to which problems in the financial system spill over into the real economy, and whether the financial markets have already hit the bottom. Despite this and due largely to the fact that the ECB and national governments have been decisive and committed to resolving the crisis, we can expect economic growth to revive at the end of 2009 or during 2010.

ROMANIA

High spending, foreign investment inflows and an expansive fiscal policy helped Romania to achieve record real economic growth in 2008, but this will slow down in 2009. The structure of budget spending is one of the key medium-term objectives, which will lead to an increase in the government deficit due to institutional factors and the focus on current spending. In 2009 the expected rise in pensions, a probable increase in public sector salaries and the effect of reduced contributions to the public purse have led to forecasts of an increased budget deficit alongside stagnation in the investment as a proportion of public spending. The challenge remains the trade balance, which Romania has so far financed from foreign investment inflows, and increasingly from short-term borrowing abroad. The Romanian lei is expected to fall against other currencies, and its value against the euro is expected to fluctuate more.

The estimated value of the Romanian pharmaceutical market in 2009 is EUR 1.9 billion, with growth at 5%.

UKRAINE

In 2008 Ukraine experienced considerable reduction in industrial production and the prices of iron and steel, which represents a major proportion of exports, alongside double-digit inflation and increasing difficulties in acquiring external financing. GDP is forecasted to fall in 2009. The government adopted a number of mechanisms to mitigate the crisis, including austerity measures, while the state also received IMF assistance. In November 2008 the value of the local currency fell, and that is expected to continue in 2009. The IMF and the Ukrainian central bank want to pursue a controlled and gradual policy that nevertheless allows the currency to settle at more manageable level of UAH 7 or 8/USD.

Minimal growth is expected in the value of the Ukrainian pharmaceutical market, with forecasts at around EUR 1.5 billion.

CZECH REPUBLIC

As in other EU states, a reduction in real economic growth is also expected in the Czech Republic, though at 2% it will still be among the highest in the EU. The reduction in business taxes will have a favourable impact on company investment and foreign investment. The impact of the various tax and fiscal changes of 2008, such as amendments to income tax and VAT, and reductions in social transfers, are not expected to have a negative impact on the budget. The lower economic growth and reduced price growth pressure mean that interest rates will continue to fall, weakening the exchange rate of the Czech koruna.

The value of the Czech pharmaceutical market in 2009 is expected to remain under EUR 1.8 billion, which means a 3% fall compared to 2008.

HUNGARY

Economic activity slowed significantly in Hungary in the second half of 2008, and particularly in the final quarter, when economic growth was negative. The more difficult conditions for acquiring credit, increased costs of financing, and poor prospects for international trade form the basis for forecasts of a slowdown in 2009. Towards the end of 2009, the IMF and EU, with a somewhat smaller contribution from the World Bank, prepared a rescue package for the Hungarian economy, which will improve the country's financial stability, while introducing some less popular restrictions to budget spending. The local currency was significantly weakened in 2008. The many effects of this fall, included the difficulties faced by businesses and individuals that had taken out loans in foreign currencies. The central bank introduced a steep rise in interest rates to prevent capital migration. This will probably stop the forint from falling further, but will also reduce economic activity further.

The value of the Hungarian pharmaceutical market in 2009 will probably fall by around 18% given the weakening of the forint, down to around EUR 1.65 billion.

Risk management

Ensuring a rapid response to market conditions and high growth in operations in the international environment bring with them the need to manage and eliminate a range of operational and financial risks as effectively as possible. Krka has identified all key forms of operational and financial risk, and charged organisational units with managing them.

Operational risk is managed on decentralised basis, while financial risk is managed on centralised basis. The company management approves risk management measures and mechanisms, and receives reports on their effectiveness. Actions and results relating to operational risk are monitored on a regular basis by various committees, while the Finance sector is charged with managing the Krka Group's financial risk.

The Krka Group systemically monitors the quantity and quality of exposure to various forms of risk. The upgraded risk management system allowed Krka to successfully manage its risk in 2008 in the areas set out below.

OPERATIONAL RISK

Risk area	Description of risk	Risk management method	Exposure*
Intellectual property	Risks relating to intellectual property rights of third parties or unjustified use of Krka's intellectual property	Krka consistently respects the intellectual property of others, while forming provisions for potential lawsuits	Moderate
Regulatory procedures	Risk of potential changes in legislation or their interpretation	Consultation with regulatory authorities in product development process	Moderate
Development process	Risk that developed product will not have appropriate properties or will not be appropriate in terms of the patent situation	Vertically integrated business model, monitoring patent situation and market conditions	Moderate
Reliability of suppliers and contractual partners	Possibility of irregular supplies or uncompetitive prices	Performing risk analysis of individual suppliers and adopting appropriate measures in case of inappropriate business relations with a supplier	Moderate
Availability of production capacity	Unplanned shutdowns, interruptions, or production errors	Business interruption insurance, regular preventive maintenance and tests	Low
Environmental protection	Risk of accidents occurring with a negative impact on the environment.	Preventive drills and prescribed internal measures for emergencies	Low
Information sources	Risk of disruption to business processes due to non-availability to information sources; damage caused by disclosure of business secrets or use of erroneous information or data	Risk management including measures to eliminate critical risk, independent security checks	Moderate
Employees	Risk of loss of key staff, lack of professionally qualified staff, social dialogue with employees	Systematic work with key staff, remuneration system, staff development, continual education, measuring of organisational culture and climate	Moderate
Health and safety at work	Risk of injuries or accidents in the workplace	Testing technological procedures, computer-supported risk assessment system	Moderate
Asset protection	Risk of assets being stolen or destroyed	Preparing security plan	Moderate

* Exposure indicates the likelihood of the risk occurrence and level of potential damages or losses.

FINANCIAL RISK

Risk area	Description of risk	Risk management method	Exposure*
Foreign exchange risk	Risk of losses due to unfavourable exchange rate movements.	Managing open currency positions, monitoring currency markets, hedging with appropriate financial instruments.	Considerable
Interest rate risk	Risk of losses due to unfavourable interest rate changes, or changing financing and borrowing conditions.	Monitoring interest rate changes, negotiations with credit institutions, hedging with appropriate financial instruments.	Low
Credit risk	Risk of customers defaulting on payment.	Restricting maximum exposure to individual customers, active management of receivables, calculating credit ratings.	Moderate
Liquidity risk	Risk of lack of liquid assets to settle financial and operating liabilities.	Agreed credit lines, cash-pooling, and planning liquidity requirements.	Low
Risk of damage to property	Risk of damage to property due to natural disasters (e.g. fire, explosion, flood, wind, lightning) and other loss events (e.g. damage to goods, deliberate damage of assets, traffic accidents).	Systematic threat assessment, taking measures in line with fire prevention studies, and arranging appropriate insurance.	Moderate
Risk of claims for damages and civil lawsuits	Risks of claims by third parties due to loss events caused accidentally by a company's activities, property or placing products on the market.	Insurance for civil, employer and ecological liability, product liability insurance, and clinical testing liability.	Moderate
Risk of financial losses due to business interruption	Financial damages due to interruption of production due to damage to property.	Insurance of labour costs, amortisation and depreciation, other business costs and operating profit, and technical and organisational measures to reduce impact of business interruption.	Low

* Exposure expresses the likelihood of the risk occurrence and level of potential damages or losses.

OPERATIONAL RISK

At Krka operational risk covers the following areas: research and development, managing incoming materials (suppliers and contractors), production process and production capacity management, environmental management, information resources and computer-managed processes, employees, health and safety at work, foodstuffs safety, and asset protection.

RESEARCH AND DEVELOPMENT

Managing risk in the field of research and development is particularly important, given the nature of the pharmaceutical industry. The major areas of risk in this field are set out below.

Intellectual property risk. Current situation analysis is part of the development of every product, and is used to check exposure to risk of violations of the intellectual property of third parties and related lawsuits. Krka has provisions for potential lawsuits. Krka protects its own solutions with patents as early as possible in the R&D phase, and use appropriate mechanisms to participate in patent-granting processes from the competent authorities. Krka also protects its own brands, as an important element of industrial property management.

Regulatory risk. Regulatory risk management, which is related to changes in legislation and its interpretation, begins in the early stages of developing a new medicine and lasts throughout the whole product life cycle. Krka assesses its development solutions for an individual product together with the regulatory authorities using official advisory mechanisms and the planned content of marketing authorisation documentation. This reduces the risk of problems or even failure occurring during the product registration and extended authorisation procedures. Krka actively cooperates in the preparation of legislative amendments in this field via the working groups of industrial associations.

Development process risk. This relates to the technological and technical risk that an attribute a product requires cannot be obtained or that it is deficient is some other way in relation to the patent situation. These risks can be reduced by introducing new development processes and methods and with our own and acquired knowledge in the research and development field. The final product must be good quality, safe and effective. The processes introduced in the early phases of development reduce the risk of a product having negative properties. An important factor in improving management of these risks is the vertically integrated development and production model, which is used to control the entire production process from raw materials to the final product. Market conditions and the patent situation are also monitored continually.

For more see the chapter Research and Development.

RELIABILITY OF SUPPLIERS AND CONTRACTUAL PARTNERS

Krka sources its incoming raw materials from a limited number of suppliers. This ensures a safe, good quality and competitive supply. In 2005 Krka started performing risk analyses of contractual partners, suppliers, and pharmaceutical ingredient producers. The results of individual analyses are used to define priority assessments, which Quality Management personnel use in partner companies. Based on these assessments, agreements are reached with partners on measures to be taken, while in extreme cases a decision may be made to quit partner cooperation and seek for other solutions.

AVAILABILITY OF PRODUCTION CAPACITY

The reliable and high quality operation of production capacity is ensured by maintaining key strategic equipment and energy supply system. The planning, implementation and supervision of preventive maintenance has been made simple and more transparent by the use of the SAP PM information system. This system is used to maintain a wide-ranging and up-to-date database. It allows the detection of potential critical production points, and as a consequence supports the effective and timely decision-making and action as well as cost management. The results of efficiency and availability measurements for critical equipment are analysed regularly and used to find methods to improve performance. Risk is further reduced by means of the comprehensive system of continual training and updating of knowledge, for technical personnel and production operators, who apply their new knowledge of production line set-up to product changeovers, making a major contribution to improving the efficiency and utilisation of machinery.

Internal risks relating to energy source failure have been reduced by installing reliable devices offering flexible capacity that is continually adapted to expansions in production capacity and continual modernisation of energy supply systems.

ENVIRONMENTAL PROTECTION

Some accidents can have a negative impact on the environment, so it is important to take effective action to reduce the risk of accidents. Krka has an internal procedure for recognising accidents. All potential accidents are identified and evaluated, while actions and measures should such events occur are defined. The probability of accidents occurring is reduced by preventive measures. Training and drills are used to ensure that any accident that does occur has a minimal impact on the environment. There were no accidents in 2008.

For more see the chapter Environment Protection.

INFORMATION RESOURCES

A set methodology is used to define the criticality of information resources, based on assessments of the criticality of processes and the criticality of an information resource to an actual process. The criticality of information resources is assessed in terms of availability, confidentiality and integrity. The major information resources are individual information services and applications. The criticality level is summarised for all infrastructural elements on which the information service or application depends. One threat detection method is independent security inspections of information infrastructure. Threats and risks to all critical infrastructure elements were identified, and the company Management Board approved acceptable risk levels and the measures required to eliminate critical risks.

EMPLOYEES

A lack of the right personnel is an increasing problem on the labour market. Krka therefore systematically plans and implements educating and training for its employees in order to achieve national vocational qualifications. Specific attention is paid to key staff members, who are an increasingly important factor in the competitiveness of the company. Their education and development is planned and monitored, while their responsibilities in the workplace are increased, and they are encouraged to take on new duties and positions.

Together with other incentives, we engender greater company loyalty, and reduce the possibility of them leaving. The increase in the number of grants offered to university students is one method of avoiding a lack of key staff, which is exacerbated by a demographic decline. This method ensures the conditions required to meet the planned strategic, development and sales plans.

For more see the chapter Employees.

HEALTH AND SAFETY AT WORK

Using an internal methodology and in accordance with the Safety Declaration, we assess the probability of specific events occurring and the seriousness of such events, and the health implications for individual work positions. Risk is assessed periodically, and action is taken to reduce risks to acceptable levels. In addition to assessing risk in the workplace, the risk from individual technological procedures is also assessed. For more see the chapter Health and Safety at Work.

ASSET PROTECTION

The first systematic assessment of threats to individual facilities was carried out in 2004, with a follow-up in 2006 using an updated methodology. A further assessment was carried out in 2008. In addition to the probability of a specific event occurring (destruction or theft), the probability of the timely discovery of an event and possibility of eliminating the consequences are also taken into account. A security plan was produced to manage asset protection and keep it at an acceptable level.

FINANCIAL RISK

FOREIGN EXCHANGE RISK

Due to wide-reaching international operations, Krka Group is exposed to exchange rate risks relating to the US dollar, Polish zloty, Croatian kuna, Russian rouble, Hungarian forint, Serbian dinar, and Macedonian denar.

The open currency position represents a gross exposure in specific foreign currencies for the Krka Group's balance sheet.

The US dollar position closed somewhat in 2008 due to change of invoicing currency of the parent company to euros. The position in other currencies did not change in comparison to the previous year. More information on exposure to exchange rate risk is provided in the notes the financial statements in the chapter Financial Instruments.

The exchange rate hedging policy did not change in 2008. Krka actively managed exposure to changes in the US dollar exchange rate, which is a major risk to business results. Part of the open position in US dollars was hedged by derivatives, and part was left unhedged. Forward contracts were used for hedging. Krka achieved foreign exchange gains on its open position in US dollars in 2008.

Krka did not hedge Polish zloty, Croatian kuna, Russian rouble, and Serbian dinar exposure. Declining exchange rates in the second half of 2008 led to foreign exchange losses, which were largely neutralised by foreign exchange gains from the first half-year, when then value of such currencies grew against the euro.

VALUE AND VOLATILITY IN KEY EXCHANGE RATES

	31. 12. 2007	31. 12. 2008	Lowest value	Highest value	Average value	Standard deviation	Coefficient of variation (%)
USD	1.47	1.39	1.25	1.60	1.47	0.10	7
PLN	3.59	4.15	3.20	4.17	3.51	0.21	6
HRK	7.33	7.36	7.10	7.36	7.22	0.06	1
RUB	35.99	41.28	34.15	41.30	36.45	1.08	3
RSD	79.23	88.60	75.74	91.26	81.46	3.54	4
MKD	61.47	61.42	61.33	61.59	61.41	0.06	0

Coefficient of variation = standard deviation/average value

INTEREST RATE RISK

At the end of 2008, the Krka Group had three long-term loans, linked to the 6-month EURIBOR. In 2008 the Krka Group did not take out any long-term borrowing, so its exposure to interest rate risk did not increase. More information on exposure to interest rate risk is provided in the notes to the financial statements in the chapter Financial Instruments.

In 2008 the European Central Bank lowered its key interest rate by 150 base points. New derivative contracts were not taken out due to expectations of further falls in the reference interest rate. At the end of the year, the interest rate swap instruments entered into in 2004 to fix the interest rate for one of Krka's long-term loans expired, so at the end of 2008 Krka had no interest derivative contracts on its books.

VALUE AND VOLATILITY OF THE 6-MONTH EURIBOR

	31. 12. 2007	31. 12. 2008	Lowest value	Highest value	Average value	Standard deviation	Coefficient of variation (%)
6-month EURIBOR	4.70%	2.97%	2.97%	5.45%	4.73%	0.54	11

Coefficient of variation = standard deviation/average value

Risk management

CREDIT RISK

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

Credit control has positive impacts. Krka keeps its credit exposure within acceptable limits given the difficult market conditions through the regular monitoring of open and overdue trade receivables, maturity structure of receivables, and average payment terms. More information on exposure to credit risk is provided in the notes to the financial statements in the chapter Financial Instruments.

Credit control for the entire Krka Group is done by the Risk Management in the Finance Division and is organised for customers of subsidiaries and the controlling company according to standard procedures and rules. There were no major receivables write-offs in 2008.

LIQUIDITY RISK

The Krka Group liquidity risk management is centralised, and includes a number of mechanisms to reduce it at the controlling company and subsidiary levels. Given its traditionally low level of indebtedness and good credit rating, the Krka Group's liquidity risk is low, despite the current challenges on financial markets.

In 2008 Krka introduced cash pooling for its subsidiaries in Slovenia (Terme Krka d. o. o. and Terme Krka-Strunjan d. o. o.) to optimise its cash flow. The key objectives of cash-pooling are:

- providing the Krka Group with access to financing under the most favourable conditions possible,
- centralised cash management, and
- optimising interest revenues and expenses.

Last year Krka upgraded its cash flow planning, which is supported by the Company's central business information system.

Below is a summary of key liquidity ratios (current, quick and acid test ratios), and a number of ratios for assessing current asset and liability management effectiveness. In 2008 working capital grew slightly, due to increased inventories and receivables. Short-term borrowing increased slightly in 2008 compared to the previous year. Short-term financing takes place on the basis of arranged credit lines with banks, which the Krka Group uses to cover any liquidity needs.

LIQUIDITY RATIOS FOR THE KRKA GROUP AND A COMPARISON WITH SELECTED AVERAGES

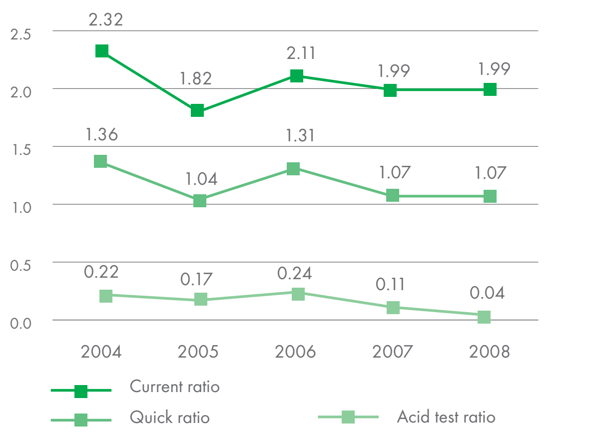
	2008	2007	2006	2005	2004	Krka's 5-year average
Current ratio	1.99	1.99	2.11	1.82	2.32	2.05
Quick ratio	1.07	1.07	1.31	1.04	1.36	1.17
Acid test ratio	0.04	0.11	0.24	0.17	0.22	0.16
Receivables turnover ratio	4.01	4.34	4.34	4.02	4.74	4.29
Working capital ratio (%)	33.82	29.67	29.70	27.80	26.57	29.51

Current ratio = current assets/current liabilities
Quick ratio = (current assets – inventories)/current liabilities
Acid test ratio = (financial investments + short-term loans granted + cash and cash equivalents) /current liabilities
Receivables turnover ratio = net sales revenues/accounts receivable and other receivables
Working capital = (current assets – cash and cash equivalents) – (current liabilities – short-term borrowing)

The capacity to service financing liabilities on a regular basis is important when assessing the Krka Group's liquidity risk. The Group's indebtedness is traditionally low, so the difficult financing conditions have little impact on operations. The net debt/EBITDA and EBIT/interest expenses ratios disclosed in the chapter Business Operations Analysis (ratios), indicate that the Krka Group could pay of all its net debt in approximately half a year, while annual interest expenses represent less than 4% of operating profit.

More information on exposure to liquidity risk is provided in the notes to the financial statements in the chapter Financial Instruments.

MOVEMENT IN LIQUIDITY RATIOS
FOR THE KRKA GROUP



PROPERTY, BUSINESS INTERRUPTION AND LIABILITY INSURANCE

Insurance is one of the Krka Group's key measures for overcoming and managing risks, their consequences and their sources, which has an important influence on maintaining economic strength, growth and profit.

The Krka Group uses insurance to:
- secure compensation for damage to property caused by destructive natural forces (earthquake, hail, wind, lightning, floods), technical production issues (fire, explosion) or human factors;
- cover the fixed costs of production based on own pharmaceutical ingredients and the Group's profit for cases of lengthier business interruption that occur due to damage to property;
- create an insurance programme that protects the Company in case of third party claims for damages.

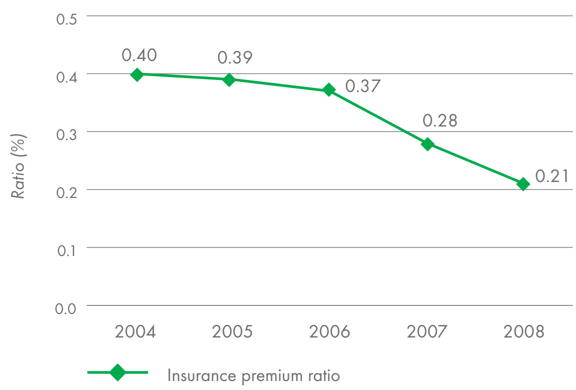
In 2008 Krka included its subsidiaries, TAD Pharma from Germany and Alternova from Austria, in its international insurance programme. The inclusion of these companies in the international insurance programme transfers the implementation of insurance procedures to the controlling company. Insurance is centralised, and the companies acquired internally standardised procedures for taking out insurance and handling claims.

Krka has standardised liability insurance within the Group for material and non-material accidental damage to third parties that could be caused by its activities, property, or placing products on the market, and via contractual commitments also covers the liability of contractual partners involved in construction and installation work, investment projects, and transport.

On 23 July 2008 Krka's industrial complex in Novo mesto was visited by insurance inspectors. Their purpose was to determine the maximum potential damage to property, and to check factors affecting the risk of business interruption. The inspection report made clear that insurance companies are prepared to insure monitored risks, particularly given the well organised risk management system, fire safety and anti-explosion measures, and measures to compensate loss of sales and earnings due to business interruption.

The ratio of insurance premiums to revenues fell once more in 2008.

RATIO OF INSURANCE PREMIUM
TO SALES REVENUES



Investor information

SHAREHOLDER RETURN

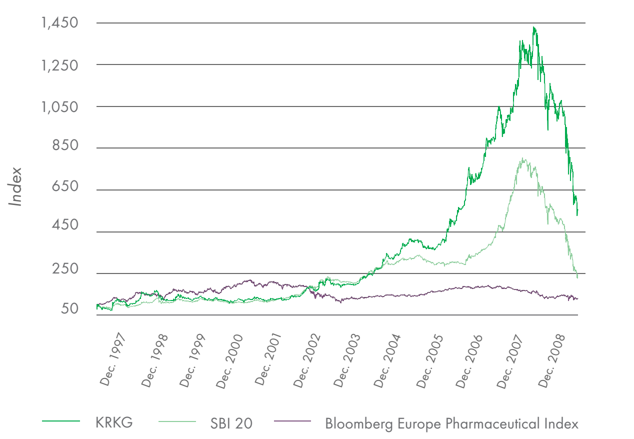
KRKA SHARE PRICE

in EUR	2008	2007	2006	2005	2004
Year high	123.47	126.58	79.14	44.87	36.46
Year low	46.02	79.23	42.74	31.69	21.70
On 31 December	48.27	124.29	78.48	42.72	35.24
Annual growth (%)	–61	58	84	21	60

The number of shares following the 1:10 share split is used for all periods. The exchange rate on 31 December of each year is used for conversion to EUR for the period 2004-2006.

The Krka Group finished 2008 with double-digit growth in sales and profits. Despite this, the Krka share price fell by 61% due to the financial crisis, while the Slovenian Stock Exchange Index (SBI 20) fell 68% over the same period.

KRKA SHARE PERFORMANCE RELATIVE TO SELECTED SHARE INDICES (INDEX: START OF 1997 = 100)



Source: Bloomberg and Ljubljana Stock Exchange

From the listing of shares on the stock exchange in 1997 and up until 2008, Krka shares have generated significantly higher returns than that from comparable share indices, such as the SBI 20 and the Bloomberg Europe Pharmaceutical Index (BE500 Pharmaceutical IX), which includes all major European pharmaceutical companies.

DIVIDEND POLICY

Krka pursues a policy of moderate increase in dividends. Shareholders decide on the dividend proposal at the annual general meeting. Dividends payments are made within 60 days of the Annual General Meeting.

DIVIDENDS

	2008	2007	2006	2005	2004
Earnings per share[1] in EUR	4.61	3.92	3.30	2.88	1.93
Gross dividend per share[2] in EUR	0.91	0.80	0.69	0.58	0.50
Dividend pay out[3] (%)	23	24	24	30	39
Dividend yield[4] (%)	1.9	0.6	0.9	1.4	1.4

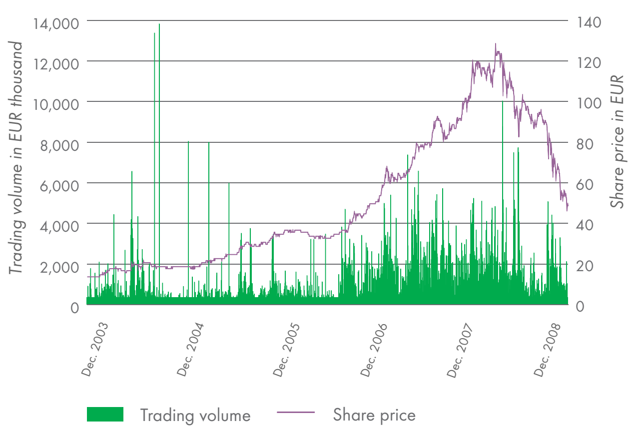
[1] Net profit of Krka Group majority shareholders/average number of shares issued in the period, excluding treasury shares
[2] Dividend paid for previous period/average number of shares issued in the period
[3] Gross dividend per share/earnings per share from previous period
[4] Gross dividend per share/share price on 31 December of specific year

The number of shares following the 1 : 10 share split is used for all periods. The exchange rate on 31 December of each year is used for conversion to EUR for the period 2004-2006.

SHARE TRADING AND SHAREHOLDING

Krka's shares are listed on the Ljubljana Stock Exchange with the trading code KRKG since February 1997 and are included in its Prime Market. All Krka shares are in the same class (ordinary, freely transferable). Each share, except treasury shares, represents one vote at the General Meeting. Krka shares can be freely traded through brokerage firms and banks that are members of the Ljubljana Stock Exchange. The KDD-Central Securities Clearing Cooperation in Ljubljana keeps the register of Krka shareholders, and provides services of calculating, settling and ensuring fulfilment of obligations arising in deals involving Krka shares.

TRADING IN KRKA SHARES OVER PAST 5 YEARS



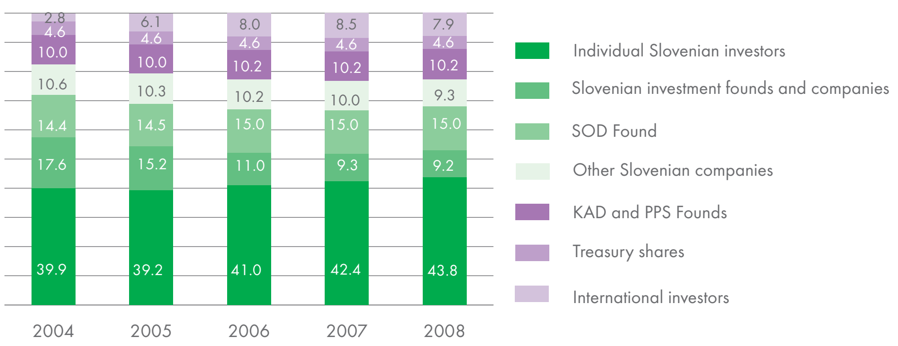
Krka's shares had the highest liquidity of any security on the Ljubljana Stock Exchange in 2008. Trading volume of Krka shares was EUR 394 million in 2008, a fall of 23% compared to 2007. The average daily trading volume in 2008 was EUR 1.58 million.

10 LARGEST SHAREHOLDERS ON 31 DECEMBER 2008

	Shareholder	Country	Number of shares	Proportion (%)
1	SLOVENSKA ODŠKODNINSKA DRUŽBA, D. D.	Slovenia	5,312,070	14.99
2	KAPITALSKA DRUŽBA, D. D.	Slovenia	3,493,030	9.86
3	NEW WORLD FUND INC.	USA	910,700	2.57
4	NFD 1 DELNIŠKI INVESTICIJSKI SKLAD, D. D.	Slovenia	791,090	2.23
5	LUKA KOPER, D. D.	Slovenia	433,970	1.23
6	ZAVAROVALNICA TRIGLAV, D. D.	Slovenia	388,300	1.10
7	UNICREDIT BANK AUSTRIA AG	Austria	373,271	1.05
8	DELNIŠKI VZAJEMNI SKLAD TRIGLAV STEBER I	Slovenia	370,492	1.05
9	FARMADENT, D. O. O.	Slovenia	225,071	0.64
10	BANKA CELJE, D. D.	Slovenia	205,655	0.58
	TOTAL		**12,503,649**	**35.30**

At the end of 2008 Krka had 77,276 shareholders, which is 25.5% more than at the end of 2007, when the number of shareholders was 61,585. The largest increase came from individual Slovenian investors, the number of which rose by 15,460. In 2008 the proportion of international investors and Slovenian businesses fell, while the proportion of individual Slovenian investors rose. The ownership share of Slovenian state financial companies (Slovenska odškodninska družba (SOD) and Kapitalska Družba (KAD) with Prvi pokojninski sklad – PPS) has not significantly changed.

SHAREHOLDER STRUCTURE ON 31 DECEMBER (%)



Business operations analysis

The analysis includes data for the Krka Group and the Krka Company, whereas the commentary primarily deals with the operations of the Krka Group.

SALES

SALES AND SALES GROWTH FOR THE KRKA COMPANY AND KRKA GROUP

Krka Group's main strategic objective defined in the 2008-2012 development strategy remains focused on the average annual overall sales growth of over 10. A solid growth is recorded since 2004 and in the past five years the average annual sales growth was 18.4%.

In 2008 the Group sold products and services worth EUR 949.9 million. Compared to previous year's figures, the sales increased by EUR 169.0 million or 21.6%.

A more detailed analysis of the sales results generated on individual markets and product groups is provided within the section Marketing and Sales.

SALES PER EMPLOYEE FOR THE KRKA GROUP

The average sales growth per employee over the past five years was 7.1%, which is lower than the growth in overall sales. This is largely due to intense recruitment activities abroad, in both representative offices and in subsidiaries. In 2008 the number of employees grew by 12% within the Group, by 5% in Slovenia, and by 21% outside Slovenia (more details in the section Employees).

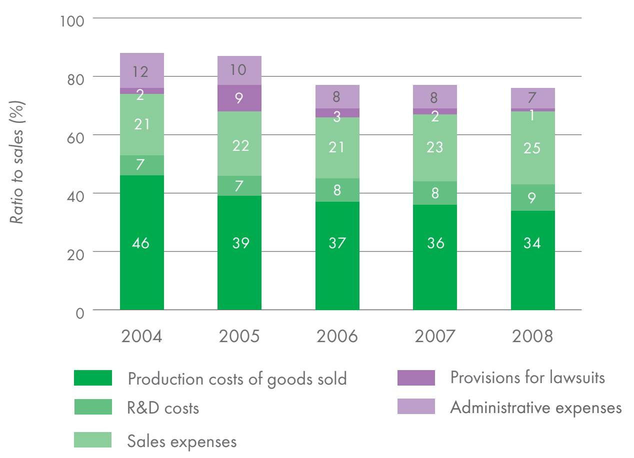
Given that the marketing and sales network is organised across the representative offices and subsidiaries abroad, the sales per employee figure is only given for the Group.

OPERATING EXPENSES

The Krka Group incurred operating expenses of EUR 721.8 million, an increase of 20% compared to the previous year. Expenses grew by 1.5 percentage point less than the Group's sales.

The Krka Group's operating expenses include EUR 325.1 million for production costs of goods sold, EUR 242.3 million for selling expenses (including EUR 4.5 million for newly formed provisions for lawsuits relating to alleged patent infringement), EUR 84.7 million for R&D costs, and EUR 69.6 million for administrative expenses (including EUR 1.0 million of lawsuits relating to intellectual property). The ratio of operating expenses to sales has fallen over the five-year period from 88% to 76% in 2007, as indicated in the graph below.

STRUCTURE OF GROUP'S OPERATING EXPENSES



Production costs of goods sold, which increased by 15% compared to 2007, are the largest expense item, representing 45% of overall operating expenses. Their ratio to sales has fallen by twelve percentage points over a five-year period to 34% in 2008.

Sales and marketing costs include newly formed provisions for lawsuits relating to alleged patent infringement (EUR 4.5 million in 2008 and EUR 14.1 million EUR in 2007) and increased by 23%. If not considering these provisions, the sales and marketing costs would account for a quarter of the whole 2008 sales and record an increase of 30% compared to 2007. This increase is largely attributable to the expansion of the Krka sales network abroad.

The ratio of R&D costs to sales was recorded at 9%, while the administrative expenses to sales ratio was 7%. Compared to 2007 the R&D costs increased by 43% and administrative expenses by 10% (excluding EUR 1.0 million of provisions formed in 2008 for lawsuits relating to intellectual property).

FINANCIAL INCOME AND EXPENSES

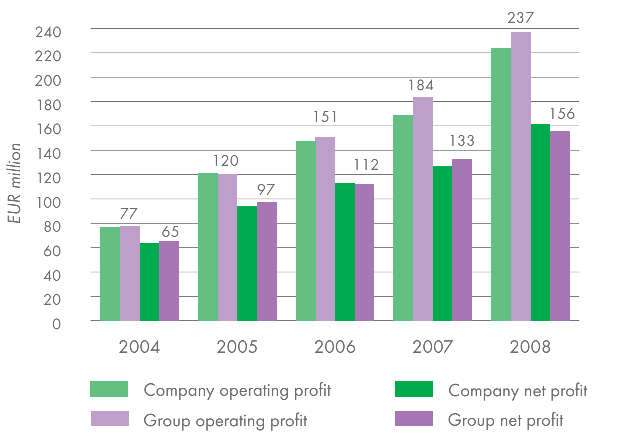
	Krka Group					Krka Company				
EUR thousand	**2008**	**2007**	**2006**	**2005**	**2004**	**2008**	**2007**	**2006**	**2005**	**2004**
Financial income	3,029	7,635	8,924	10,605	7,005	4,856	11,791	10,518	8,987	11,399
Financial expenses	–34,177	–16,343	–11,247	–7,596	–8,133	–22,780	–16,265	–10,836	–12,033	–13,528
Net financial result	**–31,148**	**–8,708**	**–2,323**	**3,009**	**–1,128**	**–17,924**	**–4,474**	**–318**	**–3,046**	**–2,129**

The Krka Group's net financial result in 2008 deteriorated mostly due to foreign exchange losses amounting to EUR -12,522 thousand as a result of exchange rate tendencies for the US dollar (USD), the Polish zloty (PLZ) and the Russian ruble (RUB); this deterioration is also attributable to the interest expenses for short-term and long-term loans amounting to EUR 9,171 thousand and allowances for receivables amounting to EUR 8,174 thousand.

Business operations analysis

OPERATING RESULT

OPERATING PROFIT AND NET PROFIT



The Group's profit of EUR 236.8 million was 29% higher (i.e. EUR 53.1 million) than in 2007. The income tax expense increased by 18% or EUR 30.7 million and totalled EUR 205.6 million. The effective tax rate for the Group was 24.2% indicating a 0.1 percentage point increase.

The Krka Group generated a net profit of EUR 155.9 million and with respect to 2007 increased by EUR 23.0 million or 17%.

ASSETS

	Krka Group					Krka Company				
EUR thousand	**2008**	**Prop. (%)**	**2007**	**Prop. (%)**	**Index 08/07**	**2008**	**Prop. (%)**	**2007**	**Prop. (%)**	**Index 08/07**
Non-current assets	**812,158**	**63.8**	**749,447**	**66.9**	**108**	**768,575**	**62.8**	**712,003**	**67.4**	**108**
Property, plant and equipment	638,334	50.2	572,244	51.0	112	475,577	38.8	422,891	40.0	112
Intangible assets	128,980	10.1	129,854	11.6	99	28,137	2.3	24,466	2.3	115
Investments and loans	10,235	0.8	14,252	1.3	72	235,821	19.3	235,627	22.3	100
Other	34,609	2.7	33,097	3.0	105	29,040	2.4	29,019	2.8	100
Current assets	**458,878**	**36.2**	**371,971**	**33.1**	**123**	**455,817**	**37.2**	**345,255**	**32.6**	**132**
Inventories	211,662	16.7	171,647	15.3	123	170,206	13.9	127,276	12.0	134
Receivables	237,476	18.7	180,094	16.0	132	252,742	20.6	189,132	17.9	134
Other	9,740	0.8	20,230	1.8	48	32,869	2.7	28,847	2.7	114
Total assets	**1,271,036**	**100.0**	**1,121,418**	**100.0**	**113**	**1,224,392**	**100.0**	**1,057,258**	**100.0**	**116**

As at the balance sheet date the Krka Group's assets were worth EUR 1,271.0 million and reflect an increase of EUR 149.6 million if compared with figures at beginning of the year. This increase in assets is attributable to the increase in property, plant and equipment whose value grew by EUR 66.1 million, whereas among current assets the biggest increase is recorded with receivables i.e. EUR 57.4 million and inventories grew by EUR 40.0 million. The ratio of current to non-current assets changed slightly compared to the end of 2007 with the proportion of non-current assets decreasing by 3 percentage points to 64%.

The most important item among non-current assets – which had a total value of EUR 812.2 million – was property, plant and equipment worth EUR 638.3 million and representing half of Group's total assets; their value increased by 12% largely due to new financial assets. The value of intangible assets decreased by 1% and represents a tenth of total assets.

The proportion of current assets in the amount of EUR 458.9 million increased by 23% and has a 36% share among total assets. The respective growth is attributable to receivables which grew by 32% and amounted to EUR 237.5 million. By the end of the reporting period the inventories were recorded at EUR 211.7 million and indicated an increase of 23%. As for other current assets, the item of cash and cash equivalents fell by EUR 8.2 million, whereas financial assets inclusive of derivatives by EUR 2.2 million.

EQUITY AND LIABILITIES

	Krka Group					Krka Company				
EUR thousand	2008	Prop. (%)	2007	Prop. (%)	Index 08/07	2008	Prop. (%)	2007	Prop. (%)	Index 08/07
Equity	783,296	61.6	680,913	60.7	115	797,203	65.1	672,010	63.6	119
Non-current liabilities	257,526	20.3	252,379	22.5	102	222,067	18.1	218,032	20.6	102
Current liabilities	230,214	18.1	188,126	16.8	122	205,122	16.8	167,216	15.8	123
Total equity and liabilities	**1,271,036**	**100.0**	**1,121,418**	**100.0**	**113**	**1,224,392**	**100.0**	**1,057,258**	**100.0**	**116**

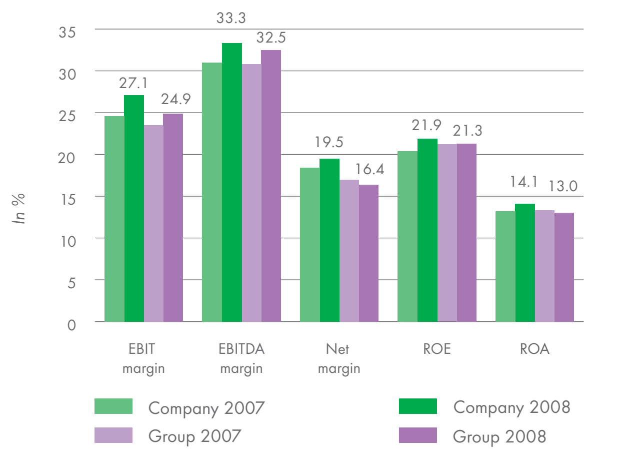
Taking account of 2007 the Group's equity grew by EUR 102.4 million which is a result of the Group's profit of EUR 155.9 million and the deferred tax effect as a result of the change in the fair value of financial assets available for sale worth EUR 1.2 million. A decrease in the Group's equity is due to dividends paid in the amount of EUR 30.9 million, the translation reserve worth EUR 9.4 million, the change in the fair value of financial assets available for sale in the amount of EUR 5.4 million, the deferred tax effect of transition to IFRS in the amount of EUR 1.0 million, as well as due to purchase of the share of minority holders in Terme Krka – Strunjan worth EUR 8.0 million.

The highest growth in the Group's non-current liability structure – by EUR 6.0 million or 4% - was for provisions which totalled EUR 149.7 million. Their increase is a result of newly formed provisions for lawsuits as well as retirement and anniversary bonuses. Long-term borrowings fell by EUR 3.4 million or 4% as the controlling company fully repaid two borrowings in 2008 and raised no other borrowings.

In the Group's current liability structure, short-term borrowings were up by EUR 37.6 million or 60% which was largely due to borrowings raised by the controlling company. Income tax liabilities grew by EUR 6.9 million whereas other current liabilities increased by EUR 6.1 million or 18%. Operating liabilities record a fall of EUR 8.5 million or 11%.

PERFORMANCE RATIOS

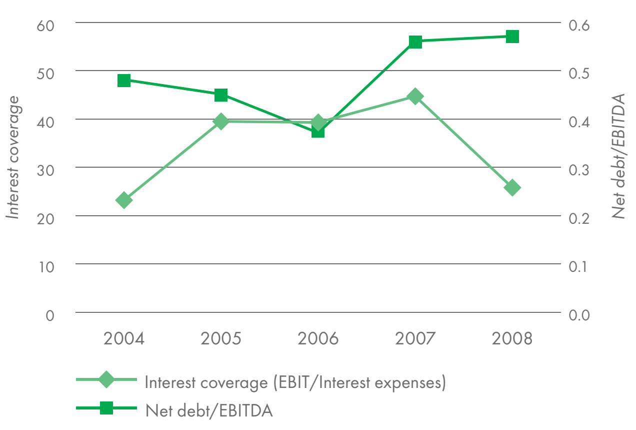
PROFITABILITY RATIOS



In 2008 the performance ratios were in compliance with the strategic guidelines and annual objectives. Compared to 2007 all ratios of the Krka Company record an increase. The Krka Group records an increase with the EBIT and EBITDA with sales revenue while other ratios have not significantly changed if compared to previous year's results.

Business operations analysis

LIQUIDITY RATIOS



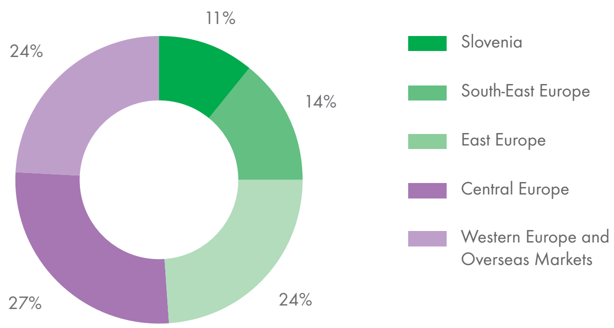
The interest coverage in 2008 was lower than in 2007, mostly due to new borrowings. The 2008 operating profit covered interest liabilities for 26 years. An indicator value of 13 used to be sufficient in the United States for smaller, riskier companies to earn the top credit rating (AAA), while for larger, stable companies that figure is 9.

In 2008 the credit rating – calculated using the net debt/ EBITDA ratio – slightly increased compared to 2007 due to increased debt. The ratio was recorded at 0.57.

OPERATING FIGURES FOR THE PAST FIVE YEARS

	Krka Group					Krka Company				
EUR thousand	2008	2007	2006	2005	2004	2008	2007	2006	2005	2004
Sales	949,920	780,918	667,955	554,137	472,660	826,160	686,729	586,102	486,570	408,677
EBIT	236,781	183,642	151,079	120,250	77,460	223,642	168,672	147,568	121,378	77,188
– EBIT margin	24.9%	23.5%	22.6%	21.7%	16.4%	27.1%	24.6%	25.2%	24.9%	18.9%
EBITDA	308,390	240,586	198,783	166,042	120,627	275,371	213,055	183,761	156,352	109,446
– EBITDA margin	32.5%	30.8%	29.8%	30.0%	25.5%	33.3%	31.0%	31.4%	32.1%	26.8%
Net profit	155,891	132,853	112,086	97,335	65,324	161,130	126,521	113,027	93,746	63,858
– net profit margin	16.4%	17.0%	16.8%	17.6%	13.8%	19.5%	18.4%	19.3%	19.3%	15.6%
Assets	1,271,036	1,121,418	879,127	788,265	649,010	1,224,392	1,057,258	854,286	760,723	631,168
ROA	13.0%	13.3%	13.4%	13.5%	10.5%	14.1%	13.2%	14.0%	13.5%	10.4%
Equity	783,296	680,913	570,905	479,585	405,125	797,203	672,010	569,918	477,726	405,173
ROE	21.3%	21.2%	21.3%	22.0%	17.4%	21.9%	20.4%	21.6%	21.2%	16.8%

KRKA GROUP SALES BY REGION IN 2008

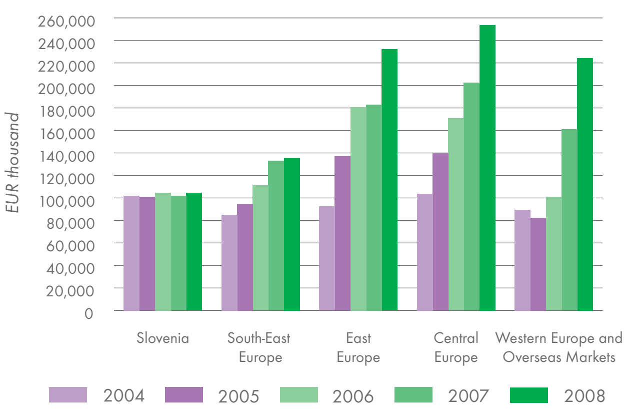


In 2008 the Krka Group's highest growth figures were in Regions Western Europe and Overseas Markets, East Europe and Central Europe.

KRKA GROUP AND KRKA COMPANY SALES BY REGION

EUR thousand	Krka Group 2008	Krka Group 2007	Krka Group Index 2008/2007	Krka Company 2008	Krka Company 2007	Krka Company Index 2008/2007
Slovenia	104,426	101,648	103	71,793	69,160	104
South-East Europe	135,388	132,929	102	120,559	120,257	100
East Europe	232,163	182,974	127	225,289	174,172	129
Central Europe	253,631	202,407	125	231,470	171,149	135
West Europe and Overseas Markets	224,312	160,960	139	177,049	151,991	116
Total	**949,920**	**780,918**	**122**	**826,160**	**686,729**	**120**

KRKA GROUP SALES BY REGION



Marketing and sales

SLOVENIA

Krka Group sales in Slovenia underwent a 3% increase compared to 2007, and were worth EUR 104.4 million. Prescription pharmaceuticals represent the highest proportion of overall sales of products for human consumption. Despite the continuing reduction in prices, due to the applicable rules on pricing of medicinal products, Krka still recorded a 2% growth in prescription pharmaceutical sales. Self-medication products and cosmetics represented around 8% of total sales, and animal health products just over 2%.

Terme Krka generated sales of health resort and tourist services worth EUR 32.5 million, growth of 5.4%.

KRKA GROUP MARKET POSITION IN SLOVENIA

Top-ranked pharmaceutical company, with a market share of 14%.
Our products are market leaders: • in the proton pump inhibitor group with a market share of over 45% • in the statin group with a market share of over 40% • in the ACE inhibitor group with a market share of over 35% • in the angiotensin II receptor antagonist group with a market share of over 30% • in the oral antiseptic group with a market share of around 30%.
Two Krka products are in the top 10 best-selling medicinal products on the Slovenian market.
All Krka pharmaceuticals on the list of interchangeable medicines with the highest recognised price are available to patients without co-payment.

With a 14% market share, Krka maintains its leading position in the sale of prescription medicines in Slovenia with its products Atoris®, Ultop®, Enap®, Vasilip®, Prenessa® and Lorista®.

Despite increasing competition on the generic market in Slovenia, Krka's market share has also grown in the group of medicines for the treatment of conditions affecting the central nervous system.

We are adapting to changing circumstances by introducing new products in various dosage forms and strengths.

SOUTH-EAST EUROPE

In 2008 Krka achieved product sales on the markets of Region South-East Europe worth EUR 135.4 million, with growth of almost 2% compared to 2007. The largest individual market in the region by sales is Croatia. Sales growth was recorded on every market in the region except Romania.

In **Croatia**, which is one of Krka's key markets, Krka achieved product sales totalling EUR 47.9 million, which is 6% more than in 2007. With a market share of almost 7%, Krka has retained its position as the third-ranked pharmaceutical provider on the Croatian market, behind two domestic producers, and the leading foreign generic producer. This is confirmed by the **pharmaceutical company of the year** award, which was presented to Krka in December by the editorial board of the independent TV station, OTV Ekspertiza.

The products offering highest growth over the period were Atoris®, Coryol®, Lorista® and Zyllt®. Very good sales results were also achieved for the newer products, Ampril®, Nolpaza® and Lorista H®. Meglimid® and Torendo® were added to the product portfolio in the final quarter of 2008.

Five products were produced at the Jastrebarsko production plant for the domestic and foreign markets. Since June, when granulation was added to the production process, the entire tablet production process can now be managed on the same site.

KRKA GROUP MARKET POSITION IN CROATIA

Krka is the leading foreign generic pharmaceutical company.
Krka is the third-ranked pharmaceutical company overall.
Our products are market leaders: • in the statin group with a market share of over 25% • in the antimicrobial group – fluoroquinolones with a market share of over 65%.
Our products are among the market leaders: • in the proton pump inhibitor group with a market share of around 20% • in the benzodiazepine group with a market share of around 25%.

In **Romania** Krka sold products worth EUR 29.4 million, which put this market in second place in Region South-East Europe by sales volume. The main causes of the fall in sales compared to 2007 were the US dollar exchange rate, changes to the medicine prescription system, and the devaluation of the local currency. The best-selling products were Bilobil®, Enap®, Ciprinol®, Vasilip®, Nolicin® and Coryol®, while the highest growth was achieved for the following products: Lanzul®, Torendo®, Ampril®, Ciprinol® and Mirzaten®. Prescription pharmaceuticals remain the leading product programme, representing two-thirds of overall sales, followed by self-medication products and animal health products.

KRKA GROUP MARKET POSITION IN ROMANIA
Krka is the third-ranked foreign generic pharmaceutical company.
Krka has the leading product, with a market share of over 40%: • in the group of medicines treating dementia, and • in the opioid group.
Our products are among the market leaders: • in the mono-component ACE inhibitor group • in the anti-microbial group – fluoroquinolones • in the macrolide and pyranoside antibiotic group.

In **Serbia** and **Macedonia** we are the leading foreign generic producer. The high sales growth in **Bosnia and Herzegovina**, **Kosovo** and **Serbia** is due to the successful introduction of new prescription medicines to these markets. The same applies to Bulgaria, where Krka's **Lorista®** was named the 2008 **product of the year in the prescription medicine category** at the Bulgarian pharmaceutical category in early July.

EAST EUROPE

The Krka Group recorded growth of 27% on its markets in Region East Europe compared to 2007, achieving sales worth EUR 232.2 million. Sales growth was in double figures compared to previous in every market except Georgia and Kazakhstan.

In the **Russian Federation**, which is the largest market in the region, and Krka's largest individual market outright, the Krka Group achieved product sales worth EUR 158.1 million, with 30% growth compared to the 2007. The largest proportion in overall sales came from prescription pharmaceutical product sales, which were worth EUR 113.5 million, 29% up on the previous year. This was followed by self-medication products, sales of which were worth EUR 37.5 million, representing growth of 38%. Sales of animal health products were also successful, growing 12%, while sales of cosmetics remained at the same level as 2007. Mention should be made of the good results achieved in sales of prescription pharmaceuticals and self-medication products in pharmacies, i.e. outside the state-financed medicine supply system. Independent sources cited us as the company with the highest sales growth in the final quarter of 2008. Within the state-financed system, which still represents over 7% of overall sales, the volume of sales was similar to that achieved in 2007.

Over the past four years, Krka has increased sales by almost two and a half times, which is largely due to the introduction of new products and increasing their market shares.

KRKA GROUP MARKET POSITION IN THE RUSSIAN FEDERATION
Krka is the sixth-ranked foreign generic pharmaceutical company.
Our products are market leaders: • in the statin group, with a market share of over 25% • in the group of non-mineral multivitamins for paediatric use, with a market share of about 70%.
Our products are among the market leaders: • in the macrolide antibiotic group • in the group of ACE inhibitors and ACE inhibitor combinations with diuretics.

Krka's best-selling products in the Russian Federation are Enap®, Vasilip®, Pikovit®, Macropen®, Nolicin®, Herbion®, Septolete®, Atoris®, Duovit®, Cordipin®, Fromilid®, Zyllt®, Ultop® and Bilobil®. We also started the successful marketing of the new medicine for the treatment of cardiovascular disease on the market, Lorista®. Krka has one of the highest reputations of any generic pharmaceutical producer in the Russian Federation, and its Enap® pharmaceutical is one of the most valued and well known medicines. Our advertising campaign was also very successful. The proof of this is the national **Idea of Health** award for the best TV advertisement for Duovit® for men and Duovit® for women and the 2008 **Recept goda** award in the category advertising and information campaign of the year for Neoseptolete®.

Marketing
and sales

The subsidiary Krka-Rus v Istra is continually increasing its production capacity. Production there already covers almost 20% of overall sales in the Russian Federation.

Ukraine is the second largest market in the region. The final quarter of 2008 saw the local currency fall almost 50% against the US dollar, which led to a reduction in the value of the pharmaceutical market there, when expressed in foreign currencies. Despite this and heightened competition, we managed to increase sales by 22% to EUR 44.7 million, largely via coordinated promotional and commercial activities and a measured response to market conditions. The best selling products were Enap®, Herbion®, Naklofen® and Fromilid®.

KRKA GROUP MARKET POSITION IN UKRAINE

Krka is the second-ranked foreign generic pharmaceutical company.

Our products are market leaders in:
- in the statin group with a market share of around 30%
- in the group of ACE inhibitors in combination with diuretics, with a market share of over 30%
- in the macrolide and pyranoside antibiotic group, with a market share of 20%
- in the cough suppressant in combination with expectorant group, with a market share of over 25%.

Sales in **Belarus**, **Kazakhstan**, **Uzbekistan**, **Moldova**, **Georgia**, **Azerbaijan**, **Armenia**, **Mongolia**, **Kyrgyzstan** and in other Central Asia states increased in 2008. The highest growth, 45%, was achieved in Mongolia. As the best foreign pharmaceutical company on the market of Kazakhstan, in November Krka won an annual award in its category, presented by the European Foundation for Social and Marketing Research.

CENTRAL EUROPE

In 2008, the Krka Group achieved sales on Central European markets amounting to EUR 253.6 million, which is 25% more than in 2007. Sales of prescription pharmaceuticals, which represent 93% of overall sales, grew by 27%, while sales of self-medication products grew by 6%. Animal health product sales fell by 7%.

In **Poland**, which is the largest market in the region, representing 48% of the sales in the region, and also a Krka key market, we achieved sales worth EUR 122.2 million, which is 28% higher than in 2007. The most important prescription pharmaceuticals remain Zalasta®, Atoris®, Lorista®, Lanzul®, Nolpaza® and Vasilip®, which together represent almost 50% of overall sales. One of the most notable of these is Nolpaza®, which was launched in 2008 and became the fifth best-selling pharmaceutical in Poland, as well as Atoris®, Prenessa® and Zyllt®, which contributed most to sales growth. Sales of self-medication products fell by 6%, due mainly to lower sales of Naklofen®and Dermabion®. Sales of animal health products were down 4%, mainly due to poorer sales of Enroxil®. This deficit could not be covered by positive sales of salinomycin. Our subsidiary, Krka-Polska, is operating very successfully, which was confirmed in June when it won the **'Gepard' business** award for the most dynamic company in the Mazovian Voivodeship.

KRKA GROUP MARKET POSITION IN POLAND

Krka is the third-ranked foreign generic pharmaceutical company.

Our products are market leaders in:
- in the monocomponent angiotensin II receptor antagonist group with a market share of over 20%
- in the group of anti-inflammatory products for the bowel, with a market share of over 40%.

Our products are among the market leaders:
- in the statin group with a market share of around 15%
- in the atypical antipsychotic group, with a market share of over 15%
- in the proton pump inhibitor group with a market share of over 10%
- in the SSRI antidepressant group, with a market share of over 10%
- in the antimicrobial group – fluoroquinolones with a market share of over 30%.

Krka sold products worth EUR 45.8 million in the **Czech Republic**, growth of 21% compared to 2007. The best-selling products were Atoris®, Lorista®, Ampril®, Prenessa®, Enap®, and Asentra®, which together represented 50% of total sales. Sales of self-medication products increased by 10%, and the second most important by sales, Nalgesin®, grew by over 30%.

KRKA GROUP MARKET POSITION IN THE CZECH REPUBLIC
Krka is the third-ranked foreign generic pharmaceutical company.
Our products are among the market leaders: • in the monocomponent angiotensin II receptor antagonist group with a market share of over 25% • in the group of angiotensin II receptor antagonists in combination with diuretics, with a market share of over 20% • in the group of ACE inhibitors in combination with diuretics, with a market share of 20% • in the statin group with a market share of around 15% • in the anxiolytic group with a market share of around 25%.

Notable sales achievements on other markets in the region include **Slovakia**, where we achieved the highest growth in the region, at 46%. Double digit growth was also recorded in **Hungary**, **Lithuania**, **Latvia** and **Estonia**.

KRKA GROUP MARKET POSITION IN HUNGARY
Krka is the fourth-ranked foreign generic pharmaceutical company.
Our products are among the market leaders: • in the macrolide antibiotic group, with a market share of over 23% • in the statin group with a market share of over 16% • in the fluoroquinolone group, with a market share of over 13%.

WEST EUROPE AND OVERSEAS MARKETS

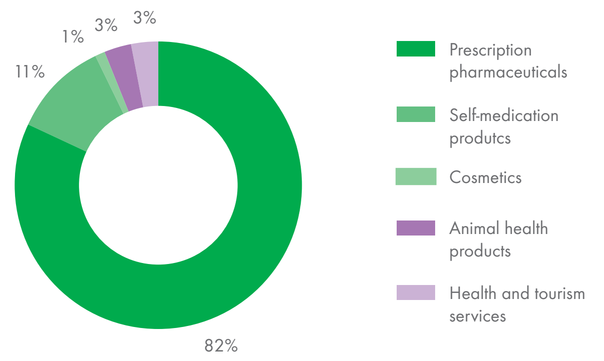
Sales figures of EUR 224.3 million include sales generated by the associated companies TAD Pharma, Krka Sverige, Krka Farmacêutica and Alternova following their merger into the Krka Group, and were 39% up on the 2007 figures. Western Europe is one of Krka's key markets, and sales of generic prescription pharmaceuticals represent the bulk of sales in the region. Most products were sold via partners whose sales networks give them a presence in every western European country. The most important individual markets in the region are **Germany**, **the United Kingdom**, **the Nordic countries**, where Krka has started selling its own products using its own marketing activities, and France and Italy. Sales increased compared to 2007 in the southern EU member states, European countries outside the EU and in Africa. We achieved high market shares on the markets of western Europe for individual generic products, primarily the sale of generic lansoprazole, enalapril and carvedilol. New entries to the market in 2008 include generic gliclazide with prolonged release, perindopril and venlafaxine with prolonged release, while the animal health product range included generic prolonged-release enrofloxacin (Enroxil® Max), florfenicol and salinomycin (Kokcisan®).

KRKA GROUP MARKET POSITION ON WESTERN EUROPEAN MARKETS
Krka is the leading supplier of generic lansoprazole, carvedilol, enrofloxacin and florfenicol.
Krka is among the leading suppliers of the generic amlodipine, enalapril, simvastatin, mirtazapine and salinomycin.
Krka sells prescription pharmaceuticals under its own brand in Germany, the UK, the Nordic countries, Austria and Portugal.
Krka acquired the Austrian pharmaceutical company Alternova, which will strengthen its position on the Austrian market.

Marketing
and sales

PRODUCT AND SERVICE GROUPS

KRKA GROUP SALES BY PRODUCT AND SERVICE GROUP IN 2008

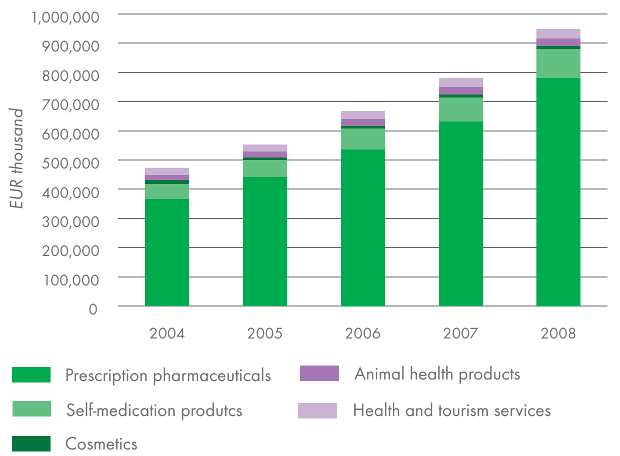


Krka's main line of business is the production and sale of prescription pharmaceuticals. They are followed in sales volume by self-medication products, animal health products and cosmetics. The company's activities are supplemented by health resort and tourist services.

KRKA GROUP AND KRKA COMPANY SALES BY PRODUCT AND SERVICE GROUP

	Krka Group			Krka Company		
EUR thousand	2008	2007	Index 2008/2007	2008	2007	Index 2008/2007
Human health products	891,434	724,544	123	800,373	661,295	121
– prescription pharmaceuticals	782,199	630,783	124	694,598	569,718	122
– self-medication products	99,209	83,616	119	96,102	81,656	118
– cosmetics	10,025	10,145	99	9,673	9,921	98
Animal health products	25,082	24,622	102	24,615	24,283	101
Health and tourism services	32,492	30,814	105	–	–	–
Other	913	938	97	1,172	1,151	102
Total	**949,920**	**780,918**	**122**	**826,160**	**686,729**	**120**

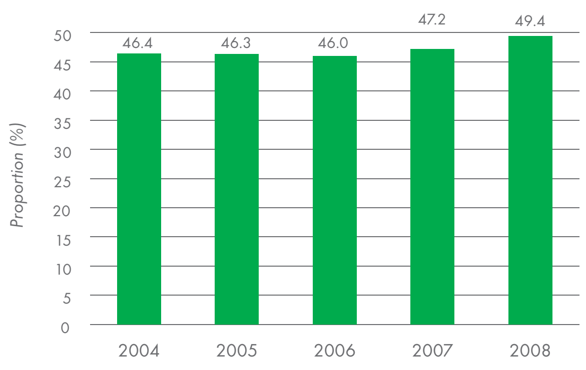
KRKA GROUP SALES BY PRODUCT AND SERVICE GROUP



NEW PRODUCTS

The proportion of new products in overall sales increased by 2 percentage points compared to 2007, which is due to the very successful launch of new products, which have already achieved multi-million euro sales in their first years. Individual products that Krka has started to sell and market in the past five years, such as Zalasta® (olanzapine), Prenessa® (perindopril), Zyllt® (clopidogrel) and Nolpaza® (pantoprazole) have already made a significant contribution to the total volume of sales and sales growth. In 2008 Krka started marketing a number of products in key therapeutic groups with new active substances, while expanding the existing product range with new strengths, new packaging and new dosage forms.

PROPORTION OF NEW PRODUCTS* IN KRKA GROUP SALES



* New products: products launched in the past five years.

NEW PRODUCTS IN 2008

PRESCRIPTION PHARMACEUTICALS	
For the treatment of cardiovascular diseases	Cazaprol® (cilazapril)
For the treatment of diseases of the central nervous system	Kventiax® (quetiapine) Zalasta® (olanzapine) in orodispersible tablet form
For the treatment of diseases of the alimentary tract and metabolism	Gliclada® (gliclazide), which is also marketed on some markets under the name Glyclada®
For the treatment of diseases of the respiratory system	Cezera® (levocetirizine), which is also marketed on some markets under the name Lertazin®
SELF-MEDICATION PRODUCTS	
Vitamins for adults	Duovit® Energy and Duovit® Vision Triovit® lutein
Vitamins for children	Pikovit® complex
COSMETIC PRODUCTS	
For care of oily skin	Vitaskin® Pharma Pure Expert line
ANIMAL HEALTH PRODUCTS	
For treatment of infectious diseases	Enroxil® Max (enrofloxacin), which is also marketed under the name Powerflox Giraxa® (colistin)

Marketing and sales

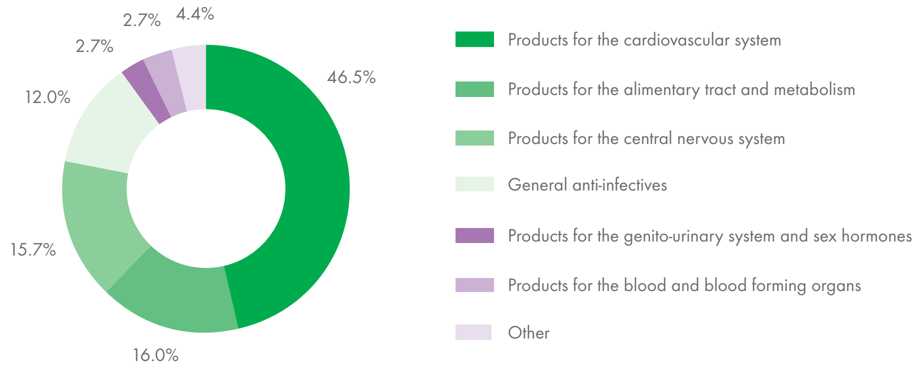
PRESCRIPTION PHARMACEUTICALS

The Krka Group achieved sales of prescription pharmaceuticals worth EUR 782.2 million, which is 24% more than in 2007. Almost 75% of prescription pharmaceuticals were sold under Krka's own trademarks, while the remainder were sold under the corporate brand of Krka and TAD Pharma – a Krka Group company, or via partners in western Europe.

On the 10 largest markets, the highest increases in sales were in Germany, Ukraine, Poland, the Russian Federation and the Czech Republic. After several years of constant growth, sales fell slightly in Romania, due to changes on the market. On other markets, sales increased most in France, Austria, Slovakia, Azerbaijan, Uzbekistan and Portugal and some smaller markets.

PRESCRIPTION PHARMACEUTICALS SALES ON THE 10 LARGEST MARKETS

PRESCRIPTION PHARMACEUTICALS BY THERAPEUTIC GROUP IN 2008



MEDICINES FOR THE TREATMENT OF CARDIOVASCULAR DISEASES

Statins. The considerable trust placed in the quality, efficacy and safety of Krka statins meant that in 2008 Krka retained its position as the statins market leader on the markets of central, eastern and south-eastern Europe. This trust in our statins is based on our rich clinical experience, which comes from over 25 of its own clinical trials.

Atoris® (atorvastatin) is the number one statin on the markets of central, eastern and south-eastern Europe. The highest sales growth for Atoris® was recorded in Slovenia, where it also has a market share of over 50%. In Hungary, Croatia, Lithuania, Latvia and Bulgaria it has a market share of around 30%, and around 20% on most other markets. Its market share on most markets make it one of the leading atorvastatin products. In 2008 Krka launched Atoris® in Uzbekistan and Georgia, while the product range was broadened in the Russian Federation and Estonia to include 40 mg tablets.

Vasilip® (simvastatin) is the number one generic simvastatin on the markets of central, eastern and south-eastern Europe. Its market share in Slovenia is over 60%, over 30% in the Russian Federation, and around 50% in Ukraine and Kazakhstan. It ranks among the best selling simvastatins on remaining markets with market shares of up to 45%. Vasilip® won a medicine of the year award in Kazakhstan.

ACE inhibitors. In 2008 Krka retained its leading position among generic producers of medicines that affect the renin-angiotensin-aldosterone system (RAAS) on the markets of central, eastern and south-eastern Europe. We celebrated the 20-year anniversary of Krka RAAS-related pharmaceuticals, organising a larger international symposium to mark the occasion.

Enap® (enalapril), Krka's gold standard for the treatment of high blood pressure, remained a leading Krka product in 2008. Enap® tablets and the fixed-dose combinations Enap® H, Enap® HL and Enap® HL 20 are marketed on over 40 markets around the world, and are used to treat over 4 million patients every day. In the Russian Federation, Enap® was awarded with the Platinum Ounce – the most prestigious award possible for a pharmaceutical product – for the second consecutive year. In Kazakhstan it won the annual award in its category. Enap® remains the leading enalapril in Croatia, the Russian Federation, Slovenia, Ukraine, and in most other markets, where it has market shares of over 40%.

Prenessa® (perindopril), Krka's modern ACE inhibitor, is available in most of central Europe and is the only generic perindopril on most of these markets. In Slovenia it achieved over 40% of the perindopril market in 2008, 25% in Hungary, and 20% on the Czech and Slovak markets. It was also available on western Europe markets, in the UK and the Netherlands. In Lithuania, Latvia, Poland, the Czech Republic and Slovakia, Krka widened its Prenessa® product range in 2008 with the fixed-dose combination of perindopril and indapamide, Co-Prenessa®/Prenewel®, which is achieving good market shares in Slovenia (30%) and Hungary (over 20%)

Ramipril is one of the world's most frequently prescribed ACE inhibitors. Krka's **Ampril®/Amprilan®** (ramipril) range comprises four products of varying strengths for monotherapy, and two fixed-dose combination products with diuretics and various strengths. Krka markets these products in 20 countries, including Croatia, Belarus, Moldova, Armenia, Azerbaijan, Mongolia and Georgia from 2008.

Krka's range of ACE inhibitors now also includes **Laaven®** (lisinopril), and its fixed-dose combinations with hydrochlorothiazide Laaven® HL, Laaven® HL 20 and Laaven® HD, and **Cazaprol®** (cilazapril).

Sartans. Globally, sartans are the leading group of pharmaceuticals for the treatment of high blood pressure, and known as being extremely safe. The product range includes two of the world's most frequently prescribed sartans – valsartan and losartan. Krka is one of the leading sartan producers on the markets of central, eastern and south-eastern Europe with a market share of over 14%. Over 600,000 patients on 20 markets are treated every day with Krka sartans.

Lorista® (losartan) is Krka's leading sartan. The brand includes fixed-dose combinations with a diuretic Lorista® H and Lorista® HD. It is the leading sartan in Slovenia and Bulgaria with a market share of over 60%, while in Poland its market share is 30%, and 50% in Lithuania. In Hungary, the Czech Republic and Slovakia it is the second-ranked sartan with a market share of over 20%. In 2008 Krka started to market it in Ukraine and the Russian Federation.

Valsacor® (valsartan) is Krka's number two sartan. In two years it has achieved a 40% market share among valsartans. It is the leading valsartan in Slovenia, and its market share in the Czech Republic is 60%, and 100% in Slovakia. In 2008 we started to market it in Macedonia, Poland and Ukraine.

Other medicines. Our range of medicines for the treatment of high blood pressure has been supplemented by Tenox® (amlodipine) and Coryol® (carvedilol). **Coryol®** (carvedilol) is a beta-blocker, which has achieved high market shares among carvedilols (from 50 to 70%). It is the leading generic carvedilol in western Europe. **Tenox®** (amlodipine) is a calcium-channel blocker, which has been proved in a comparative study to be the clinically equivalent with the original medicine. The safety and efficacy of Tenox® has been confirmed by clinical trials in almost 6000 patients. This Krka amlodipine is used to treat over 1.5 million patients on 40 markets, including western Europe, where Krka is one of the leading generic amlodipine suppliers.

Rawel® SR (indapamide) in tablet form with prolonged release is one of the most modern diuretics available. Krka is the leading generic producer of indapamide on the markets of central, eastern and south-eastern Europe. In 2008 it had a 35% market share in Slovenia, 15% in Bulgaria, and 10% in Romania. Sales are also growing on other markets on which it is available.

Platelet aggregation inhibitors. Zyllt® (clopidogrel) is a modern thrombocyte aggregation inhibitor, which prevents the aggregation of platelets and the formation of blood clots. It is used to reduce the frequency of atherosclerotic events (strokes, heart attacks, death from vascular disease) in patients who have suffered a stroke, myocardial infarction, and proven peripheral arterial occlusive disease. Its highest market shares have been achieved in Croatia (over 40%), Poland (25%), and the Russian Federation and Ukraine (15%). In 2008 Zyllt® became the leading clopidogrel on the markets of central, eastern and south-eastern Europe. It is still the only generic clopidogrel available on many markets.

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

Proton pump inhibitors. Krka has been involved in the production of medicines to treat diseases of the alimentary tract and metabolism since shortly after its establishment. In 1989 it started producing its first medicine in the proton pump inhibitor group, **Ultop®** (omeprazole). Proton pump inhibitors are used to treat diseases of the upper alimentary tract, such as heartburn and ulcers of the stomach or duodenum. Krka's Ultop® is still one of the best known and most popular medicines in Slovenia, and it also enjoyed a successful relaunch in the Russian Federation.

Lanzul®/Lansoptol® (lansoprazole) is Krka's second proton pump inhibitor, and has now been part of the product range for 10 years. Its efficacy is confirmed by Krka's numerous clinical trials, which to date have included over 3,000 patients. In addition to the positive market shares achieved with Lanzul®/Lansoptol® on its traditional markets, Krka's lansoprazole is also the leading generic lansoprazole on western European markets.

Nolpaza® (pantoprazole) is Krka's latest proton pump inhibitor. It was placed on the Slovenian market in 2007, and was launched on most central European markets in 2008, plus Portugal, where it is marketed under the Krka brand. It is one of the first generic pantoprazoles in Europe.

Krka is one of the few European producers offering such a wide range of proton pump inhibitors. This puts it in second place among proton pump inhibitor producers on central, eastern and south-eastern European markets. Ultop®, Lanzul® and Nolpaza® have so far been used to treat over 25 million patients on 45 markets all over the world.

MEDICINES FOR THE TREATMENT OF CENTRAL NERVOUS SYSTEM DISEASES

Antipsychotics. Krka is the second placed generic antipsychotics producer on the markets of central, eastern and south-eastern Europe, and in sixth place overall. The product range includes all three leading antipsychotics: olanzapine, risperidone and quetiapine.

Zalasta®/Zolrix® (olanzapine) is Krka's leading antipsychotic, with the highest market share in Poland (over 25%) and Lithuania (over 20%). In 2008 Krka began selling it in a number of south-eastern European countries and the Baltic states. Zalasta® and **Torendo®/Rorendo®** (risperidone) are produced in orodispersible tablet form, which offer added value and support improved patient compliance. Krka is the first generic producer to offer olanzapine and risperidone in this dosage form.

Kventiax® (quetiapine) is a modern antipsychotic for the treatment of schizophrenia and bipolar disorder, which offers a sound balance between efficacy and safety. It was launched on most central European markets in 2008, with market shares of up to 15% achieved.

Anti-depressants. Krka is the first ranked generic anti-depressant producer on the markets of central, eastern and south-eastern Europe, and in third place overall. Krka's range of anti-depressants includes products in both of the most frequently sold groups of medicines to treat depression and anxiety disorders, serotonin-specific reuptake inhibitors (SSRI) and serotonin-norepinephrine reuptake inhibitors (SNRI).

The best selling active substance in the world is venlafaxine – a modern dual action anti-depressant from the SNRI group. **Alventa®** (venlafaxine) in modern dosage form of prolonged-release capsules containing pellets achieved a share of over 15% of the overall venlafaxine market on Krka's key markets, through sales growth on existing markets and its launch on new markets. Venlafaxine is also marketed in Germany under the trademark of the Krka subsidiary, TAD Pharma.

Asentra® (sertraline) from the SSRI group was the leading generic anti-depressant on the markets of central, eastern and south-eastern Europe in 2008, with a market share of almost 30% among sertralines and a share of almost 4% of the overall anti-depressant market. To date Asentra® has been used to treat over 700,000 patients.

Mirzaten® (mirtazapine) became the leading mirtazapine on Krka's traditional markets in 2008, with a market share of over 30%. The brand has been developed to include orodispersible Mirzaten® tablets, which are already being marketed in Slovakia, Lithuania and Latvia, and also in Portugal under the corporate brand.

Other medicines. Yasnal® (donepezil) is a medicine for the treatment of Alzheimer's disease, and has been on the market for six years. It is still the best-selling generic donepezil on the markets of central, eastern and south-eastern Europe, and has over 90% of the donepezil market in Slovenia and Slovakia.

MEDICINES FOR THE TREATMENT OF INFECTIONS

Macrolides. Krka is the second-placed producer of macrolides on the markets of central, eastern and south-eastern Europe. The most important is **Fromilid®** (clarithromycin), sales of which increased once more in 2008. It lies in third place among all macrolides, and is also the leading generic clarithromycin and macrolide. It is also the leading generic clarithromycin on a number of markets with a market share ranging from 20 to 50%. Over its time on the market, Fromilid® has been used to treat over 20 million patients, which confirms its quality, efficacy and safety. Fromilid® uno, in the prolonged-release dosage form, is particularly important, because it enables patients to take the medicine just once a day.

Fluoroquinolones. Krka is a leading producer of fluoroquinolones. It markets **Ciprinol®** (ciprofloxacin) and **Nolicin®** (norfloxacin) on its traditional markets, which offer two of the most frequently prescribed active substances. Krka's Ciprinol® represents the gold standard for fluoroquinolones and is the second best-selling ciprofloxacin on Krka's traditional markets. It has been marketed for almost 20 years and achieves market shares ranging between 20 and 70%. Nolicin® is primarily used to treat non-complicated urinary tract infections.

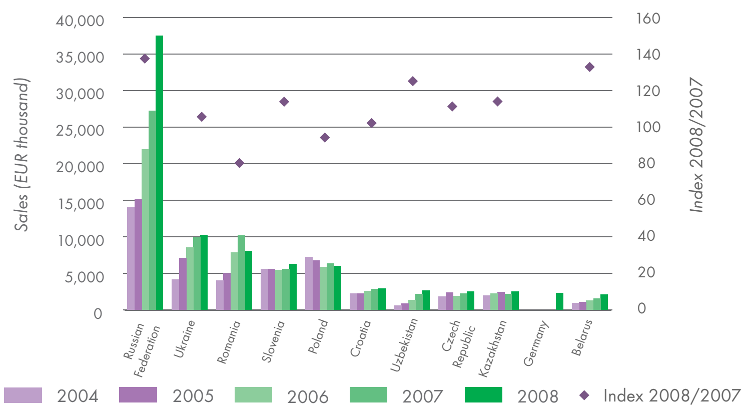
MEDICINES FOR THE URINARY TRACT

In 2005 Krka first addressed the treatment of benign prostatic hyperplasia (BPH), with doxazosin in its own innovative prolonged-release dosage form, which it named **Kamiren® XL**. In the following two years the range was expanded with two further medicines **Tanyz®**(tamsulosin) and **Finpros®/Finster®** (finasteride). Krka's product range now includes medicines among the leading global products for treatment of this disease, since these three active substances represent three-quarters of total global sales of prescription medicines to treat BPH. The three products together make Krka the fourth-ranked producer of medicines to treat BPH on the markets of central, eastern and south-eastern Europe, while Kamiren® and Tanyz® rank third among products with the same active substance.

SELF-MEDICATION PRODUCTS

In 2008 the Krka Group achieved self-medication product sales worth EUR 99.2 million in 2008, growth of 19% on the previous year. The largest increases in sales on its ten largest markets were achieved in the Russian Federation, Belarus, Uzbekistan, Kazakhstan, and Slovenia, while the largest increases on Krka's other markets were achieved in Hungary, Serbia, Azerbaijan, Kosovo, Moldova, and Slovakia.

SELF-MEDICATION PRODUCT SALES ON THE 10 LARGEST MARKETS



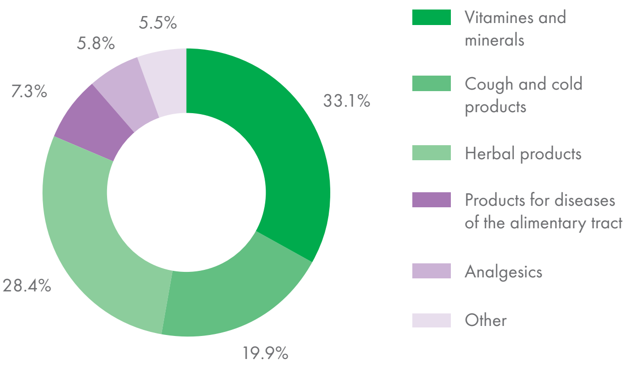
Marketing and sales activities focused on the key brands for cough and cold treatments (Septolete®), herbal medicines (Bilobil®, Herbion®), and vitamin and mineral products (Duovit®, Pikovit®).

The **Septolete®** range retained its third place among global competitors, with the most successful increase in sales in the Russian Federation, where a media launch of the latest Neoseptolete® with fruit flavours was organised at the beginning of the year. We continued to modernise the packaging of all products under the Septolete® brand on several markets, which has improved their recognition levels in pharmacies. In 2008 Septolete® won annual awards in their category in Kazakhstan and Uzbekistan.

The **Bilobil®** brand was supplemented with **Bilobil® Aktiv** (biloba ginkgo and ginseng extract), which widened the indication range of the brand to include fatigue reduction, in addition to enhancing memory and concentration ability. In Poland Bilobil® won a product of the year award, as selected by pharmacists in the memory and concentration category, for the fourth year in a row. It is achieving market share of over 20% on many markets among the biloba ginkgo extract products, and is a leading product of its type.

The flagship products in the **Duovit®** range in 2008 were Duovit® for men and Duovit® for women – products adapted to meet the needs of the man's or woman's organism. They were both warmly welcomed by customers. Duovit® Charm and Duovit® Osteo, new products in 2007, were joined in 2008 by **Duovit® Vision** (for maintaining sound vision) and **Duovit® Energy** (for extra energy). In 2008 the Duovit® range won an annual award in its category in Kazakhstan.

SELF-MEDICATION PRODUCT SALES BY THERAPEUTIC GROUP IN 2008



Pikovit® is the umbrella brand uniting six vitamin and vitamin-mineral products for children aged from 1 to 14 in a range of child-friendly dosage forms. In 2008 we added the vitamin-mineral product **Pikovit® complex**, aimed at children going through a period of rapid growth and increased mental or physical exertion. Pikovit products are the result of Krka's own knowledge and technology and are both supported and trusted at the highest professional level, which is seen in the official recommendations of the Union of Pediatricians of Russia and Russian Association of Family Medicine in the Russian Federation, and associations of pediatricians and associations of family medicine in Ukraine and Macedonia, as well as among users themselves (vitamin-mineral product of the year or children in Belarus, Kazakhstan and Uzbekistan).

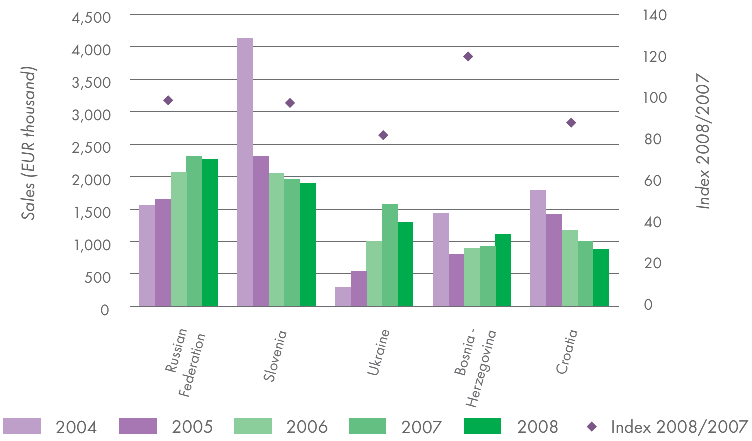
The **Herbion®** brand, a range of herbal medicines, includes two important syrups, one which reduces coughing and one which eases expectoration.

The most important analgesic is **Nalgesin® S** (naproxen sodium), which rapidly and effectively relieves various types of pain.

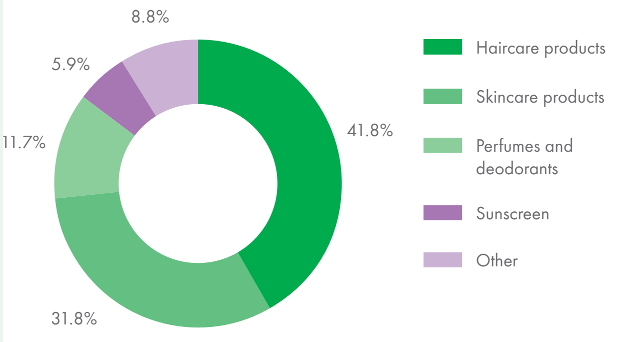
COSMETIC PRODUCTS

The Krka Group sold EUR 10 million worth of cosmetics in 2008, 1% down on 2007. The fall in sales was due to the planned step-by-step withdrawal of products from the mass market.

COSMETICS SALES ON 5 LARGEST MARKETS



COSMETICS SALES BY GROUP IN 2008

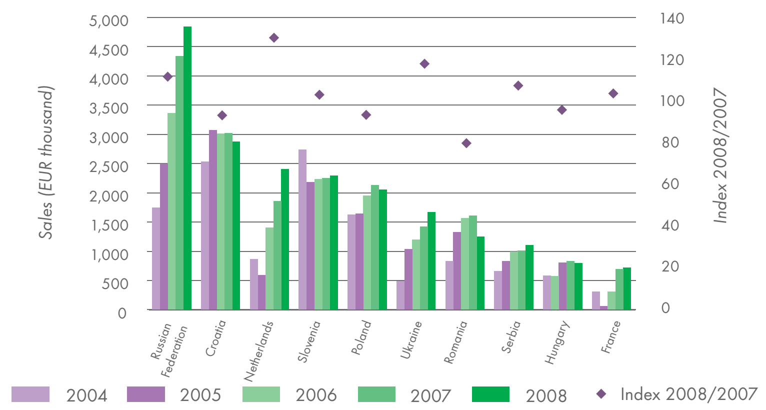


The key cosmetics brand is **Fitoval®**, a range of hair and scalp care products, which offers an integrated approach to the most common hair and scalp problems: hair loss, dandruff and hair damage. The Fitoval® formula offers external care to the hair and scalp while also providing nutrients for hair roots. The carefully selected active ingredients and considered combination of complementary products, ensure effective treatment for hair problems. In the second year since the launch of the new **Vitaskin® Pharma** brand we expanded the range to include a new line, Vitaskin® Pharma **Pure Expert**. It is aimed at gradually eliminating the problem of oily skin with blemishes.

ANIMAL HEALTH PRODUCTS

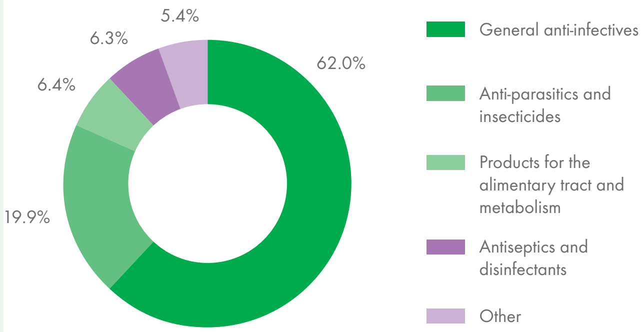
The Krka Group achieved sales of animal health products totalling EUR 25.1 million, 2% up on 2007 On Krka's 10 largest markets, sales increased most in the Netherlands, Ukraine, the Russian Federation and Serbia.

ANIMAL HEALTH PRODUCT SALES ON 10 LARGEST MARKETS



Marketing and sales

ANIMAL HEALTH PRODUCT SALES BY THERAPEUTIC GROUP IN 2008



The most important animal health product is **Enroxil®** (enrofloxacin). In 2008 the range was added to with the introduction of Enroxil® Max, which offers single-dose treatment. The second most important product is the anti-microbial **Floron®** (florfenicol), which has maintained its leading position among florfenicols on Krka's traditional markets. Both products are also marketed on the demanding markets of western Europe.

Kokcisan® (salinomycin) is Krka's most important coccidiostatic. The acquisition of EU-wide brand specific approval (BSA) has made Krka one of the top three European suppliers of salinomycin.

Ecocid® S, is a modern disinfectant, which meets the needs of all users wanting an efficient, environmentally friendly and high-quality product. It is one of the world's leading, and its efficacy has been attested by the latest EU-standard disinfectant testing methods. It is a proven solution for biosecurity.

HEALTH AND TOURISM SERVICES

In 2008 the Terme Krka Group generated revenues of EUR 32.5 million from its business units, Šmarješke Toplice, Dolenjske Toplice, Strunjan, Novo mesto and Otočec, which is by over 5% higher than in 2007. The highest source of revenue by type (33%) was from overnight accommodation. The 343,523 overnight stays generated EUR 11 million, growth of 6%. The largest growth in revenue by business activity was 9% for healthcare activities, which were worth EUR 7.8 million.

In 2008 domestic guest visits were up, contributing 69% of all overnight stays. The highest number of foreign guests came from Italy, Austria, Russia and Germany. The highest occupancy (84%) was recorded at Strunjan, while at Dolenjske Toplice and Šmarješke Toplice it was around 80%.

The most important achievements of the year for Terme Krka were increasing accommodation capacity with the new Balnea hotel at the Dolenjske Toplice spa complex, and the extension of Otočec golf course, with 9 new holes. Both investments were co-financed by the European Regional Development Fund, which contributed a total of EUR 3.76 million to the two projects.

In autumn Terme Krka paid EUR 8 million to the Slovenian Association of War Veterans' Organisations to purchase its 49% ownership stake in Terme Krka-Strunjan d. o. o., and become the sole owner of this seaside business unit, which has always been of great interest to tourists.

Research
and development

Research and development play a major role in consolidating and developing Krka's competitive position as one of Europe's leading generic pharmaceutical producers. The basic objectives of Krka's research and development policy remain developing technologies for the production of pharmaceutical ingredients and pharmaceutical dosage forms, and performing all the testing and research required to gain marketing authorisations for prescription pharmaceuticals, self-medication products, animal health products and cosmetics. In 2008 we also increased our personnel and modernised premises and equipment.

The operations of the Krka controlling company and its subsidiaries are coordinated within the Krka Group. This includes taking into account the entire portfolio of companies and the specifics of the individual markets on which they operate, and opening up new sales opportunities for them. In 2008 the regulatory projects of the subsidiary, TAD Pharma, were successfully incorporated into the work of the controlling company. We will continue to make use of the development opportunities offered by the subsidiaries Krka-Rus, Krka-Polska, and Krka-Farma Zagreb.

MARKETING AUTHORISATIONS

In 2008 Krka was granted first marketing authorisations for 21 new products in 36 pharmaceutical forms. A total of 637 marketing authorisations were obtained for various products across a number of different markets. Marketing authorisations were obtained via decentralised procedures (DCPs) and mutual recognition procedures (MRPs). Eight DCPs and six MRPs were concluded, securing significant marketing authorisations for various products in key countries. The most important included prescription pharmaceuticals with the active substance montelukast and the active substance ziprasidone, and animal health product range with the active substance enrofloxacin.

We also successfully concluded the most complex and demanding regulatory procedure, a centralised procedure (CP), for the pharmaceuticals Oprymea® (pramipexole) and Irbesartan Krka (irbesartan). The CP provided marketing authorisations for both products in all 27 EU member states.

Effective work on regulatory affairs demands the use of optimal procedures within national and European legislation. Past experience is used to full effect in the regulatory procedure management. We also are continually engaged in managing national regulatory procedures. Successful national regulatory procedures play an important role in ensuring a portfolio of new products in the countries of south-eastern Europe. Managing national regulatory procedures is very important in the Russian Federation, where the Krka parent company and the subsidiary Krka Rus have both successfully obtained marketing authorisations. One of the most important approvals for the Russian market in 2008 was for **Orsoten**® (orlistat) in 120 mg capsule form. This was another positive result for Krka's vertically integrated development and an expression of the high level of expert knowledge in fields such as active pharmaceutical ingredient (API) and dosage form development, efficacy and safety studies, preparation of registration documents, and managing regulatory procedures. Biotechnology and chemical synthesis are both employed in the development and production of APIs. Orsoten® is used successfully to reduce body weight.

Effective product development and the advanced preparation of registration documentation for new products is a vital part of ensuring a satisfactory number of new product marketing authorisations in future. The results in 2008 of creative and innovative approaches and above all hard work from the R&D team, were the submission of registration dossiers for 22 new products.

NUMBER OF NEW MARKETING AUTHORISATIONS FOR THE KRKA GROUP BY REGION

	Slovenia		South-East Europe		East Europe		Central Europe	
	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms
2008	29	49	113	241	177	284	93	215
2007	11	39	104	223	108	181	86	311
2006	23	36	114	234	97	152	84	210
2005	10	34	84	141	76	111	102	266
2004	16	22	220	355	66	89	63	110

Research and development

INCREASING R&D CAPACITY FOR ACTIVE PHARMACEUTICAL INGREDIENT DEVELOPMENT

In 2008 Krka's Research and Development division acquired vital R&D infrastructure for the development of APIs, which is one of its main responsibilities. We opened new chemical development laboratories, which have become the hub of our synthesis and analysis-related knowledge, which is an essential part of product research throughout the entire chain, from theoretical study of chemical synthesis to the introduction of new synthesised technology into industrial processes. The new laboratories have optimised development capacity, while training specialists and the latest development equipment will enable Krka to produce the most technically demanding projects. The entire synthesis development, isolation, and physical processing of ingredients for application in the development of pharmaceutical products will take place in the laboratories. They support the performance of experiments ranging from milligrams to kilograms in scale.

PROTECTING OUR KNOW-HOW AND INTELLECTUAL PROPERTY

At Krka we respect the intellectual property of others and protect our own. We protect the results of our work in key areas with patent applications. In 2008 Krka submitted patent applications for 30 new products, and 17 international patent applications on the basis of prioritised applications from 2007.

The company markets its products under its own trademarked brands, which further enhances the added value of Krka products. In 2008 Krka registered 121 brands in Slovenia, and submitted 94 international, 10 Europe-wide and 24 individual applications in individual countries.

PRESCRIPTION PHARMACEUTICALS

Krka expanded its antipsychotic range, which is part of the central nervous system therapeutic group. The regulatory procedure was concluded in all central and western European countries in 2008 for **Zypsilan**® (ziprazidone) in the form of 20 mg, 40 mg, 60 mg and 80 mg hard capsules. This pharmaceutical product is used to treat psychosis and schizophrenia, particularly in younger patients, since it does not lead to weight gain during treatment and has a major impact on patient quality of life. On some markets we obtained marketing authorisations for **Elicea**® (escitalopram) in the form of 5 mg, 10 mg and 20 mg film-coated tablets, which are used to treat depression and various states of anxiety and panic; it is the latest and most selective anti-depressant available. **Oprymea**® (pramipexole) is for the treatment of Parkinson's disease. It is produced as 0.088 mg, 0.18 mg, 0.35 mg, 0.7 mg and 1.1 mg tablets. A lack of dopamine in certain parts of the brain causes patients to suffer difficulties in movement and posture. Pramipexole functions as a dopamine agonist and is therefore suitable on its own or in combination with levodopa. It significantly contributes to reducing the symptoms of diseases, has few side effects and improves patient quality of life.

The first marketing authorisation has been granted on some markets for **Lertazin**® (levocetirizine) as a 5 mg film-coated tablet designed to treat acute and chronic allergic reactions, such as hay-fever and skin reactions. It is intended for adults and children (aged 6 years and over) and is already available on some markets. We have also successfully obtained marketing authorisations for a range of products with the active substance montelukast in 4 mg and 5 mg chewable tablet form, and in 10 mg tablets in a number of western and central Europe countries. These medicines are effective in the treatment and prevention of asthma.

Krka expanded its range of products to treat high blood pressure by gaining marketing authorisation for the product **Irbesartan Krka** (irbesartan) in the form of 75 mg, 150 mg and 300 mg film-coated tablets. Marketing authorisation was granted on the Russian market for **Ciprinol**® **SR** (ciprofloxacin) in 500 mg film-coated tablet form. This expanded the Ciprinol range of products, which are used in the systemic treatment of infections.

NUMBER OF MARKETING AUTHORISATIONS FOR PRESCRIPTION PHARMACEUTICALS BY REGION

	Slovenia		South-East Europe		East Europe		Central Europe	
	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms
2008	9	26	75	197	100	206	55	158
2007	8	36	68	176	65	127	79	304
2006	13	26	82	189	61	104	57	175
2005	8	30	60	110	55	84	87	243
2004	8	14	136	271	23	40	48	94

SELF-MEDICATION PRODUCTS

In 2008 we successfully concluded regulatory procedures for two new products to supplement the Bilobil brand: **Bilobil® Aktiv** in Latvia and **Bilobil® Intense** in Croatia. **Bilobil® Aktiv** capsules contain extract of ginseng root in addition to gingko root extract. The product is recommended in case of mental or physical fatigue. **Bilobil® Intense** capsules represent a higher dose addition to the product range, which makes administration easier for users.

The **Pikovit®** brand, which covers a range of vitamin and mineral products for children, was expanded with the acquisition of first notifications, to include the **Pikovit® complex** in chewable tablet form. These contain both vitamins and all the minerals children require for healthy development. Their taste and chewable form are adapted to children's tastes. A notification was obtained for the Pikovit complex for Slovenia, Czech Republic, Poland, Bulgaria, Slovakia, Macedonia and Kazakhstan, and the product was successfully launched in the Czech Republic, Bulgaria and Macedonia. A first notification procedure was also concluded in Slovenia for the products **Pikovit® IQ** syrup and **Pikovit® Balance syrup**. Pikovit® IQ syrup is a dietary supplement with vitamins and Omega 3 acids, which are important for the correct development of the brain and central nervous system in children. Pikovit® Balance syrup contains vitamins and probiotic fibres, which enhance the function of healthy gastrointestinal microflora in children. In Slovenia we also acquired a first notification for the product **Duovit® Elegance**, which includes all the ingredients required for the biological nutrition of skin during the day and night, in two capsules, one for day-time and one for night-time. Krka continues to successfully acquire notifications for the Russian market for dietary supplements, such as **Duovit® Energija** and **Duovit® Vision**.

The regulatory procedure was completed for the **Panzynorm® 10,000 capsules** on two key markets, Ukraine and Belarus.

NUMBER OF MARKETING AUTHORISATIONS FOR SELF-MEDICATION PRODUCTS BY REGION

	Slovenia		South-East Europe		East Europe		Central Europe	
	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms
2008	9	9	29	30	47	47	18	19
2007	2	2	32	43	34	39	4	4
2006	8	8	30	42	35	45	22	31
2005	2	4	24	31	15	19	15	23
2004	6	6	67	67	37	43	10	10

COSMETIC PRODUCTS

In 2008 Krka continued to obtain marketing authorisations for products from the new cosmetics line **Vitaskin Pharma® Pure Expert**, which are intended for the care of oily and problem skin. Approvals were granted to market this product line in the Russian Federation and Ukraine.

ANIMAL HEALTH PRODUCTS

Having concluded an EU centralised procedure in the first half of 2008, we acquired a permit for use for the coccidiostatic **Kokcisan® 120** as a granulate mix. It prevents coccidiosis in poultry. We successfully concluded a DCP for the antimicrobial **Giraxa®** in powder for oral solution. It is used to treat infections in farm animals, and is sold in Slovenia, the Czech Republic, Poland, Romania, Lithuania and Latvia.

The second half of the year saw two regulatory procedures for products with the active substance **enrofloxacin**. The first, an MRP for **Enroxil® Max** solution for injection was concluded for 14 markets in western, central and eastern Europe. The product offers a modern method of treating respiratory disease in cattle, and is marketed in Ireland, Slovenia and the UK. The single dose form is a major advantage of the product. The second DCP, for **Enroxil® flavour**, took place in 21 countries. The medication is available in 15 mg, 50 mg and 150 mg flavoured tablet form, and forms part of the modern treatment of bacterial infections of the respiratory system, alimentary tract, urogenital tract, skin, and secondary infections of wounds, and outer ear infection in dogs and cats. The taste of the tablet appeals to animals, which eases administration.

NUMBER OF ANIMAL HEALTH PRODUCT MARKETING AUTHORISATIONS BY REGION

	Slovenia		South-East Europe		East Europe		Central Europe	
	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms
2008	3	6	6	11	13	14	20	38
2007	1	1	3	3	7	8	3	3
2006	2	2	2	3	2	3	4	4
2005	–	–	–	–	6	8	–	–
2004	2	2	17	17	6	6	5	6

HEALTH AND TOURISM SERVICES

In 2008 Terme Krka renovated the interior of Otočec Castle and constructed and opened the new Hotel Balnea at the Terme Dolenjske Toplice spa. The new investments included new programmes and services, which will upgrade the already well-established range of products and services that Terme Krka offers and consolidate its position on the domestic and foreign markets.

The Krka mission, Living a healthy life, is put into practice via the modern services we prepare for guests. We are developing programmes that lead to a greater feeling of wellbeing, health, relaxation and a healthy and aesthetic appearance. The new services available in the Balnea Wellness Centre at the Terme Dolenjske Toplice are based on recognised therapeutic methods of reflexology and acupuncture. The new preventive or strengthening health programmes are called Peaceful Sleep, Giving Up Smoking, Strong and Slim, and supplement the pampering and active relaxation and active break programmes. Krka staff are working hard at Otočec to develop the range of products and services for individuals and businesses, particularly in the fields of sport – especially tennis and golf – cuisine and congress tourism.

Our work is based on a rich health care and tourism tradition, which we improve on continually through our personal approach to our guests. In 2008 considerable funds were dedicated to the development of medical rehabilitation programmes and equipment for diagnostics and treatment, since we want to maintain our market share in the Slovenian health resort sector.

Product supply

Optimal supply chain performance is ensured by effective management of all its functions (procurement, production, logistics, laboratory controls), and their coordination with every other function within the company.

In Product Supply, we ensure an uninterrupted supply to Krka's markets through the efficient and effective management of increasing complex activities in the fields of logistics and production at Krka's various production centres and those of its contractual partners.

In 2008 Krka modernised and increased the capacity of its warehouses, pharmaceutical ingredient and finished product manufacture, and analytics facilities.

PURCHASING

The effective monitoring of the situation on global purchasing markets and the use of cost-benefit analysis allows us to achieve our set objectives by ensuring provision of materials, products and services of sufficient quality.

The established partnership system ensures secure and reliable sources within a dynamic purchasing environment, favourable prices for supplied products, an influence over supplier quality, improvements in planned supplies and access to supplier technology, as well as faster administrative procedures and lower compliance costs.

The reduced incoming control system, which was introduced in 2007 for select suppliers packaging and auxiliary materials, which have proved to be of extremely high quality and reliable over a period of several years, was expanded in 2008, which has improved the time and cost effectiveness of cooperation with partners.

A database was created, linking various organisational units within the Company, to provide more knowledge and more effective analysis of developments on purchasing markets, and to monitor existing and potential future suppliers.

LOGISTICS

Warehouse capacity was increased by 5500 new pallet spaces, which will enable the required growth and ensure adequate service quality is maintained. New warehouse facilities are being built near Novo mesto.

PRODUCTION

Achieving the Krka Group's objectives and successful and timely supply to market mean we must maintain and improve the competitive advantage of our own high quality and effective chemical and fermentation production for pharmaceutical ingredients and finished products at all production sites, in Slovenia, the Russian Federation, Germany, Poland and Croatia. Continual improvement in quality and efficiency are confirmed by the positive findings of numerous inspections and audits by domestic and foreign regulatory bodies and business partners.

The growing number and quantities of APIs developed and produced by Krka, which are incorporated into finished products, is part of the successful fulfilment of the objectives of our vertical integration strategy.

Production capacity is continually being renovated, expanded and upgraded.

In 2008 production took place on an extraction line that enables the extraction of a fermentation broth with organic solvents, which we previously did not have the technological capacity for.

Production capacity at the Notol plant was upgraded and small-batch production facilities were constructed to provide a faster and higher quality transfer of technology from development to the production of solid pharmaceutical forms, and to ensure the more efficient realisation of small sales orders. Automatic vertical storage for packaging line format tools has been introduced to the plant.

Production capacity at the Ljutomer plant has undergone a major refit, while production at Jastrebarsko has been expanded by the installation of a granulator.

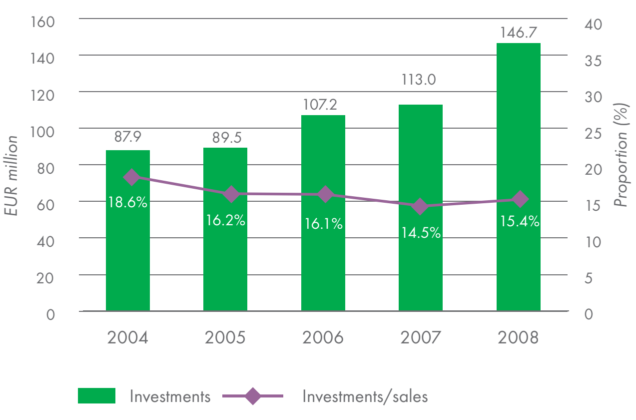
The electronic production documentation project, which will fully document the production process in real time, includes the organisation and rationalisation of process data capture from machinery, and the existing database is being prepared for systematic use in optimising existing technologies and developing new ones.

Close and intense cooperation between the R&D and production divisions ensures the rapid and timely supply to market of select products. In 2008 we received a silver award from the Slovenian Chamber of Commerce and Industry and the regional gold award from the Dolenjska and Bela Krajina Chamber for innovative technology in the production of a prolonged release multi-unit dosage form, which was the result of teamwork between the R&D and production divisions.

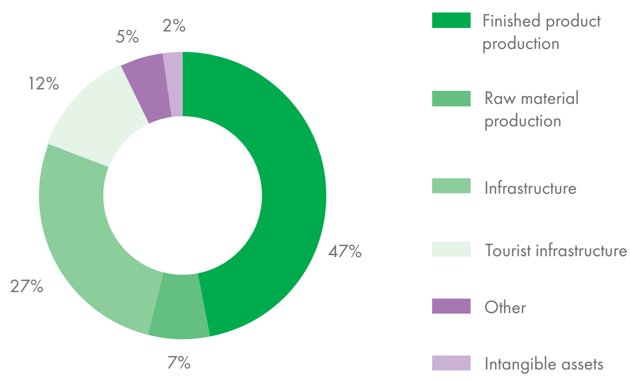
We also won the award for the improvement with the greatest economic benefit within the inventive work initiative for an idea relating to simvastatin production.

Investments

KRKA GROUP INVESTMENTS 2004-2008



STRUCTURE OF THE KRKA GROUP'S INVESTMENT SPENDING IN 2008



In 2008 Krka allocated EUR 147 million, or 15.4% of revenues, on investment projects, which took place primarily in Slovenia, but also in Croatia, Germany, Poland and the Russian Federation. Most projects were focused on the production of raw materials and final products and the construction of tourist capacity and infrastructure.

NOTOL PHASE III

The third phase of the Notol plant expansion was completed in 2008. This phase included adding six new packaging lines to the packaging facility, a new warehouse for packaging storage, optimising transport for the entire plant, and construction of additional space for intermediate product and small-batch production. The plant's annual capacity was increased to 3.5 billion tablets and capsules.

The construction of the new extension began in June 2007. It is equipped for small-batch (pilot) production. This will be a major help in transferring technology from development to production and producing small batches to meet market requirements.

In 2008, EUR 25 million was spent on this investment project, with the entire third phase costing slightly under EUR 51 million. The construction of the entire Notol plant has lasted 10 years, passing through three distinct phases. Overall EUR 150 million have been spent on the project, two-thirds of which on technological equipment.

PELETE V PLANT

The Pelete V was built and equipped in just over a year. Pellet production has been increased to approximately 430 tonnes per year. The equipping process started in January 2008. All technological equipment was installed and tested, as were all production technology procedures. All the required technical approvals were acquired, enabling test production to start on schedule. Just over EUR 12 million have been spent on the project.

SINTEZA 4 – LINE 5

Work on line 5 of the Sinteza 4 plant also started in 2008. The extra line was needed due to the growing quantities of new active pharmaceutical ingredients (APIs) to be produced. This will allow new strategic products to be produced and ensure full control of technologies that demand equipment that is highly resistant to corrosion. The value of the investment is assessed at EUR 11.3 million.

CHEMICAL DEVELOPMENT LABORATORIES

In October 2008 Krka opened its new chemical development laboratories, worth EUR 8.5 million. The laboratories now form the hub of Krka's synthesis and analysis-related knowledge, which is an essential part of product research throughout the entire chain, from theoretical study of chemical synthesis to the introduction of new synthesised technology into industrial processes. As part of the research and development process, work in the laboratories will develop chemical knowledge, and provide development data for the protection of intellectual property and patent applications, market authorisation documents for APIs and the technological processes of synthesis and isolation of APIs along with all procedural analysis methods for use in chemical production.

TERME KRKA

In 2008 investment spending at Terme Krka totalled EUR 17.4 million.

The new Hotel Balnea Superior was opened at the Terme Dolenjske Toplice spa complex in December 2008. The investment planning and the development of wellness services took into account sustainable, natural and human-friendly development principles. This included fitting an ecological heating system using heat pumps at the Terme Dolenjske Toplice spa.

The investment value was EUR 14 million. Part of the investment project was co-financed by the European Regional Development Fund (ERDF).

In 2008 work started to add nine holes and a drainage system to the Otočec golf course. The investment value is EUR 2 million, and is also being co-financed with an ERDF grant.

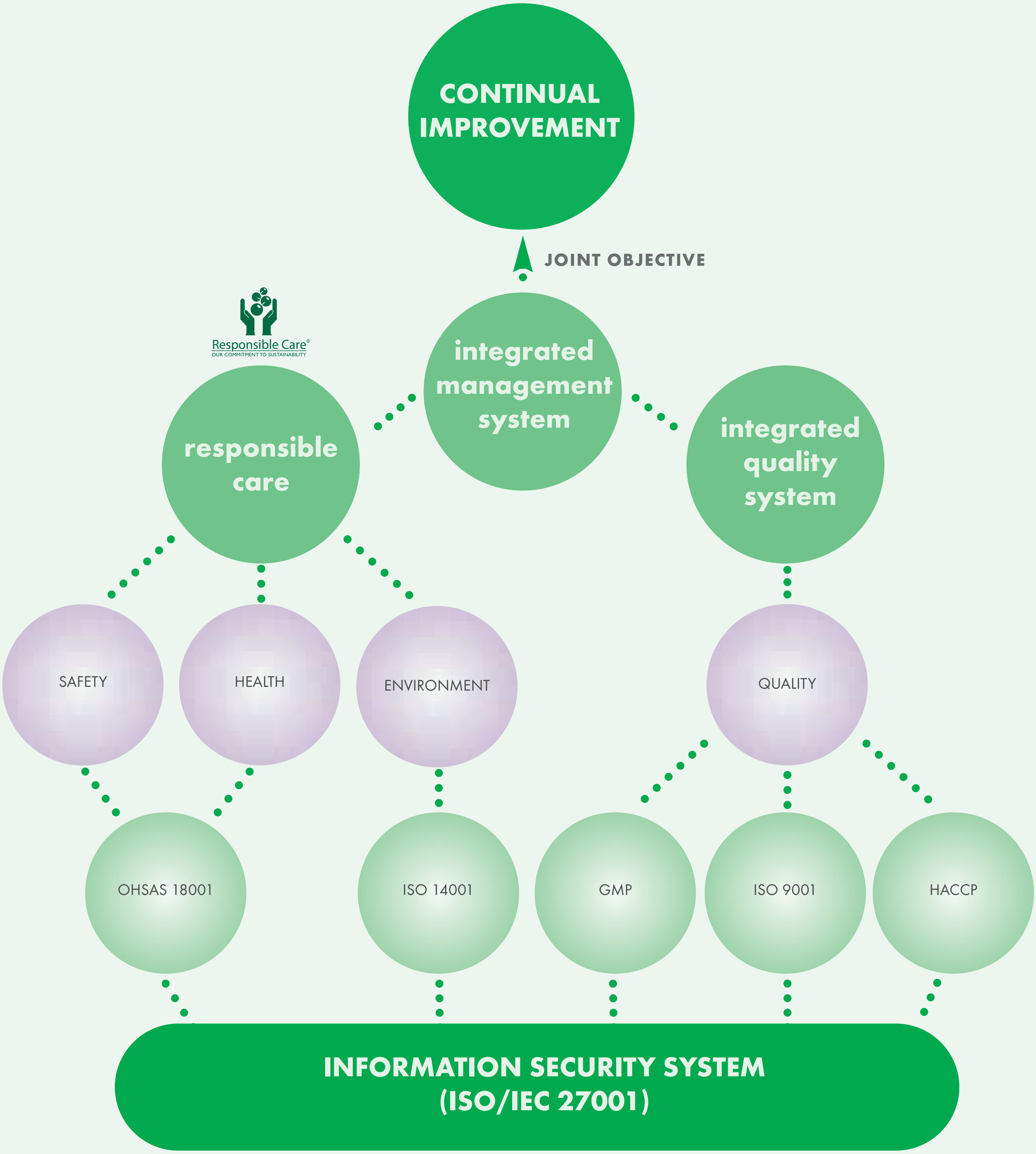
ABROAD

Production capacity was expanded at the Krka-Farma Zagreb subsidiary in Croatia with a granulation line, while an organic solvent warehouse and nitrogen inertisation plant were also added. Production facilities at the TAD Pharma subsidiary have been modernised and optimised and warehouse capacity expanded. In Poland the packaging line was replaced with a new, higher capacity line. EUR 4 million was allocated to investment projects abroad in 2008.

Integrated management system

INTEGRATED MANAGEMENT SYSTEM

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



Integrated management system

MANAGEMENT SYSTEM

The integrated management system (IMS) covers various aspects of operations (quality, the environment, health and safety at work, foodstuffs safety, and information security) in a single management system, which is intended to achieve the optimal operating objectives. It is described in full in Krka's Quality Manual. The IMS enables the efficient and effective management of individual systems in a standardised manner. The IMS structure is based on the ISO 9001 standard, which has been upgraded and broadened by a number of other standards and principles: GxP, HACCP, ISO 14001, OHSAS 18001, and ISO/IEC 27001. The excellent functioning of the IMS is supported by a centralised document management system, which is also being continually improved. To guarantee the credibility of each system individually and the IMS as a whole, and ensure the profound trust of our partners, each system was certified by an independent external institution (HACCP, ISO 14001, OHSAS 18001, ISO/IEC 27001), while regular periodic inspections by Slovenian and foreign health agency inspectors have proved its compliance with regulatory and legal requirements (GXP).

The continual improvements dictated by the standards and guidelines and the PDCA approach (Plan, Do, Check, Act) on the one hand, and Krka's commitment to such standards on the other, is the driving force behind the progress and continuous improvement in quality in every area of Krka operations. The process management system covers every step from customer requirements via marketing, research and development, product supply and sales, to the monitoring of customer satisfaction.

QUALITY SYSTEM

The Krka system's compliance with the standards is reviewed and confirmed in the regular inspections by domestic and foreign state regulatory bodies, and assessed by certification organisations.

- Inspectors from the Agency for Medicinal Products and Medical Devices of the Republic of Slovenia (JAZMP) carried out regular inspections on the quality management system, warehouses, production plants and quality control laboratories and confirmed our compliance with the EU's GMP requirements, which form the basis for re-issuing the GMP certificate and pharmaceutical manufacturing licence.
- JAZMP inspectors verified the new section of the injection production plant, which allowed the expansion of sterile pharmaceutical production to go ahead.
- Krka also acquired verification as a wholesaler for pharmaceuticals used in medicine for human consumption, which enabled a broadening of operations.
- Regular inspections were also carried out by the Veterinary Administration of the Republic of Slovenia, with no irregularities found. They inspected the safety and quality assurance system for products for animal consumption, because Krka has an approval to act as a feed business operator in accordance with Regulation (EC) No 183/2005.
- The compliance of the safety and quality assurance system for foodstuffs and food was subject to regular inspections by the Health Inspectorate of the Republic of Slovenia, which did not find any cases of non-compliance.
- Krka recognises information and information media as a critical source of business success. Our capacity to manage, control and protect information has a direct and vital impact on future success. An assessment in 2008 confirmed that decision to acquire certification for the information security system (ISO/IEC 27001), carried out in 2007, was correct. In 2008 the system was upgraded on the basis of detailed assessments of key information sources and by increasing information security awareness among all employees.

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

The Krka management system is also subject to internal auditing. The management systems of suppliers and contracted partners are also audited to ensure their product and process quality management remains at a high quality. Krka's quality assurance systems, primarily the GxPs, are regularly verified by partners for whom Krka develops and produces products.

The functioning of the most important processes in terms of the IMS is periodically reviewed by the Quality Committee on the basis of the Quality Manual and in line with the performance criteria. The Quality Committee sets out strategic guidelines for implementation of Krka's development strategy. Customer satisfaction with our products and services is one of the key objectives of the IMS, as well as of Krka operations and performance. It is measured directly by means of customer satisfaction surveys and indirectly via customer complaint indicators. Krka regularly monitors indicators in this important field, and in recent years has found that the percentage of justified complaints compared to batches released has been decreasing, which is very much in line with set objectives, and indicates that the right action has been taken to improve procedures. The response time in dealing with complaints is vital, so we also meet our aim to respond to all customer complaints within 14 days.

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

BUSINESS EXCELLENCE

One of Krka's key objectives is to achieve excellence in every area of operation, which led to the IMS being upgraded to take into account the principles of the EFQM excellence model, which is developed by the European Foundation for Quality Management.

sustainable development

creativity

Do not go where the path may lead;
go instead where there is no path
and leave a trail.

Ralph Waldo Emerson

Employees

KEY DATA

Number of employees: 7602, of which 4059 (53%) in Slovenia
Average age: 37.8 years
Percentage of employees female: 58.5%
Percentage of employees with at least university qualification: 51%

In 2008 the number of employees increased by 825, of which 200 in Slovenia.

KEY TASKS

- High rates of recruitment in Krka companies and representative offices abroad (680 new employees).
- Construction, expansion and standardisation of human resource information system for entire Krka Group – introduction of SAP
- Encouraging employees' commitment and investing in their development
- Identifying and developing talented and promising employees (Krka Leadership School).

The Krka Group offers capable employees interesting work in an international environment and an opportunity to develop and advance in business, professional and personal spheres. Together at Krka we are building a culture of mutual trust, respect, effective collaboration and teamwork, involving lifelong learning and responsible and effective work. We respect legal norms and rules on ethical approaches to other people and the wider social environment. Work at Krka is based on equal opportunities regardless of sex, race, colour, age, health condition or disability, religion, political orientation or other belief, trade union membership, national or social origin, family status, property status, sexual orientation or other personal circumstances.

The many prizes and awards Krka has been granted are the result of systematic work in the human resource sphere, in which senior management and unit heads were involved, as well as specialist services and other partners. In 2008 Krka also received **the Golden Thread award** as the employer with best reputation in Slovenia, and **a top-10 award** for investment and successful work in the education field.

The growth of the company and expansion of markets has led to a high rate of recruitment. A total of 3543 employees work in companies and representative offices outside Slovenia, which is 46% of all employees in the Krka Group. The growth in recruitment in Slovenia is highest in research and development and in marketing, while in the representative offices and subsidiaries abroad there has been a significant increase in employment in marketing and sales. In 2008 the number of new employees in the Krka Group increased by 825. At the end of 2008 the Krka Group had 7602 employees, 58.5% of whom were women. The proportion of women in management positions is 42.7%.

New employees are attracted to the Company via job announcements and advertisements online, and Krka also cooperates with schools and faculties, and organises presentations at human resource fairs. New specialists are also found via scholarship programmes. Krka's website has a permanent application section where students and high school pupils can apply for study grants. All those who have achieved excellent results in the various areas of interest to Krka are invited for an interview. In 2008 Krka granted 50 new study grants, making a total of 92 students with study grants, mainly pharmacy and chemistry students. We also developed close relations with students who become familiar with Krka while doing internships or research for a thesis.

The need to identify and direct the most gifted people early means we are also active in the wider social environment. **The Krka Prizes** are another means of encouraging young people to become involved

NUMBER OF EMPLOYEES IN THE KRKA COMPANY AND GROUP (ON 31 DECEMBER)

NUMBER OF EMPLOYEES

on 31 December	2008	2007	2006	2005	2004	Index 2008/2007
Krka Company in Slovenia	3380	3213	3016	2954	2932	**104**
Krka Company representative offices outside Slovenia	1870	1678	1256	1024	716	**112**
Krka Company	**5250**	**4891**	**4272**	**3978**	**3648**	**107**
Subsidiaries outside Slovenia	1673	1240	857	620	539	**136**
Terme Krka Group	679	646	630	626	594	**105**
Krka Group	**7602**	**6777**	**5759**	**5224**	**4781**	**112**

in creative and research work. Over 38 years there have been 2235 Krka Prize winners. In 2008 Krka made 5 prizes for special achievements in the field of research work, 29 prizes to students and high school pupils and 6 e-Krka Prizes.

EDUCATIONAL STRUCTURE

Intense investment in development, new capacities and complex technologies and ensuring competitiveness on global markets requires highly qualified specialists in all areas. The proportion of staff with a university education is continually increasing and has now reached 51% of all employees. At the end of 2008, the Krka Group had 3858 employees with at least a first university degree. This includes 76 people with doctorates and 178 with master's degrees and specialisations.

EDUCATION STRUCTURE

on 31 December	2008	2007	2006	2005
Doctorate	76	81	63	51
Master of science	178	161	162	153
University education	3604	2875	2408	2018
Higher professional education	596	619	324	221
Vocational college education	225	201	222	206
Secondary school education	1503	1404	1138	1104
Other	1420	1436	1442	1471
Krka Group	**7602**	**6777**	**5759**	**5224**

EMPLOYEE DEVELOPMENT

The staff development system has been progressing since 1987, and ensures planned and directed development and a suitable selection of excellent, well qualified staff, who take on the most complex and responsible tasks. This ensures continuity in key positions and functions within the Company.

In 2008, 825 or 11% of employees were included in the group of key and promising staff. Considerable emphasis is placed on determining potential and developing staff in companies and representative offices abroad, since this helps us to achieve the multicultural synergy and even greater success in the international environment. We plan the development of these employees for various levels of management or to take on tasks in the most complex and demanding specialist areas.

Krka also has its own leadership school. In 2008 the management school carried out two programmes aimed at developing leaders, the International Leadership School and the Operational Leadership School, and two programmes to develop specialists. Acquiring knowledge in the fields of leadership and management also takes place in the form of studies at well-known business schools. Specialist staff also continue their studies at faculties, institutes and other institutions at home and abroad, which is confirmed by the fact that 134 staff members are enrolled in postgraduate studies for masters' or doctoral degrees.

The Krka appraisal interview is another important tool of effective leadership and employee development. Managers and employees use the interviews to define the objectives, agree on priorities and expectations relating to work and employee development, and on this basis plan the employee's continued training.

EDUCATION AND TRAINING

The competitive international environment demands that employees are involved in continual study and developing knowledge and skills across a wide range of fields. Only in this way can we confront the challenges of modern life and global competition. The Group therefore invests significant amounts in the knowledge and development of all employees.

Most education and training is organised and implemented in the company's training and staff development centre. This involves numerous Krka specialists from a range of different fields. A team of over 50 internal trainers are responsible for ensuring the marketing and sales employees have all the skills and knowledge they need. Krka employees also study at a number of prestigious educational and scientific institutions in Slovenia and abroad.

The high value placed on knowledge at Krka is attested by the great interest of its employees in continuing their studies and acquiring more advanced qualifications. The Company supports them by co-financing school fees and offering study leave. In 2008, 583 Krka employees were studying part-time.

Krka was one of the first companies in Slovenia to develop programmes for the national vocational qualifications (NVQs). Krka is the only body in the country offering six NVQ programmes for the pharmaceutical industry, and employees from pharmacies and other pharmaceutical companies are included in the courses. Last year we had awarded 119 certificates. Since 2004, when this programme had started, 362 employees received their certificates.

Continual training and education takes place in various specialist fields, in leadership and personal development, foreign languages, particularly English and Russian, using modern information technology, and quality. Traditional forms of education are supplemented by e-learning, and Krka also has a large library with material for personal study (audio and video material and books).

Every employee in the Krka Group participated in more than four forms of training in 2008. On average they spent 44 hours in training. Education spending is equivalent to 0.69% of operating revenues.

EMPLOYEE REWARD SCHEME

At Krka we place great emphasis on rewarding good performance, which is understood as the achievement by individuals or groups of pre-determined or anticipated results. Based on the company's performance and criteria from the business plan, an extra performance bonus is paid out to employees twice a year. Managers have other possibilities to earn bonuses.

Since 1999 Marketing and Sales have selected and rewarded the best medical representatives in the field, with the selection later being expanded to include district managers, product managers, internal trainers and marketing managers. In 2005 Research and Development joined the system by selecting employees of the year in the field of regulatory affairs. The same year, a system was introduced to reward the best employees and managers at the organisational unit level and overall Group level. For decades Krka has been recognising the efforts of its most loyal employees with anniversary bonuses and special awards. The anniversary bonuses and Krka Awards at the Group level are presented at the special ceremony known as the Krka Awards Day.

ENCOURAGING INVENTIVE WORK

Krka's inventive work system allows every employee to propose innovations and improvements either on their own behalf, or as part of a specific campaign. The company leadership has a very special role in this, being responsible for creating a positive atmosphere and encouraging employees to engage in innovative thinking, as well as implementing and rewarding their proposals.

The inventive work system is incorporated into the continual improvement system, the quality system and hence, the integrated management system. Twice a year, heads of organisational units select the fields of innovation for their organisational unit in the coming period. These are areas where useful proposals and improvement are required to improve processes and or eliminate problems that have arisen.

At Krka we know that employees make a major contribution to reducing costs and improving processes with their suggestions. In addition to the awards employees receive for each suggestion, and awards for improvements based on calculated or estimated savings, innovation is also rewarded via other forms of incentive. Selected proposers receive special awards at the Krka Awards Day, every quarter a proposer receives a practical gift, once a year a lecture and meeting for all proposers is organised, and for the New Year the President of the Management Board thanks all proposers for their suggestions and also gives them a practical gift.

In 2008 the number of proposals increased by 28% compared to 2007, and the number of proposers by 41%. The inventive work system is becoming a system involving more and more employees from a range of organisational units.

EMPLOYEE CARE

Krka invests considerable amounts in the health and quality of life of its employees, which is seen in the benefits it offers that go well beyond the requirements of the collective contract for the sector. Forms of pay such as overtime, stand-by duty at work or at home, transportation expenses, annual leave bonus, anniversary bonuses, and termination pay all significantly exceed the amounts defined in law or the collective contract for the sector. To ensure the long-term social security of its employees, since 2001 Krka has paid supplementary pension insurance for all employees who have worked for Krka for over one year, at the maximum legal rate.

A total of 5.8% of employees are registered as disabled. 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 they can continue to work in positions adapted to their occupational abilities. Krka also provides appropriate requalification for employees who can no longer perform their duties.

Health and interpersonal relations at Krka are supported by organising preventive, recreational and social programmes at a wide range of cultural and sporting events. The Krka Trim Club organises weekly sporting activities in which over 850 employees take part. Krka has holiday accommodation, and Krka employees can make use of discounts and payment by instalment. The holiday accommodation is also available to retired Krka staff at discount rates. Preventive health recreation is also organised for employees, as 7 or 10 days programmes. Krka also helps resolve housing issues by means of housing loans and the possibility of renting Krka-owned flats.

Krka's Culture and Arts Society offers an art gallery, a choir, a drama club, and creative workshops as well as organising visits to events, enriching the quality of life for our employees.

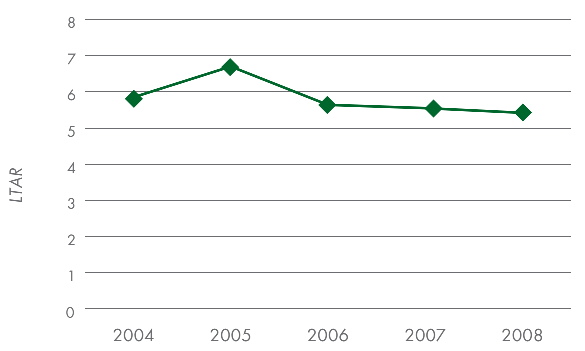
Employee gatherings are an important part of Krka corporate culture. Employees come together for Krka Day – a social and sports event for all employees, the Krka Awards Day, and New Year's events held by the various organisational units, as well as at other gatherings such as meetings for disabled staff, blood donors, volunteer firefighters, people involved in sports and others. Meetings have also long been organised for retired Krka employees as well.

HEALTH AND SAFETY AT WORK

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

The heads of individual organisation units, personal physicians and occupational health specialists, and the Health and Safety at Work Service are all involved in caring for employee health. Special health teams are organised within every organisation unit to resolve social and health problems. Sick leave has fallen significantly since the introduction of the Reciprocal Relations and Sick Leave project was introduced, and was down to 4.8% in 2008. Two important health and safety at work projects in 2008 were entitled Restricting Smoking, and An Alcohol-Free Workplace. Over the past two years smoking has only been permitted in a small number of smoking rooms. Smokers have been offered advice and help on stopping smoking. The project was concluded with a complete ban on smoking across the Krka Group in April 2008. This will be backed up by a range of specialist seminars for employees on healthy lifestyles.

FREQUENCY OF WORKPLACE ACCIDENTS (LTAR)*



* Number of accidents in the workplace requiring three or more days of sick leave per million hours of work – lost time accident rate (LTAR)

Krka also has a club for recovering alcoholics, led by two Krka social workers, to help employees with dependency problems.

The health and safety at work management system is part of the integrated management system and meets the **BS OHSAS 18001:2007 standard**.

There are working groups in charge of health and safety at work for each organisational unit, with each group including a certified health and safety officer. At the company level, there is a health and safety team that prepare key objectives and programmes that are submitted to the Management Board for approval. At the end of 2008, the Management Board approved the key objectives and programmes for the next two years.

In 2008 Krka joined a **European risk assessment campaign** in the field of health and safety at work entitled "Healthy Workplaces – Good for you. Good for business". More information on the campaign is available on the Krka website: www.krka.si. Through its active participation Krka will be made an official campaign partner by the EU's Occupational Safety and Health Administration (OSHA).

Accident data is monitored continually. The LTAR (Lost Time Accident Rate) indicator in the graph above, which indicates the number of accidents in the workplace requiring three or more days of sick leave per million hours of work, stood at 5.4 in 2008. All accidents were minor.

The most recent evaluation of organisational climate indicated that employee satisfaction with working conditions had increased to 4.1 (scale of 1 to 5).

There were no major incidents such as fires and major spillages of hazardous chemicals. The Fire Safety Department and the Industrial Fire Service Crew is responsible for emergency responses. In 2008 there were 13 exercises to improve emergency readiness, one of which was a major exercise, in which the Novo mesto Fire and Rescue Service and members of the local authorities also participated. The emphasis was on demonstrating the actual possibility of accidents occurring, the installation of automatic firefighting equipment, the speed and efficiency of the intervention by the Industrial Fire Crew, Novo mesto Fire and Rescue Centre, and healthcare services, and a drill replicating the conditions of an evacuation of the local population.

MANAGEMENT-EMPLOYEE RELATIONS

A Works Council and two unions, the KNG Krka Novo mesto and Krka Sindikat, operate at the Krka Company, and feature active employee participation. The Council and unions enjoy positive relations. The method of cooperation between the Works Council, unions and the Krka Management Board and specialist services in adopting the enterprise collective contract is worthy of particular note, as at Krka this contract is not adopted or amended using the normal bipartite system of employer-employee negotiations, but predominately takes place via a tripartite coordination system, involving the Management Board and its specialist services, the unions and the Works Council. Regardless of who proposes an individual solution, all the interested parties coordinate their positions via various (written and spoken) means of communication, until they reach a consensus. The Works Council and unions work particularly closely, building partnership relations aimed at realising the employee interests.

Fifteen worker assemblies were held in 2008. They were all well organised and well attended, with 2120 employees present in total. The President of the Management Board and Chief Executive, Jože Colarič, spoke at each assembly, while the relevant director or head of division or service also attended. The President of the Management Board gave a presentation on the Company's performance over the past year and the plans for 2008. The assemblies generally concluded with the remark that the results achieved to date commit us to even more serious and intense work, and that our objective is to remain an independent company. Mr Colarič thanked everyone for their hard work and successful performance. All those present were very satisfied with Mr Colarič's relaxed presentation, and clear and comprehensible report.

In 2008 the worker director, Danica Novak Malnar, was reappointed for a new term-in-office. The worker director is also a member of the Management Board, where she represents employee interests on human resource and social issues.

The third term-in-office of the Works Council expired in 2008, so towards the end of the year elections were held for the fourth term-in-office of the Works Council, which has 15 members. The Council's continuity was maintained, since just half of its members were replaced. Over the term-in-office the proportion of members with a higher education qualification increased.

Members of the Works Council form a link between employees and the Management Board, in terms of transferring information and putting forward comments and suggestions. With the support of the President of the Management Board and assistance of specialist services, they contribute to positive mutual relations and hence also to Krka's business success.

The President of the Management Board, Jože Colarič, board member, Zvezdana Bajc, and Worker Director, Danica Novak Malnar, participated in every session of the Works Council. When needed they offered additional clarifications of written material under discussion, and responded to ideas and questions, enabling any unclear issues or differences to be rectified at the meetings themselves.

Communication between the Management Board, employees and the Works Council took place via various channels. All employees are able to communicate directly with the President of the Management Board via email, Works Council members communicate once a week, and all employees are also able to communicate with the President of the Works Council via its website, which the Council can also use to send out notices to employees.

Communications

COMMUNICATIONS WITH INVESTORS

At Krka we strive to ensure regular, transparent and accurate communications with existing and potential shareholders. We are aware that appropriate corporate communications help establish the Krka business story with investors, analysts, partners and other stakeholders.

In investor communications we follow the principles of transparency, consistency and stability and as a public limited company ranked on the Ljubljana Stock Exchange's Prime Market, we are well aware that shareholders expect the best possible corporative communications. In 2008 we received the Ljubljana Stock Exchange's award for the most transparent public limited company in Slovenia for the second consecutive year.

The communication content relates to past business performance and the company's future strategy and development, while considering the company's information disclosure policy.

The main communication objectives are:
- achieving a fair value for Krka on the stock exchange,
- easier and favourable access to financing,
- adequate trading liquidity for Krka shares.

We achieve these objectives as follows:
- regular meetings with investors at the Company headquarters,
- participating in investor conferences in Slovenia and abroad,
- organising investor roadshows in financial centres around the world,
- issuing publications for investors (presentational and promotional material for investors),
- Annual General Meetings,
- press conferences announcing business results
- communicating with financial media.

Krka actively participates in meetings with investors on the domestic and foreign financial markets. We try to meet all requests for meetings from interested investors or financial and market specialists.

Krka's financial calendar is published on its website (www.krka.si/) and contains the dates of all major issues of business results. The business performance reports are available in Slovene and English on the Ljubljana Stock Exchange portal – SEOnet (http://seonet.ljse.si). The business reports are also available on Krka's corporate website. A brief summary of the annual report and semi-annual report is also published in Delo newspaper.

Shareholders can also contact the Finance Division for more information on: +386 7 331 2109.

Questions can also be submitted by email to the following address: finance@krka.biz.

COMMUNICATIONS WITH CUSTOMERS

At Krka we are very aware of the importance of our customers. We classify them into four groups:
- institutions (health, regulatory, industrial property services, health insurance etc.),
- direct customers (distributors, other pharmaceutical companies),
- indirect customers (pharmacies, hospitals, pharmacists, doctors and veterinaries) ,
- final users (patients, consumers).

We actively cooperate with institutions as part of our regular working procedures and in various projects. The nature of the pharmaceutical sector demands regular working visits and inspections by regulatory and other bodies that assess the compliance of Krka's operations and integrated management system with all the relevant standards. These visits also offer an opportunity to improve processes and approaches and ensure compliance with regulatory and other requirements. Our specialist staff participate in various industrial and professional associations.

Krka's large marketing and sales network allows us to keep in constant personal contact our direct and indirect customers. With over 2800 employees, our networks are among the very strongest on all our key and major markets in central, eastern and south-eastern Europe. In 2008 Krka's own marketing and sales network gained a direct presence in Germany for the first time, via the new subsidiary TAD Pharma. Krka also employed its first employees in Portugal this year. Special attention is paid to training for our staff members, who are in constant contact with doctors, pharmacists and pharmacies, and health institutions. This includes organising regular training on our products, which is combined with modern e-learning methods. The training includes communication skills. Our staff carry out over 3.5 million visits a year. They have received high scores for their knowledge, skills and reliability in independent research carried out among doctors and pharmacists on individual markets. On its key and major markets, Krka ranks as a leading generic supplier in terms of identity, visibility and importance as a company and via its most important products.

Krka prepares a diverse range of material for its indirect customers, providing information on Krka products and current medical and pharmaceutical guidelines and news, which ensures the correct use of our products. In addition to the normal printed and text-based electronic material, Krka also prepares animations and other electronic material, which makes it easier to understand the properties and action of our products. We also organise specialist gatherings in the form of lectures, symposiums, round table discussions or workshops, and we actively participate in conferences and professional meetings in national, regional, European and global professional associations and organisations. In 2008 we organised 6 major international events in 4 different countries, in which over 1300 guests partici-

Communications

pated. The largest was an international symposium to mark 20 years of Krka products affecting the RAAS system (ACE inhibitors and sartans) in Slovenia. Krka was also present at major international symposiums held as part of the World Congress of Psychiatry in Prague, the Alpe-Adria cardiology congress in Portorož, Slovenia, and an international congress of gastroenterology and hepatology at Ohrid, Macedonia. We also cooperated in a series of national and regional specialist meetings. In 2008 we organised over 55,000 meetings, in which over 950,000 doctors, pharmacists and veterinaries participated. We constantly monitor customer satisfaction with our professional meetings. The high scores reflect the high level of organisation, and the relevance and practical application of the selected topics. The suggestions and comments received are taken into account in planning future events.

The satisfaction of final and indirect customers is measured via numerous clinical research works, which are used to monitor the clinical efficacy and safety of pharmaceuticals, and are implemented in accordance with legal regulations and ethical standards. In accordance with the regulatory requirements we have a pharmacovigilance system – a system to monitor, notify and take action relating to any adverse effects of medicines. The system covers all Krka's markets.

Krka's activities and projects help doctors and pharmacists to offer better treatment to their patients. To that end we have published a series of booklets **Caring for Your Health**, which address specific health problems. The collection is expanded with new titles every year. Another series of booklets in preparation is **Your Doctor has Prescribed You**, which offers patients additional information on medicines prescribed to them and ensures their safer and more effective use. Krka also prepares education posters and other materials for doctors.

Krka only directly addresses final users within the legally permitted framework, which means self-medication products and cosmetics, for which we prepare print material and radio and TV advertising. We also issue a magazine called **Caring for Your Health** in Slovenia aimed at the general public, which is available in pharmacies and doctors' waiting rooms. It already has over 21,000 regular subscribers. The magazine is topic-based, with individual issues addressing specific health problems. Five issues were release in 2008. For some years we have also issued an electronic newspaper e-mesečnik (e-monthly), which is connected to a public access website (www.e-zdravje.com) intended to educate and disseminate knowledge on healthier lifestyles. Krka also promotes healthy lifestyles via campaigns on its markets, including measuring cholesterol and blood pressure, and campaigns relating to mental health. We also give suitable and prompt replies to consumers and patients who contact Krka by telephone or send questions by email relating to our products. We provide expert responses to telephone questions every day of the year.

All our publications are also published on the website www.krka.si, where there is information available to the general public on our medicines. The restricted access sections provide information for medical professionals. Individual products also have their own micro-sites.

COMMUNICATIONS WITH EMPLOYEES

Satisfied and motivated employees are a key factor in the company's success, so communication with employees is very carefully planned. Vertical and horizontal internal communications have been established at every level of the Krka Company (for more see the chapter Employees). Internal communications are not only aimed at informing employees, but also motivating them and encouraging them to be more productive and produce even better quality work. A range of internal communication tools are used to inform employees of events within Krka. This fosters a sense of loyalty and generates a recognisable and cohesive organisational climate.

Krkanet. One of our key communications tools, used by employees on a daily basis, is the internal website, called Krkanet, available in English and Slovene language versions. In addition to current information on events in the company, there are also various documents, internal acts, forms, and other aids to ensure better quality and more effective work. Organisational units and project teams also have their own sites on Krkanet, intended for documentation and communication between employees.

Bilten. The electronic and printed bulletin, Bilten, is issued every week. We use the publication to keep employees and others informed about current events, inside and outside the company. In addition to Slovene, it is also issued in local languages in our companies and representative offices in Poland, Croatia, the Russian Federation and Ukraine.

Utrip. This internal newspaper makes a significant contribution to sharing and spreading the Krka vision, mission, development strategy, corporate values and policy, and is aimed at all employees, Krka pensioners and study grant holders. It informs employees about major company decisions, achievements in individual areas of operation, and current events within the company and on Krka's markets. It comes with supplements such as Utrip zdravja (Pulse of Health), which addresses health issues and promotes healthy lifestyles, and Utrip upokojencev (Pulse for Pensioners), which is prepared by the Krka Pensioners' Society. Utrip has also been published in Polish, Russian and Ukraine in recent years.

M-Bulletin. This English-language monthly bulletin has been issued on a monthly basis by Marketing and Sales for many years. It is aimed at all employees in the marketing and sales network, primarily specialist staff members, who form the largest employee category, and who are spread across all of our markets. It reports on interesting events in Krka and on major marketing activities. It is translated into the local language on most markets.

Information screens. Information screens are used to notify employees about events at Krka such as visits by business partners, meetings of the management board and supervisory board, division-level meetings, inspections, training and other happenings and cultural events. They help every employee to keep in touch with the pulse of the company on a daily basis.

Electronic notification. All employees are also sent emails with urgent information, mainly relating to their everyday work.

COMMUNICATIONS WITH THE MEDIA

Journalists and editors of all media houses can access statements from the Krka Group in the media centre on the corporate website (*www.krka.si/en/mediji/*).

In 2008 Krka held quarterly press conferences to announce its business results as well as numerous press releases. We also met journalists at other business events (openings, presentation of new products, etc.). We also respond to all questions from the press on an ongoing basis.

In 2008 there were 6,017 articles about Krka in the media. The number of announcements or articles planned within the company increased significantly compared to 2007, up by 39%. Most media items were neutral or positive towards Krka.

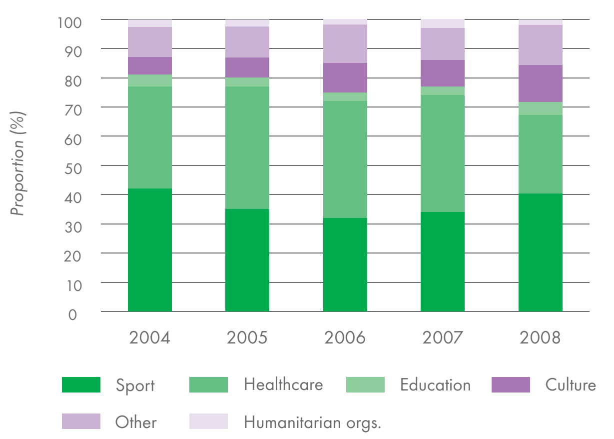
COMMUNICATIONS WITH THE COMMUNITY

We are aware at Krka that our mission, Living a Healthy Life, is not only fulfilled with top quality products aimed at treating a wide range of diseases. We have a much broader understanding of our dedication to healthy living, as a commitment to quality of life for all those in the community in which we work. We believe that our focus on sustainable development and listening to the needs of the society that we are part of are proof of our success. This is the reason we support numerous healthcare and humanitarian projects through sponsorship and grants, and investing in sport, education, science and culture. We also support campaigns to keep the environment clean and other activities to raise the quality of life in the community. Krka demonstrates its responsibility to the environment and the local community by helping those affected by natural disasters or social problems. In some cases we also offer own products as a direct form of assistance.

We are extremely proud of the fact that it is not only as a company that Krka acts in a socially responsible manner by investing in social projects and campaigns, but that its employees are also involved in such work on an individual basis. The long-term cooperation with the wider community and contribution to its development does not just come from sponsorships and donations, but also from actions by individual Krka employees, which is an important part of the Krka tradition. For example, the social responsibility of Krka employees can be seen in the campaign to give up smoking (Krka has been a smoking free environment since April 2008), and the 'ready for work' campaign, which was very well received by Krka employees. Numerous employees have been blood donors for many years or are volunteers for a wide range of charity organisations. Many are involved in the Krka Culture and Arts Society, which enriches the life of its members and its audience with its wide-ranging activities. Krka employees are closely connected to the local community, for example through voluntary work, and each in their own way contributes to the development of the community and improving the quality of life in the local area.

Most of the funds we put into sponsorship and grants are intended to promote not-for-profit activities. We focus on the environment at the local and national level, and also support individual activities outside Slovenia. We give priority to cooperation on long-term projects, which can contribute to improved lives for as many people as possible. We develop partnership relations with those we sponsor. In addition to monetary assistance, we also offer organisational support to our partner organisa-

KRKA SPONSORSHIPS AND GRANTS



In 2008 the Krka Company allocated EUR 3.5 million to sponsorship and grants, which is 0.4% of total sales revenues. Over one half of this sum was in the form of grants.

Communications

tions and cooperation from our employees on specific projects. Since 2007 we have organised meetings for recipients of Krka sponsorship where we present Krka's corporate identity strategy, and assess our joint achievements and new opportunities for collaboration.

Healthcare. Krka allocates 27% of sponsorship and donation funds to health institutions for modernisation and equipment upgrades. In 2008 we helped the Maribor University Clinical Centre purchase a new flexible cystoscope, an instrument used to diagnose bladder conditions. We donated a device for round-the-clock measurement of blood pressure to Ajdovščina Health Centre. This was the 53rd such device we have donated to health centres in Slovenia. We also supported the publication of a textbook entitled *Ehokardiografija* (Echocardiography) by the Slovenian Medical Association, which filled a gap in the medical literature in Slovene on cardiography. This is another way in which Krka wants to contribute to continual improvements in the monitoring and treatment of patients.

For the fourth year in a row, Krka marked World Hypertension Day together with the Arterial Hypertension Section of the Slovenian Medical Association with a campaign to measure the blood pressure of passers-by in towns around Slovenia. As the general sponsor Krka also supported the Sport is Fun event, a day for three generations to come together, organised by over 90 Slovenian schools and nursery schools, pensioners' societies and health centres. The campaign is based on respect for sporting, health and ecological values and is aimed at informing people of the importance of quality of life.

Humanitarian actions. For a number of years, we have been the major donor to the Novo mesto-based society *Sožitje*, a charity helping people with developmental disabilities and the Dragotin Kette primary school in Novo mesto, which supports children with special needs. We frequently respond to Red Cross initiatives and support the work of retirement homes in Novo mesto, and in various ways work to help people who need assistance, be they disabled or affected by natural catastrophes.

Science and education. We firmly believe at Krka that progress is based on knowledge. Since 1956 Krka has offered study grants to university and high school students (for more see the chapter Employees) every year, while the Krka Prizes, which have been presented to junior researchers for almost 40 years, are also an essential element in Krka's development strategy. The 38th edition of the Krka Prizes took place in 2008. The awards are intended to motivate young researchers, their mentors, and the institutions at which they study and carry out the research. The selection and rewarding of work also focuses the work of young researchers, while new methods such as the e-Krka awards open doors to a new generation of school and university students. In 2008 we again supported a campaign to select the best female Slovenian scientist. One of the most prominent achievements was Krka signing a contract of cooperation with the University of Ljubljana's Pharmacy Faculty for the implementation of a new study programme in Industrial Pharmacy. Some of the lectures will take place on Krka premises. Krka also cooperates with numerous scientific and education institutions in the field of development, research and education.

Culture. Krka has supported the Anton Podbevšek Theatre since its foundation. We also support the work of other cultural institutions, such as the Marjan Kozina Music School, Dolenjska Museum and the Krka Wind Orchestra. In 2008 Krka also supported the construction of the long anticipated Slovenian Alpine Museum in Dovje, as well as Festival Ljubljana. Krka also supported the Egyptian exhibition Renaissance of the Pharaohs, at Cankarjev Dom. We also supported numerous other cultural projects locally and far beyond Slovenian borders. Since 1971 Krka has had its own Culture and Arts Society, which has organised numerous art and photographic exhibitions by local artists in the Krka galleries in Novo Mesto and Ljubljana, as well as the activities of the Krka Choir, the traditional book fair in the Krka gallery in Novo mesto, the Ljubljana Theatre Club, creative workshops, and a literary club.

Sport. Krka's awareness of the importance of health lifestyles means it allocates considerable funds to sports activities. For many years Krka has sponsored a wide range of sports clubs: Krka basketball club, Krka men's handball club, Krka women's handball club, Krka men's volleyball club, Krka women's football club, Krka men's football club, Krka athletic club, Krka table tennis club, Krka tennis club, Krka equestrian club, Krka karate club Šentjernej, Krka chess society, Krka Rog skiing society, Adria Mobil Novo mesto cycling club, Grad Otočec golf club, and others. For years we have also supported the FIS World Cup ski jumping and ski-flying competition at Planica. Krka employees have been involved in the organisation of sports and recreation activities within the Krka Trim Club for over 30 years.

Supporting the wider social community is a fixed element of Krka's business approach, which maintains and consolidates good relations with various sections of the public, while increasing employee loyalty, given the involvement of Krka staff and their families in all the different clubs and societies.

ENVIRONMENTAL COMMUNICATION

Krka has an open environmental communication policy with the local and wider community, based on dialogue, and exchanging ideas and positions. We are well aware that environmental projects and the sustainable improvement of the environment depend on high-quality relations with all stakeholders. Every two years we prepare meetings with local residents at which we present our activities, results and plans relating to environmental protection. Local residents are informed of opportunities for open communication on environmental issues. We respond to opinions and information submitted with written clarifications and take them into account when preparing environmental objectives and programmes.

During 2008 we notified the wider public of our activities, progress and plans for environmental protection via the media.

Environmental protection

Environmental responsibility is an essential element of all areas of Krka operations. Given its principles of sustainable and balanced development, Krka respects the obligation to reduce emissions as much as possible. We also respect global development initiatives in the utilisation of natural resources, introducing cleaner technologies, and reducing our environmental impact. Without doubt, our business effectiveness is also the result of our approach to the environment, and to the local and broader community, which makes it essential that we place this field at the centre of our short-term and long-term policies and objectives. Responsible environment management was included in Krka's key strategies up until 2012.

IMPROVING THE ENVIRONMENT

Environmental policy, implementing environmental programmes, and the positive attitude of the Company management and all employees to sustainable development are expressed in the continual reduction in emissions and rational utilisation of natural resources. The integrated approach to environmental protection means Krka is improving the environment, despite intense growth on the production side.

THE ENVIRONMENTAL STANDARD AND ENVIRONMENTAL LEGISLATION

In recent years Krka has respected the requirements of the ISO 14001 standard and intense investment in environment protection, to ensure that it meets environmental legislation requirements. We comply in full with regulations on waste water, waste, air and noise. At the same time as the ISO 14001 standard, Krka introduced a transparent monitoring and notification system in the field of environmental legislation, which allows us to recognise innovations and include them in environmental programmes and objectives.

Krka has prepared and submitted an application for an integrated environmental protection permit in line with the requirements of the Ministry of the Environment and Spatial Planning and the Directive on Integrated Pollution Prevention and Control (IPPC Directive). We consider that we fulfil all the requirements for an environmental protection licence, since our technology is in compliance with the best available technique (BAT).

ENVIRONMENTAL PROTECTION TRAINING

The Environmental Protection Service has an operational, development, advisory and educational role and is responsible for implementing programmes and meeting environmental protection targets. Planned and targeted environmental education and awareness training is helping develop a positive and responsible attitude to the environment among all employees. The service is also involved in training programmes for new employees. Environmental protection issues are regularly published in the internal newspaper and on the intranet system.

The service has cooperated with various educational institutions since its very conception. Students and young researchers have produced work under the mentorship of Krka specialists responsible for environmental protection. In 2008 we enabled three students to carry out work experience totalling 390 hours, while two students were assigned mentors within the company while completing a dissertation.

SIGNIFICANT ENVIRONMENTAL PROTECTION ACHIEVEMENTS IN 2008

- Reducing total environmental load on the Krka river by 14%.
- Reduced consumption of river water by 14%.
- Reducing CO_2 emission by 920 tonnes.
- Construction of a sorting centre.
- Reduced specific electricity use in cooling by 15%.
- Renovation of sewerage system.

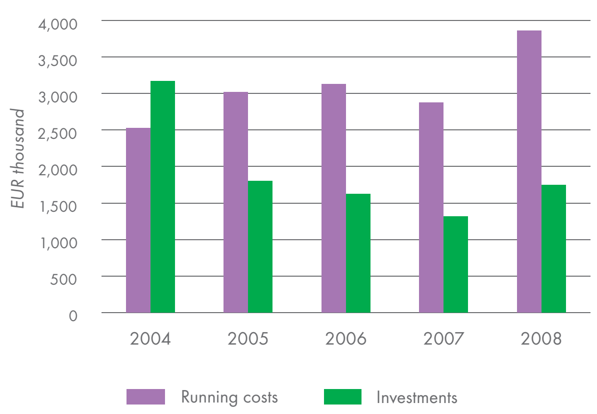
ENVIRONMENTAL PROTECTION OBJECTIVES AND PROGRAMMES FOR 2009

- Maintaining low pollution levels from the waste water treatment plant, regardless of anticipated production growth.
- Reducing emissions to air of volatile organic compounds to below 5% of total consumption of such compounds.
- Training and informing employees on environmental protection topics.
- Meetings with local residents.
- Preparing a comprehensive, targeted energy consumption monitoring system at all production locations in Slovenia.
- Introducing energy management at all production locations in Slovenia.
- Increasing the quantity of useful separated waste.

Environmental protection

ENVIRONMENTAL PROTECTION COSTS

INVESTMENT IN ENVIRONMENTAL PROTECTION



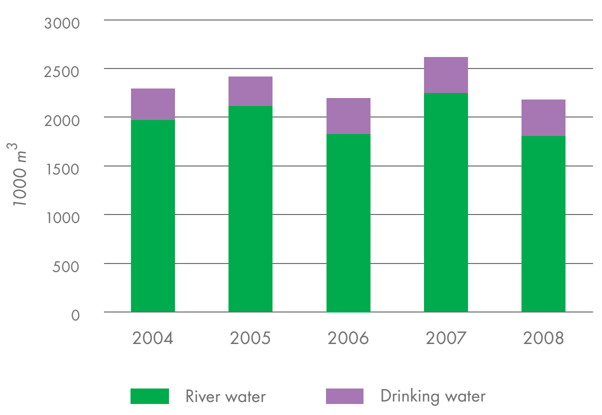
Over the past five years Krka has invested over EUR 25 million in environment protection (running costs and investments). The value of investments fluctuates from year to year depending on the volume of environmental protection projects. In 2008 the environmental protection running costs came to EUR 3,863,000, while investment was worth EUR 1,748,000 million.

USE OF NATURAL RESOURCES

WATER

As a key element in Krka's activities, water is treated as a present and future resource and considered worthy of particular care and attention.

DRINKING WATER AND RIVER WATER



Most of the river water Krka uses is for cooling, especially its fermentor units, and for secondary cooling via heat conductors. In 2005 a project was introduced to capture and reuse cooling water during the fermentation process. The project was extended and from 2006 to 2008 a total of 703,481 m3 less river water was drawn than if the project had not taken place. The use of river water in 2008 was reduced by 20% compared to 2007, due to a change in the volume of fermentation production.

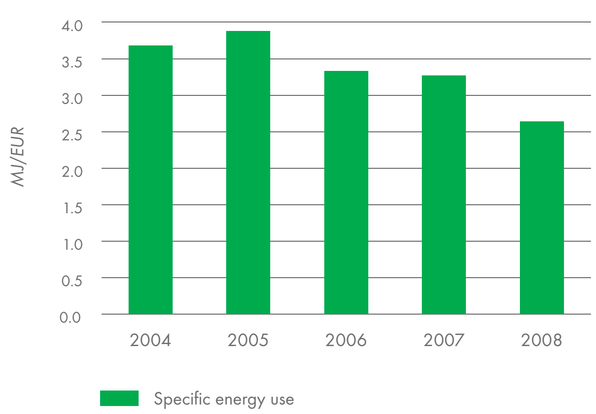
The use of drinking water increased by 2% in 2008 compared to the previous year.

ENERGY

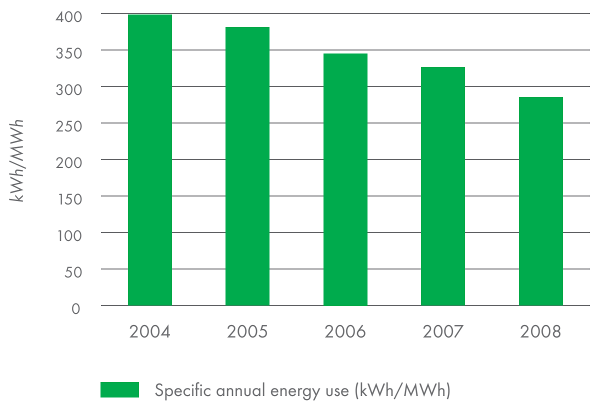
Krka's main sources of energy are:

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

SPECIFIC ENERGY CONSUMPTION



SPECIFIC ELECTRICITY USE FOR COOLING



In recent years, specific energy consumption – which includes electricity, natural gas and LPG – has been falling, due to numerous measures to ensure efficient use. Specific energy consumption in 2008 was reduced by 15% compared to 2007, with absolute consumption down 4%.

In 2008 we continued work on organisational and operational measures within its energy monitoring and targeting system (EMTS) within the central cooling system.

The specific electricity consumption for cooling was reduced by 15% on the previous year. As in 2007 this represented a saving of 1.15 GWh of electrical energy.

UTILISATION OF WASTE HEAT

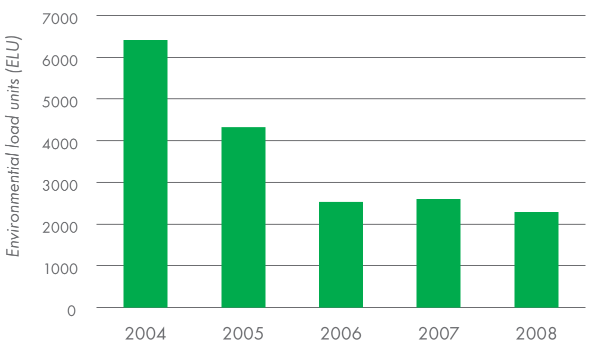
In 2006 the heating water distribution network was upgraded at the Ločna location. The advantage of this new district heating system lies in the simple use of waste heat, which is a side product of a number of technological processes. In 2008, the use of waste heat led to reduction in natural gas consumption at Ločna of 4.54% or 484,000 Sm^3 and a reduction in the environmental burden of around 920 tonnes of CO_2.

INTRODUCTION OF ENERGY MANAGEMENT

A new European standard on energy use is expected in the next few years, the energy management standard. It will combine organisational, technical and behavioural activities relating to energy management. This will provide an overview of the main consumers of natural resources, will optimise the reduction of energy use and energy costs, and maintain the advances achieved. The standard will be implemented according to the ISO 14001 environmental standard, and should enter into force in 2010. As a major energy user, at Krka we are aware of the importance of the economical use of energy in everyday operations. The standard will be introduced simultaneously with the comprehensive, targeted energy consumption monitoring system at all production locations in Slovenia.

EMISSIONS

WASTE WATER MANAGEMENT



WASTE WATER

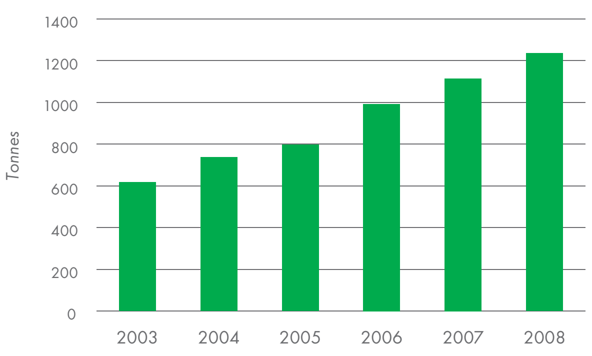
Although the total load from waste water ducts has been reduced by 60% since 2005, activities in 2008 continued to focus on waste water treatment. The total load was reduced in 2008 by 315 environment load units (ELU), a reduction of 12% on the previous year. The high efficiency treatment processes at Krka's own treatment plant reduced the load on the Krka river by 337 ELU or 14% compared to 2007.

Exhaustive pilot testing of ultrafiltration of outflows was concluded, but the project was temporarily put on hold, since the high standard of waste water treatment means there is no need at present to add ultrafiltration to waste treatment plant outflows.

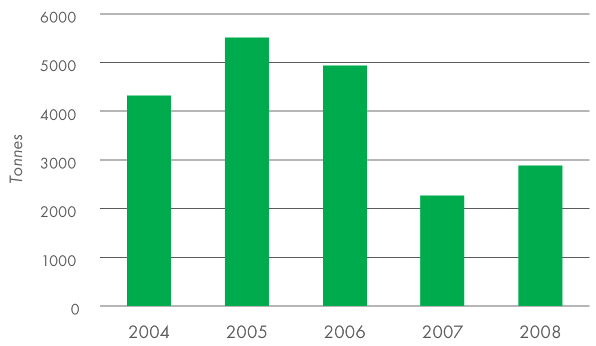
The waterproofing of the entire sewage system is guaranteed at Krka's Ločna site, where most of the old system has been renovated.

Environmental protection

USEFUL SEPARATED WASTE



LANDFILLED WASTE



WASTE

Krka established a new waste sorting facility. Waste compression equipment was purchased as part of the project.

Compared to 2007 the quantity of useful separated waste collected was up by 121 tonnes, or 11%.

NOISE

In recent years Krka has taken action on practically all sources of noise. The installation of modern low-noise equipment allows Krka to maintain noise levels that do not disturb the surrounding population. All measurement values are below the legally permitted levels.

AIR EMISSIONS

All waste air cleaning system are highly efficient, which is demonstrated by the results of measurements at all 49 outlets at Krka in 2008. With absolute filtration of all particle emissions, we have reduced dust emission to below 0.5 mg/m3, which is as less than 0.3% of the legally defined limit value; in absolute terms this represents 3 tonnes of particle emissions per year.

The replacement of biofilters with a two-level moist air filtration system at the waste treatment plant significantly reduced the emission of unpleasant odours into the atmosphere.

ENVIRONMENTAL PROTECTION AT KRKA'S FOREIGN SUBSIDIARIES

Environmental responsibility is in evidence at all Krka subsidiaries abroad, and they operate in compliance with local environmental protection legislation. Emissions that occur in these companies – which are managed in exactly the same manner as in Slovenia – are low, as they are involved in low-load pharmaceutical activities. Hazardous waste is collected separately and sent to appropriate facilities for destruction. Particle emissions are being reduced by installing modern filtration systems that completely eradicate particle emissions.

financial statements

evaluation

Everything that can be counted does not necessarily count;
everything that counts cannot necessarily be counted.

Albert Einstein

contents

Introduction
to the financial statements

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'), which is in compliance with the resolution adopted at the 11th annual meeting held on 6 July 2006. As defined by the said resolution, the Company no longer prepares reports pursuant to the Slovenian Accounting Standards.

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, stated below, includes an acknowledgement of responsibility for all financial statements of both the Company and the Group.

The financial statements of the Company and the Group are presented in euros.

STATEMENT OF COMPLIANCE

The Company's Management Board 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 2008.

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.

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, 19 February 2009

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

CONSOLIDATED BALANCE SHEET

in EUR thousand	Notes	31 Dec 2008	31 Dec 2007
Assets			
Property, plant and equipment	12	638,334	572,244
Intangible assets	13	128,980	129,854
Deferred tax assets	16	34,273	32,687
Long-term loans	14	3,892	3,531
Investments	15	6,343	10,721
Other non-current assets		336	410
Total non-current assets		**812,158**	**749,447**
Inventories	17	211,662	171,647
Trade and other receivables	18	237,476	180,094
Short-term loans	14	1,393	1,510
Current investments, including derivatives	15	743	2,936
Cash and cash equivalents	19	7,604	15,784
Total current assets		**458,878**	**371,971**
Total assets		**1,271,036**	**1,121,418**
Equity			
Share capital	20	59,126	59,126
Own shares	20	–19,489	–19,489
Reserves	20	146,454	157,094
Retained earnings	20	595,382	474,146
Equity holders of the parent		**781,473**	**670,877**
Minority interest	20	1,823	10,036
Total equity		**783,296**	**680,913**
Liabilities			
Long-term borrowings	22	83,734	87,183
Provisions	23	149,663	143,641
Government grants and grants by the European Union	24	5,353	3,099
Deferred tax liabilities	16	18,776	18,456
Total non-current liabilities		**257,526**	**252,379**
Trade payables	25	69,996	78,462
Short-term borrowings	22	100,111	62,528
Income tax liabilities		10,533	3,612
Other current liabilities	26	49,574	43,524
Total current liabilities		**230,214**	**188,126**
Total liabilities		**487,740**	**440,505**
Total equity and liabilities		**1,271,036**	**1,121,418**

Consolidated financial statements of the Krka Group

CONSOLIDATED INCOME STATEMENT

in EUR thousand	Notes	2008	2007
Revenues	5	949,920	780,918
Production cost of goods sold		–325,102	–282,833
Gross profit		**624,818**	**498,085**
Other operating income	7	8,617	3,726
Distribution expenses		–242,274	–196,852
R&D costs		–84,746	–59,071
Administrative expenses		–69,634	–62,246
Result from operating activities		**236,781**	**183,642**
Financial income	10	3,029	7,635
Financial expenses	10	–34,177	–16,343
Net financial expenses / income		**–31,148**	**–8,708**
Profit before tax		**205,633**	**174,934**
Income tax expense	11	–49,742	–42,081
Profit for the period		**155,891**	**132,853**
Attributable to:			
– equity holders of the parent		155,955	132,552
– minority interest		–64	301
Basic earnings per share (in EUR)	**21**	**4.61**	**3.92**
Diluted earnings per share (in EUR)	**21**	**4.61**	**3.92**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

			Reserves					Retained earnings					
in EUR thousand	Called capital	Own shares	Share premium	Legal reserves	Statutory reserves	Fair value reserves	Translation reserves	Other revenue reserves	Net profit for the period	Net profit carried forward	Equity holders of the parent	Minority interest	Total equity
Balance at 1 Jan 2007	**59,132**	**–19,489**	**120,986**	**14,990**	**11,684**	**3,480**	**154**	**275,796**	**89,566**	**6,698**	**562,997**	**7,908**	**570,905**
Changes in profits for previous periods	0	0	0	0	0	0	0	0	0	–193	–193	0	–193
Net profit for the period	0	0	0	0	0	0	0	0	132,552	0	132,552	301	132,853
Entry of minority interest- purchase of subsidiary	0	0	0	0	0	0	0	0	0	0	0	1,929	1,929
Formation of statutory reserves	0	0	0	0	2,500	0	0	0	–2,500	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	43,000	–43,000	0	0	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	0	0	–89,566	89,566	0	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	–6	0	6	0	0	0	0	38,149	0	–38,149	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	–27,040	–27,040	–102	–27,142
Translation reserve	0	0	0	0	0	0	84	0	0	0	84	0	84
Deferred tax effect – translation reserve	0	0	0	0	0	0	–134	0	0	0	–134	0	–134
Changes in fair value of financial assets available for sale	0	0	0	0	0	4,229	0	0	0	0	4,229	0	4,229
Deferred tax effect - change in fair value of financial assets available for sale	0	0	0	0	0	–885	0	0	0	0	–885	0	–885
Deferred tax effect and tax effect of transition to IFRS	0	0	0	0	0	0	0	0	0	–733	–733	0	–733
Balance at 31 Dec 2007	**59,126**	**–19,489**	**120,992**	**14,990**	**14,184**	**6,824**	**104**	**356,945**	**87,052**	**30,149**	**670,877**	**10,036**	**680,913**
Balance at 1 Jan 2008	**59,126**	**–19,489**	**120,992**	**14,990**	**14,184**	**6,824**	**104**	**356,945**	**87,052**	**30,149**	**670,877**	**10,036**	**680,913**
Changes in profits for previous periods	0	0	0	0	0	0	0	0	0	45	45	0	45
Net profit for the period	0	0	0	0	0	0	0	0	155,955	0	155,955	-64	155,891
Formation of statutory reserves	0	0	0	0	3,000	0	0	0	–3,000	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	50,000	–50,000	0	0	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	0	0	-87,052	87,052	0	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	0	0	43,472	0	–43,472	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	–30,827	–30,827	–113	–30,940
Translation reserve	0	0	0	0	0	0	–9,391	0	0	0	–9,391	0	–9,391
Deferred tax effect – translation reserve	0	0	0	0	0	0	–45	0	0	0	–45	0	–45
Changes in fair value of financial assets available for sale	0	0	0	0	0	–5,432	0	0	0	0	–5,432	0	–5,432
Deferred tax effect – change in fair value of financial assets available for sale	0	0	0	0	0	1,228	0	0	0	0	1,228	0	1,228
Deferred tax effect and tax effect of transition to IFRS	0	0	0	0	0	0	0	0	0	–973	–973	0	–973
Purchase of minority interest	0	0	0	0	0	0	0	0	0	36	36	–8,036	–8,000
Balance at 31 Dec 2008	**59,126**	**–19,489**	**120,992**	**14,990**	**17,184**	**2,620**	**–9,332**	**450,417**	**102,955**	**42,010**	**781,473**	**1,823**	**783,296**

Consolidated financial statements
of the Krka Group

CONSOLIDATED CASH FLOW STATEMENT

in EUR thousand	Notes	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		**155,891**	**132,853**
Adjustments for:		**128,468**	**101,809**
– amortisation /depreciation	12,13	71,609	56,944
– foreign exchange gain		–21,468	–5,078
– foreign exchange loss		17,739	5,407
– investment income		–4,528	–8,201
– investment expense		5,729	4,594
– interest expense and other financial expense		9,599	4,325
– income tax		49,742	42,081
– other		46	1,737
Operating profit before changes in net operating current assets and provisions		**284,359**	**234,662**
Change in trade receivables		–61,812	–13,452
Change in inventories		–39,691	–32,117
Change in operating debts (liabilities)		–2,956	4,059
Change in provisions		5,943	16,367
Change in grants received from the government and the European Union		2,254	321
Change in other current liabilities		7,355	14,459
Income taxes paid		–45,227	–49,096
Cash generated from operations		**150,225**	**175,203**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		373	356
Proceeds from sale of current investments		14	1,263
Dividends received	10	21	216
Proceeds from sale of property, plant and equipment and intangible assets		3,650	1,212
Purchase of intangible assets	13	–10,325	–7,381
Purchase of property, plant and equipment	12	–136,155	–107,742
Acquisition of subsidiaries and minority interest net of cash	6	–9,051	–96,043
Given Long-term loans		–1,067	–1,590
Proceeds from repayment of long-term loans		859	1,618
Acquisition of non-current investments	15	–1,085	–308
Proceeds from sale of non-current investments		150	44
Acquisition of current investments and loans		–1,760	–21,662
Proceeds from sale of current investments and repayment of short-term loans		1,661	22,876
Payments in connection with derivative financial instruments	10	–1,099	–63
Proceeds from derivative financial instruments	10	1,886	2,250
Net cash used in investing activities		**–151,928**	**–204,954**
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		–7,699	–3,868
Repayment of long-term borrowings		–23,978	–14,283
Proceeds from long-term borrowings		0	104,000
Repayment of short-term borrowings		–309,258	–318,566
Proceeds from short-term borrowings		365,488	295,150
Dividends paid		–30,852	–27,075
Net cash used in financing activities		**–6,299**	**35,358**
Net increase in cash and cash equivalents		**–8,002**	**5,607**
Cash and cash equivalents at beginning of period		15,784	10,399
Effect of exchange rate fluctuations on cash held		–178	–222
Net cash and cash equivalents at end of period		**7,604**	**15,784**

Notes to the consolidated financial statements

Krka, d. d., Novo mesto is the controlling company in the Krka Group with its registered seat at Šmarješka cesta 6, 8501 Novo mesto, Slovenia. The consolidated financial statements for the year ended 31 December 2008 refer to the Krka Group that comprises the controlling company and its subsidiaries located in Slovenia and abroad.

1. BASIS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter 'IFRS') as adopted by the EU and in compliance with provisions of the Companies Act.

The financial statements of the Company were approved by the Management Board on 19 February 2009.

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 functional currency of the Krka company. 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 6 – business combinations,
– Note 23 – measurement of defined benefit obligations,
– Note 23 – provisions for lawsuits and contingent liabilities,
– Note 28 – valuation of financial instrument,
– Note 13 – impairment test for goodwill and trademark.

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 OF 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
Balances and any unrealised gains and losses or 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 CURRENCY

Foreign currency transactions
Transactions in foreign currencies are translated to the adequate functional currency of the Group companies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair

Notes to the consolidated financial statements

value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, a financial liability designated as a hedge, or qualifying cash flow hedges, which are recognised directly in equity.

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 the foreign exchange rate ruling at the balance sheet date. The revenues and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to euro at the rate approximating to the foreign exchange rate ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity – translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR 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.

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 as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting of financial income and expenses is discussed in Note 'Financial income and financial expenses'.

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value. Changes in fair value are recognised directly in equity. 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 Group's investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Receivables and loans

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value. Attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Economic hedges

The Group does not account for cash flow hedges (hedge accounting).

Economic hedges are applied if the hedging instrument no longer meets the criteria for hedge accounting. These derivative instruments are applied for hedging monetary assets and liabilities denominated in foreign currencies, as well as for hedging the assets exposed to interest rate risk. Changes in the fair value of such derivatives are recognised in profit or loss as part of financial income and expenses.

Share capital

Repurchase of share capital

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

Dividends

Dividends are recognised in Group's 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'). 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. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within 'other operating income' or 'other 'operating expenses' in profit or loss.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs are recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land and assets being acquired are not depreciated.

The estimated useful lives are as follows:

– for buildings	15 to 60 years,
– for plant and equipment	2 to 20 years,
– for furniture	5 years,
– for computer equipment	4 to 6 years,
– 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.

Acquisition of minority interest

Positive and negative differences occurred at the acquisition of the minority interest and are recognised in the equity holders of the parent.

Research and development

All other costs referring to the research and development work within the Group are recognised in the income statement as expense upon their accrual.

Other intangible assets

Intangible assets with infinite useful life (trademark and customer list) are on an annual basis tested for impairment. Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses (see accounting policy 'Impairment').

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets (except of goodwill, trademarks and customer data base) 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 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. Cost of inventories of material is carried at weighted average cost. 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, direct cost of depreciation, direct cost of services, energy, maintenance and quality management. Inventories of work in progress and finished products are carried at standard cost. An inventory unit of merchandise is valued at cost including cost of purchase, import duties and all costs directly attributable to the acquisition, decreased by discounts. Inventories of merchandise are carried at weighted average prices.

IMPAIRMENT

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 equity 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 equity.

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.

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, long-term provisions are formed. There is no other obligation in respect of pension.

Provisions are determined by discounting, at the balance sheet date, the estimated future benefits in respect of retirement benefits and anniversary bonuses paid to employees in those countries, where this legal obligation exists. The obligation is calculated by estimating the costs of retirement benefits upon retirement and the costs of all expected anniversary bonuses until retirement. The calculation is performed by the use of the projected unit credit method. All actuarial gains and losses are recognised upon accrual in the profit or loss.

PROVISIONS

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions for lawsuits

The Group discloses provisions for lawsuits referring to alleged patent infringements. The eligibility of provisions formed in terms of the lawsuit's favourable or unfavourable outcome is assessed on an annual basis. The amounts of provisions are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated potential amount, if the indemnification claim is not yet disclosed.

REVENUES

Revenues from sale of goods are recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For sales of goods, transfer usually occurs when the product is received at the customer's warehouse.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, also continuing managerial involvement with the goods. Revenues from the sale of goods and services rendered are measured at selling prices stated in invoices or other documents, reduced by rebates approved either when the sale is made or subsequently, including those granted for early payment.

GOVERNMENT GRANTS

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants 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 gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Financial expenses comprise interest expense on borrowings, exchange losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

INCOME TAX

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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 years.

Deferred tax is recognised using the balance sheet 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 reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

EARNINGS PER SHARE

The Group presents basic and diluted earnings per share (EPS) data. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS equals the basic EPS, as all shares of the Group belong to the same class of ordinary registered shares.

SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment). Segments are different in terms of risks and returns. Segment information is presented in respect of the Group's business and geographical segments. The Group's primary format for segment reporting is based on geographical segments. Group's segment reporting is based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Geographical segments include following: the European Union (all countries of the EU), 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 regions). Within the structure of business segments, the share of human health products represents more than 90% of the Group's sale in terms of value.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise other operating income, unallocated costs (provisions for lawsuits), net financial income and expenses, income tax assets and assets that cannot be reasonably allocated to an individual segment, and depreciation/amortisation relating to these assets.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Numerous new standards, amendments to standards and interpretations that are not yet effective for the year ended 31 December 2008, and have thus not been applied in preparing the financial statements are presented below:

1. IFRS 8 Operating Segments (effective from 1 January 2009)

The Standard introduces the "management approach". IFRS 8 that the Group will have to take into account during the preparation of the

Notes to the consolidated financial statements

2009 financial statements requires segment disclosure based on internal reports which will be evaluated regularly by the Group's Chief Operating Decision Maker in deciding how to allocate resources and in assessing performance.

Currently the Group presents segment information in respect of its business and geographical segments.

2. Revised IAS 23 Borrowing costs (effective from 1 January 2009)

The revised standard removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

The revised IAS 23 will become mandatory for the Group's 2009 consolidated financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.

3. Amendments to IFRS 2 Share-based Payment
(effective from 1 January 2009)

The amendments to the standard clarify the definition of vesting conditions and introduce the concept of non-vesting conditions. Non-vesting conditions are to be reflected in grant-date fair value and failure to meet non-vesting conditions will generally result in treatment as a cancellation.

The amendments to IFRS 2 are not relevant to the Group's operations as the Group does not have any share-based compensation plans.

4. Amendments to IAS 1 Presentation of Financial Statements
(effective from 1 January 2009)

The amended standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income (effectively combining the income statement and all non-owner changes in equity in a single statement), or in two separate statements (a separate income statement followed by a statement of comprehensive income).

The Group will prepare two separate statements in the consolidated financial statements for the financial year 2009.

5. Amendment to IAS 27, Consolidated and Separate Financial Statements (effective from 1 January 2009)

The amendments remove the definition of "cost method" currently set out in IAS 27, and instead require all dividends from a subsidiary, jointly controlled entity or associate to be recognised as income in the separate financial statements of the investor when the right to receive the dividend is established.

Amendments to IAS 27 are not relevant where these refer to the consolidated financial statements of the Group. However, they will have an impact on individual upon the financial statements of individual companies as the dividends will be recognised prior to the actual dividend payout.

6. Amendments to IAS 32 Financial Instruments: Presentation, and IAS 1 Presentation of Financial Statements (effective from 1 January 2009)

The amendments introduce an exemption to the principle otherwise applied in IAS 32 for the classification of instruments as equity; the amendments allow certain puttable instruments issued by an entity that would normally be classified as liabilities to be classified as equity if, and only if, they meet certain conditions.

The amendments are not relevant to the Group's consolidated financial statements as none of the Group companies issued any puttable instruments in the past.

7. IFRIC 13 Customer Loyalty Programmes
(effective from 1 January 2008)

It addresses the accounting by entities that participate in customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services.

IFRIC 13, which becomes mandatory for the Group's 2009 financial statements, is not expected to have any impact on the consolidated financial statements.

3. DETERMINATION OF FAIR VALUE

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their close price as regards foreign securities, whereas with investments made in Slovenia the average price per share at the reporting date is considered. The fair value of held-to-maturity investments is determined for reporting purposes only.

Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps equals the market price recorded as at the balance sheet 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.

CASH FLOW STATEMENT

The cash flow statement has been prepared under the indirect method based upon items from the balance sheet as at 31 December 2008 and 31 December 2007, the income statement for the year that ended 31 December 2008, as well as additional data required for the adjustment of inflows and outflows.

4. FINANCIAL RISK MANAGEMENT

Its rapid increase in operations and the worldwide presence expose the Group to various forms of risk. Hence, the Group applies adequate risk mechanisms and various organisational units are liable for their management.

Business risks are managed on a decentralised basis, whereas financial risks are monitored by the controlling company's Finance Division on a centralised basis. As for the risk management, adequate measures and mechanism are applied whereas the management gets also a feedback on the efficiency of the adopted measures.

The Group monitors the risks systematically and in connection with financial risks applies also adequate quantitative methods for studying the exposure to and size of possible damage.

A brief summary of financial risk management policies is given below; detailed comments, data and ratios are given within the Management Report under 'Risk Management', as well as in Note 28 (Financial instruments) of the consolidated financial statements.

Notes to the consolidated financial statements

CREDIT RISK

Group's exposure to credit risk depends upon individual customers and economic situations in respective countries. The Group generates sales revenues in five regions, of which each represents a quarter in total sales, whereas two regions have a share of 11 or 14 percent. The risk is not concentrated on individual business partner as the number of diverse customers is quite high.

The Group's credit control is conducted by the Risk Management department within the Finance Division, whereas uniform procedures and rules are applied for customers of subsidiaries and the controlling company. The credit control procedure includes the credit rating of customers who on an annual basis purchase from the controlling company and its 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 Krka Group are included in the credit control system.

The results of the credit control are positive. Considering the market situation the Group keeps its credit risk exposure under control by regular monitoring due trade receivables, the aging structure of receivables and the average payment deadlines.

No significant receivable write-offs due to default have been recorded in 2008.

LIQUIDITY RISK

The liquidity risk is managed on a centralised basis and by applying various mechanisms (revolving credit lines, balance of short-term and long-term sources) lowers the exposure of the parent company and its subsidiaries to such a risk. Despite turbulences on the financial markets, the Group succeeded to avoid the liquidity risk by keeping low indebtedness and high credit standing.

As for improving the balancing of cash flows, the Group introduced in 2008 the cash-pooling method also in two subsidiaries in Slovenia. Furthermore, the cash flow planning system was upgraded and perfectly works with the support of the central business information system.

The group's working capital increased slightly in 2008 mostly due to higher inventory and receivables. Compared to 2007 the short-term indebtedness increased a bit. Short-term financing is conducted based on bank credit lines for the purpose of covering possible cash deficits.

FOREIGN EXCHANGE RISK

The Group is exposed to foreign exchange risks due to its extensive international operations. The emphasis lies on the exchange rates of the US dollar, the Polish zloty, the Croatian kuna, the Russian rouble, the Hungarian forint, the Serbian dinar, and the Macedonian denar.

The open foreign currency item represents the Group's gross balance sheet exposure to the individual foreign currency.

The open foreign currency position denominated in US dollar fell back in 2008 as most of the controlling company's sale was charged in euro. Other foreign currency positions have not changed compared to the previous year.

In 2008, the policies of hedging against currency risk have not changed. The exposure to the change of US dollar as the biggest risk was actively managed. Part of the open foreign currency denominated in US dollar was hedged by applying derivatives, whereas the remaining part was not hedged. Futures contracts were used as hedging instruments. With the open foreign currency item denominated in US dollar, the Group generated foreign exchange gains.

The Group's foreign exchange risk exposure referring to the Polish zloty, the Croatian kuna, the Russian rouble and the Serbian dinar was not hedged. As the stated exchange rates went down, the Group recorded foreign exchange losses that were partly neutralised with foreign exchange gains generated in the first 6 months of the year, when the value of the said currencies rose in relation to euro.

INTEREST RATE RISK

By the end of 2008, three long-term borrowings were recorded by the Group with the 6-month EURIBOR reference rate. The Group's exposure to interest rate risk has not increased as the Group has not raised any new long-term borrowings.

In 2008, the European Central Bank lowered the key interest rate by 150 points. As the reference rate is expected to fall, no new hedge instruments were introduced. By the end of 2008 the Group has withdrawn the instrument of interest swap which was used in 2004 to fix an interest rate for one of the long-term borrowings; hence no interest rate hedge instruments were applied by the end of 2008.

CAPITAL MANAGEMENT

The Company's management has decided to maintain a large amount of equity in order to keep the confidence and to secure further development of the Krka Group. The Group defined return on equity as one of the key ratios, namely as a relation between the generated net profit of the majority stockholders and the average value of the majority stockholder's equity. In the past five years, the return on equity (ROE) increased from 17.4% to 21.3%.

The Krka 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.

In compliance with the resolution of the Annual Meeting, the controlling company of the Krka Group has formed a fund of own shares up to 5% of the share capital. As at the balance sheet date own shares were recorded in the amount of 1,626,620, i.e. 4.6% of the share capital.

The Krka 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 any of its subsidiaries are subject to externally imposed capital requirements.

5. GEOGRAPHICAL AND BUSINESS SEGMENTS

Segment information is presented in respect of the Group's business and geographical segments, with the latter being the primary reporting format. Geographical segments are presented by location of customers. A considerable portion of immovable and movable property is located at the controlling company's headquarters in Slovenia. It must be taken into consideration that the major part of the assets held by the controlling company in Slovenia are also used for business activities (production, storage, quality control etc.) referring to other geographical segments.

Those items of revenue, expenses, assets, and liabilities that are not directly attributable to reportable segments or cannot be reliably allocated to reportable segments by the application of certain criteria are presented under the item 'Unallocated'.

GEOGRAPHICAL SEGMENTS

	European Union		South-East Europe		Eastern Europe		Other markets		Eliminations		Unallocated		Total	
in EUR thousand	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Revenues to non-Group companies	605,013	489,086	95,162	86,095	232,162	182,974	17,583	22,763	0	0	0	0	949,920	780,918
Revenues to Group companies	101,674	79,648	54,848	52,291	79,591	36,533	0	0	–236,113	–168,472	0	0	0	0
Total revenues	**706,687**	**568,734**	**150,010**	**138,386**	**311,753**	**219,507**	**17,583**	**22,763**	**–236,113**	**–168,472**	**0**	**0**	**949,920**	**780,918**
Segment's results from operations	**180,614**	**151,022**	**29,511**	**27,864**	**23,012**	**13,856**	**527**	**1,277**	**0**	**0**	**0**	**0**	**233,664**	**194,019**
Other operating income											8,617	**3,726**	8,617	3,726
Unallocated costs											–5,500	–14,103	–5,500	–14,103
Operating profit													**236,781**	**183,642**
Net financial income/expenses											–31,148	–8,708	–31,148	–8,708
Income tax expense											–49,742	–42,081	–49,742	–42,081
Profit for the period													**155,891**	**132,853**
Total assets	**790,030**	**715,390**	**105,558**	**80,769**	**188,049**	**132,113**	**10,607**	**11,239**	**0**	**0**	**176,792**	**181,907**	**1,271,036**	**1,121,418**
Total liabilities	**313,282**	**284,690**	**43,180**	**44,275**	**123,108**	**99,040**	**8,170**	**12,500**	**0**	**0**	**0**	**0**	**487,740**	**440,505**
Capital expenditure	142,348	105,770	3,565	4,270	1,148	5,042	0	0	0	0	0	0	147,061	115,082
Depreciation of property, plant and equipment	31,669	27,317	4,961	3,695	10,632	7,747	392	401	0	0	12,684	12,119	60,338	51,279
Amortisation of intangible assets	8,999	3,569	654	656	1,519	1,286	99	154	0	0	0	0	11,271	5,665

BUSINESS SEGMENTS

	Human health products		Other		Total	
in EUR thousand	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Revenues	891,434	724,544	58,486	56,374	949,920	780,918
Capital expenditure	138,671	108,516	8,390	6,566	147,061	115,082
Assets	1,195,529	1,054,799	75,507	66,619	1,271,036	1,121,418

6. ACQUISITION OF SUBSIDIARIES

TAKEOVER OF ALTERNOVA

On 6 November 2008 the controlling company signed a contract with the Danish company Paranova Group A/S, Ballerup, Denmark and acquired the sole ownership, i.e. 100% of the Austrian company ALTERNOVA Arzneimittel GmbH, Vienna (hereinafter »Alternova AT«); the purchase price amounted to EUR 1,294 thousand.

The takeover of Alternova AT supplements Krka's successful organic growth. In accordance with its strategy of gradual development of the company's own marketing and sales network in the Western Europe, the Austrian market is also an attractive market for Krka. Krka has been present in Austria through its partners, among them also Alternova AT.

The acquisition represents a highly effective route for direct entry into the Austrian market as it enables the company to immediately start business activities. Alternova AT has the needed number of medical representatives, experienced management team and appropriate infrastructure – all that is reflected in goodwill.

Founded in 2002 in Vienna, Alternova AT is among the fast growing generic suppliers on the Austrian pharmaceutical market. Alternova AT is focused on products for the cardiovascular system, the central nervous system, the alimentary tract and metabolism, and the genito-urinary system diseases. In its product portfolio Alternova AT has marketing authorisations for 25 molecules for the Austrian market.

in EUR thousand	Recognised values upon acquisition
Property, plant and equipment	5
Intangible assets	213
Investments – financial assets available for sale	1
Inventories	324
Receivables	448
Cash and cash equivalents	243
Loans and borrowings	0
Trade payables	–226
Provisions	–79
Deferred tax assets and liabilities	–1
Net identifiable assets and liabilities together with allocation	**928**
Goodwill during takeover	366
Purchase price	**1,294**
Cash obtained during takeover	-243
Net cash flow	**1,051**

As all possible doubtful assets (e.g. unmarketable inventories, bad debts) were eliminated from the balance sheet of Alternova AT prior to takeover, the carrying amount equals the fair value of assets and liabilities taken over; thus, goodwill accounted for during takeover has not been allocated to other assets.

In November 2007, Krka as the controlling company of the Krka Group acquired the German company TAD Pharma. Considered as its first takeover, the Krka Company acquired the sole ownership of TAD Pharma – together with all the latter's activities, equipment and real properties. The purchase price amounted to EUR 97,000 thousand. While adjusting the carrying amounts of TAD Pharma's assets and liabilities to the fair value, the goodwill was recognised in the amount of EUR 42,027 thousand EUR, whereas the customer list in the amount of EUR 376 thousand. The difference that could not be assigned to individual type of assets and liabilities assumed, is considered as goodwill recognised at acquisition in the amount of EUR 42,278 thousand. Goodwill grounds on the fact that TAD Pharma boasts of a well developed marketing-sales network, production and development capacities, as well as experienced management team that provides great synergy.

ACQUISITION OF MINORITY INTEREST

On 26 September 2008 the company Terme Krka, d. o. o., Novo mesto acquired from the association Zveza društev vojnih invalidov Slovenije a 49-percent share in the company Terme Krka - Strunjan, d. o. o. with the purchase price being EUR 8,000 thousand and thus becoming a sole owner of the acquired company. As at the acquisition date, the carrying amount of the share was recorded at EUR 8,036 thousand. The related badwill amounted to EUR 36 thousand and was recognised within equity.

7. OTHER OPERATING INCOME

in EUR thousand	2008	2007
Reversal of non-current provisions, government and EU grants	427	392
Profit from the sale of property, plant and equipment and intangible assets	2,062	787
Other operating income	6,128	2,547
Total other operating income	**8,617**	**3,726**

8. EMPLOYEE BENEFITS COST

in EUR thousand	2008	2007
Gross wages and salaries and continued pay	175,643	140,187
Social security contributions and payroll tax	33,835	29,164
Other employee benefits cost	9,667	8,880
Retirement benefits and anniversary bonuses	4,904	3,644
Total employee benefits cost	**224,049**	**181,875**

The item of other employee benefits cost in the reporting period includes the vacation bonus and travel allowances.

9. OTHER OPERATING EXPENSES

in EUR thousand	2008	2007
Grants and assistance for humanitarian and other purposes	2,324	2,608
Environmental levies	1,625	1,843
Other levies	5,730	5,824
Loss in the sale of property, plant and equipment and intangible assets	2,309	1,564
Write-offs and allowances for inventories	7,913	7,063
Other costs	8,729	4,713
Total other operating expenses	**28,630**	**23,615**

10. FINANCIAL INCOME AND FINANCIAL EXPENSES

in EUR thousand	2008	2007
Interest income	319	410
Change in fair value of investments through profit or loss	0	1,793
Gain on the sale of securities	50	2,064
Income from derivative financial instruments, thereof:	2,076	2,626
– inflows	1,886	2,369
– changes in fair value	190	257
Dividend income	21	252
Other income	111	0
Reversal of impairment	452	490
Total financial income	**3,029**	**7,635**
Exchange differences	–12,522	–8,105
Interest expense	–9,171	–4,109
Change in fair value of investments through profit or loss	–736	–1,694
Expenses from derivative financial instruments, thereof:	–2,682	–302
– outflows	–1,099	–63
– changes in fair value	–1,583	–239
Other expenses	–516	–934
Allowances for receivables	–8,174	–1,178
Write-off of receivables	–376	–21
Total financial expenses	**–34,177**	**–16,343**
Net financial income/expenses	**–31,148**	**–8,708**

11. INCOME TAX

ADJUSTMENT TO EFFECTIVE TAX RATE

in EUR thousand	2008	2007
Income tax	50,798	44,366
Deferred tax	–1,056	–2,285
Total income tax	**49,742**	**42,081**
Profit before tax	205,633	174,934
Income tax calculated using the actual tax rate	45,239	40,235
Tax exempt expenses	5,143	6,175
Tax incentives	–4,829	–3,836
Revenue decreasing the tax base	–795	–1,231
Revenue increasing the tax base	94	156
Effect of companies generating loss, and other	4,890	582
Total income tax expenses	**49,742**	**42,081**
Effective tax rate	**24.2 %**	**24.1 %**

Investments in research and development and other incentives (additional pension insurance, donations, part of the salaries and wages paid out to the disabled, etc.) account for the major portion of tax incentives.

12. PROPERTY, PLANT AND EQUIPMENT

in EUR thousand	31 Dec 2008	31 Dec 2007
Property	29,097	25,234
Plant	297,214	267,945
Equipment	262,183	203,816
PPE under construction	49,840	75,249
Total property, plant and equipment	**638,334**	**572,244**

As for the reporting period the Group's largest investment of EUR 25,372 thousand refers to the third stage of the Notol project by which the plant's production capacity was increased to 3.5 billion tablets and capsules. Further investments were made also to increase the pallet production capacity (EUR 12,646 thousand), investments to add additional production lines in the Sinteza plant (EUR 7,881 thousand EUR) and EUR 7,005 thousand were invested in the reconstruction of the Bršljin plant.

The Terme Krka Group has opened a new 116-bed hotel at Dolenjske Toplice. A new nine-hole golf course in Otočec golf course is in course of construction. In 2008 the total value of investments of the Terme Krka Group was recorded at EUR 17,421 thousand and relate to the construction of the hotel and the golf course. The production and warehouse capacities were increased in subsidiaries Krka Farma Zagreb (EUR 2,943 thousand), TAD Pharma (EUR 227 thousand) and Krka-Rus (EUR 156 thousand).

Notes to the consolidated financial statements

MOVEMENTS OF PROPERTY, PLANT AND EQUIPMENT (PPE)

in EUR thousand	Property	Plant	Equipment	PPE under construction	Advances for PPE
Cost of purchase					
Balance at 1 Jan 2007	**22,641**	**422,081**	**420,290**	**61,624**	**926,636**
Increase due to acquisition	1,836	7,504	2,303	52	11,695
Additions	0	0	0	105,770	105,770
Capitalisation – transfer from PPE under construction	912	28,285	63,064	–92,261	0
Disposals	–158	–1,650	–10,145	0	–11,953
Exchange differences	3	–49	459	64	477
Transfer from intangible assets	0	46	216	0	262
Balance at 31 Dec 2007	**25,234**	**456,217**	**476,187**	**75,249**	**1,032,887**
Balance at 1 Jan 2008	**25,234**	**456,217**	**476,187**	**75,249**	**1,032,887**
Increase due to acquisition	0	0	5	0	5
Additions	0	0	0	136,155	136,155
Capitalisation – transfer from PPE under construction	3,996	53,546	103,351	–160,893	0
Disposals	–77	–4,639	–13,380	0	–18,096
Exchange differences	–70	–5,283	–5,646	–671	–11,670
Transfers among PPE	14	–17	3	0	0
Balance at 31 Dec 2008	**29,097**	**499,824**	**560,520**	**49,840**	**1,139,281**
Accumulated depreciation					
Balance at 1 Jan 2007	**0**	**–170,950**	**–248,758**	**0**	**–419,708**
Depreciation	0	–18,563	–32,716	0	–51,279
Disposals	0	1,127	9,264	0	10,391
Exchange differences	0	116	98	0	214
Transfer from intangible assets	0	–2	–259	0	–261
Balance at 31 Dec 2007	**0**	**–188,272**	**–272,371**	**0**	**–460,643**
Balance at 1 Jan 2008 1. 1. 2008	**0**	**–188,272**	**–272,371**	**0**	**–460,643**
Depreciation	0	–20,029	–40,309	0	–60,338
Disposals	0	3,463	11,233	0	14,696
Exchange differences	0	2,228	3,110	0	5,338
Balance at 31 Dec 2008	**0**	**–202,610**	**–298,337**	**0**	**–500,947**
Carrying amount					
Balance at 1 Jan 2007	**22,641**	**251,131**	**171,532**	**61,624**	**506,928**
Balance at 31 Dec 2007	**25,234**	**267,945**	**203,816**	**75,249**	**572,244**
Balance at 1 Jan 2008	**25,234**	**267,945**	**203,816**	**75,249**	**572,244**
Balance at 31 Dec 2008	**29,097**	**297,214**	**262,183**	**49,840**	**638,334**

Based on the contracts that had been signed in connection with the ongoing investments, the Group accounted for EUR 31,502 thousand of future liabilities resulting from acquisition of property, plant and equipment as at the balance sheet date.

13. INTANGIBLE ASSETS

in EUR thousand	31 Dec 2008	31 Dec 2007
Goodwill	42,644	42,278
Trademark and customer list	42,403	42,403
Proprietary rights	38,390	38,605
Intangible assets in progress	5,543	6,568
Total intangible assets	**128,980**	**129,854**

The item of intangible assets refers mostly to the TAD Pharma trademark, the customer list and the software.

IMPAIRMENT TESTING FOR THE TAD PHARMA TRADEMARK AND GOODWILL

For the purpose of impairment testing for the trademark and the goodwill relating to the acquisition of the company TAD Pharma, the German market was taken into account as a cash generating unit. By this acquisition, the Krka Group secured itself direct access to the entire German market. Basis for the calculation were the planned sales values for the next 4-year period, considering also the anticipated launch of new products as its impact on the projected growth is quite high. 1% annual growth was forecasted for the coming years. In addition to the market situation and the constant pressure for price-cutting that shall take a tougher line, the profitability generated in 2008 was taken into account while calculating the cost. The said calculation applied the 9.5 percent discount rate equalling the weighted average capital cost of Krka (WACC). Based on the discounted cash flows it was established that the recoverable amount of the cash generating unit exceeds its carrying amount, including the goodwill and the trademark, hence no need for the respective impairment exists.

MOVEMENT OF INTANGIBLE ASSETS

in EUR thousand	Goodwill	Trademark and customer list	Proprietary rights	Intangible assets in progress	Total
Cost of purchase					
Balance at 1 Jan 2007	**0**	**0**	**33,740**	**4,056**	**37,796**
Increase due to acquisition	42,278	42,403	17,924	2,367	104,972
Additions	0	0	30	7,490	7,520
Transfer from intangible assets under construction	0	0	7,325	–7,325	0
Disposals	0	0	–500	0	–500
Exchange differences	0	0	25	–16	9
Transfers to property, plant and equipment	0	0	–258	–4	–262
Balance at 31 Dec 2007	**42,278**	**42,403**	**58,286**	**6,568**	**149,535**
Balance at 1 Jan 2008	**42,278**	**42,403**	**58,286**	**6,568**	**149,535**
Increase due to acquisition	366	0	213	0	579
Additions	0	0	807	9,518	10,325
Transfer from intangible assets under construction	0	0	10,557	–10,557	0
Disposals	0	0	–2,509	0	–2,509
Exchange differences	0	0	–292	14	–278
Balance at 31 Dec 2008	**42,644**	**42,403**	**67,062**	**5,543**	**157,652**
Accumulated amortisation					
Balance at 1 Jan 2007	**0**	**0**	**–14,296**	**0**	**–14,296**
Amortisation	0	0	–5,666	0	–5,666
Disposals	0	0	34	0	34
Exchange differences	0	0	–14	0	–14
Transfers to property, plant and equipment	0	0	261	0	261
Balance at 31 Dec 2007	**0**	**0**	**–19,681**	**0**	**–19,681**
Balance at 1 Jan 2008	**0**	**0**	**–19,681**	**0**	**–19,681**
Amortisation	0	0	–11,271	0	–11,271
Disposals	0	0	2,013	0	2,013
Exchange differences	0	0	267	0	267
Balance at 31 Dec 2008	**0**	**0**	**–28,672**	**0**	**–28,672**
Carrying amount					
Balance at 1 Jan 2007	**0**	**0**	**19,444**	**4,056**	**23,500**
Balance at 31 Dec 2007	**42,278**	**42,403**	**38,605**	**6,568**	**129,854**
Balance at 1 Jan 2008	**42,278**	**42,403**	**38,605**	**6,568**	**129,854**
Balance at 31 Dec 2008	**42,644**	**42,403**	**38,390**	**5,543**	**128,980**

14. LOANS

in EUR thousand	31 Dec 2008	31 Dec 2007
Long-term loans	3,892	3,531
Short-term loans	1,144	1,380
Short-term interest receivable	249	130
Total loans	**5,285**	**5,041**

In conformity with internal acts the controlling company as well as some Group companies extended long-term loans to its employees. These loans are mainly 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 2008 the said rate ranged between 4.731% and 6.315%. The repayment period must not exceed 15 years.

15. INVESTMENTS

in EUR thousand	31 Dec 2008	31 Dec 2007
Non-current investments	**6,343**	**10,721**
- financial assets available for sale	6,343	10,721
Current investments, including derivatives	**743**	**2,936**
– instruments held for trading	128	538
– derivatives	190	1,583
– other current investments	425	815
Total investments	**7,086**	**13,657**

Financial assets available for sale include EUR 918 thousand of investments in Slovenia and EUR 5,425 thousand of investments abroad.

Derivatives include futures contracts amounting to EUR 190 thousand. The amount reflects the fair value of futures contracts relating to the sale of US dollars worth USD 32,000 thousand and the maturity of 30 March 2009.

Other current investments refer to Slovenian mutual funds in the amount of EUR 192 thousand (2007: EUR 315 thousand) and assets under management in the amount of EUR 233 thousand (2007: EUR 496 thousand). The change of fair value is recognised through profit or loss.

MOVEMENT OF NON-CURRENT INVESTMENTS – FINANCIAL ASSETS AVAILABLE FOR SALE

in EUR thousand	Financial assets available for sale
Balance at 1 Jan 2007	**6,477**
Purchase	26
Decrease	–10
Change in fair value	4,229
Balance at 31 Dec 2007	**10,722**
Purchase	1,085
Impairment	–32
Change in fair value	–5,432
Balance at 31 Dec 2008	**6,343**

Adjustments of available-for-sale financial assets to the market value are disclosed in its full amount among equity (Fair value reserve) as the amounts are not lower from the initial cost.

16. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

in EUR thousand	Assets		Liabilities		Assets - liabilities	
	2008	2007	2008	2007	2008	2007
Property, plant and equipment and intangible assets	658	186	15,625	16,340	-14,967	-16,153
Financial assets available for sale	0	0	696	1,924	-696	-1,925
Receivables/liabilities	1,973	964	1,945	65	28	899
Inventories	0	-180	795	1,240	-795	-1,420
Provisions for lawsuits	19,459	19,177	0	0	19,460	19,177
Provisions for retirement benefits	9,459	10,025	0	-276	9,459	10,301
Tax effects of transition to IFRS	2,724	2,515	-285	-837	3,009	3,352
Total	**34,273**	**32,687**	**18,776**	**18,456**	**15,498**	**14,231**

in EUR thousand	Balance at 1 Jan 2007	Recognised in profit or loss	Translation reserve	Recognised in equity	Attributable to acquisition of TAD Pharma	Balance at 31 Dec 2007	Recognised in profit or loss	Translation reserve	Recognised in equity	Balance at 31 Dec 2008
Intangible assets and property, plant and equipment	**513**	-126	-63	0	-16,479	**-16,154**	1,002	185	0	-14,967
Financial assets at fair value through profit and loss	**126**	-126	0	0	0	**0**	0	0	0	0
Financial assets available for sale	**-1,039**	0	0	-885	0	**-1,924**	0	0	1,228	-696
Derivatives	**38**	-38	0	0	0	**0**	0	0	0	0
Inventories	**612**	-641	38	0	-1,429	**-1,420**	527	98	0	-795
Receivables	**300**	-272	616	0	255	**899**	-841	-30	0	28
Provisions for lawsuits	**16,832**	2,345	0	0	0	**19,177**	282	0	0	19,459
Provisions for retirement benefits	**10,528**	358	-64	-797	276	**10,301**	131	0	-973	9,459
Transfer of tax loss	**2,819**	784	-661	0	410	**3,352**	-45	-298	0	3,009
Total	**30,729**	**2,285**	**-134**	**-1.682**	**-16,967**	**14,231**	**1,056**	**-45**	**255**	**15,497**

17. INVENTORIES

in EUR thousand	31 Dec 2008	31 Dec 2007
Material	68,593	52,906
Work in progress	55,360	45,531
Products	76,264	58,824
Merchandise	18,159	20,221
Advances	315	146
Allowances and write-off of inventories	-7,029	-5,981
Total inventories	**211,662**	**171,647**

Cost of material, including the changes in the value of products and work in progress accounted for within production cost of goods sold, amounted to EUR 145,853 thousand in 2008 and EUR 127,194 thousand in 2007.

The write down of inventories to net realisable value amounted to EUR 1,977 thousand (2007: EUR 3,104 thousand), whereas the write-off of inventories amounted to EUR 5,936 thousand (2007: EUR 3,959 thousand). The write down and write-off of inventories were recognised within other operating expenses.

18. TRADE AND OTHER RECEIVABLES

in EUR thousand	31 Dec 2008	31 Dec 2007
Short-term trade receivables	218,448	160,295
Other short-term receivables	19,028	19,799
Total receivables	**237,476**	**180,094**

In 2008 allowances for receivables and write-offs of receivables recorded among financial expenses amounted to EUR 8,550 thousand (2007: EUR 1,199 thousand).

SHORT-TERM TRADE RECEIVABLES

in EUR thousand	Gross value	Allowances for doubtful and disputable receivables	Net value at 31 Dec 2008	Net value at 31 Dec 2007
Domestic customers	13,526	297	13,229	11,643
Foreign customers	215,327	10,108	205,219	148,652
Total trade receivables	**228,853**	**10,405**	**218,448**	**160,295**

Trade receivables are not secured.

OTHER SHORT-TERM RECEIVABLES

Other receivables refer mostly to receivables arising from VAT refund.

19. CASH AND CASH EQUIVALENTS

in EUR thousand	31 Dec 2008	31 Dec 2007
Cash in hand	70	230
Bank balances	7,534	15,554
Total cash and cash equivalents	**7,604**	**15,784**

20. EQUITY

SHARE CAPITAL

Share capital of the controlling company consists of 35,426,120 ordinary registered no-par value shares. There is solely one class of shares, whereas the first and only issue of shares was carried out in 1995.

OWN SHARES

As of the balance sheet date the controlling company recorded 1,626,620 own shares, i.e. 4.6% of the share capital value. The number of own shares in this reporting period remained unchanged if compared to 2007.

RESERVES

The Group's reserves comprise the share premium, legal and statutory reserves, fair value reserves and translation reserves.

As at the balance sheet date **the share premium** is recorded at EUR 120,992 thousand; it has not changed compared to 2007. The share premium consists of the general equity revaluation adjustment (EUR 90,653 thousand) which was during the transfer to IFRS included among share premium, reserves for own shares (EUR 19,489 thousand) and share premium (EUR 10,850 thousand) formed pursuant to the special regulation applicable in the ownership transformation of the controlling company.

Notes to the consolidated financial statements

Legal reserves amounted to EUR 14,990 thousand as at 31 December 2008 and remained unchanged.

Statutory reserves amounted to EUR 17,184 thousand EUR as at the balance sheet date and show an increase of EUR 3,000 thousand over the previous period. The increase of reserves was approved by the controlling company's management based on statutory provisions.

Compared to 2007 **the fair value reserve** decreased by EUR 4,204 thousand and as at 31 December 2008 amounts to EUR 2,620 thousand. The total change results from the decrease of fair value of available-for-sale investments (by EUR 5,432 thousand) and the increase of EUR 1,228 thousand referring to the related deferred tax effect.

Compared to 2007 **the translation reserve** went down by EUR 9,436 thousand and as of the balance sheet date amounted to EUR 9,332 thousand. The aforesaid decline is a result of exchange differences occurring during translation of individual items in financial statements of foreign operations into the local currency, i.e. reporting currency.

RETAINED EARNINGS

Retained earnings have increased based on the profit for the period recorded by the majority stockholder in the amount of EUR 155,955 thousand, based on badwill that occurred with the acquisition of Terme Krka – Strunjan in the amount of EUR 36 thousand, and based on an adjustment of retained earnings in the amount of EUR 45 thousand. The decrease, on the other hand, is a result of allocation of accumulated profit to dividend payout (EUR 30,828 thousand) as confirmed by the 13th Annual Meeting held on 3 July 2008, of an additional formation of statutory reserves (EUR 3,000 thousand), and net expenses (EUR 973 thousand) recognised directly in retained earnings which arise from a decrease in deferred tax assets.

The amount of the dividend payout, shown in the cash flow statement, 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.

DIVIDENDS PER SHARE

As for the reporting period the gross dividend per share amounted to EUR 0.91 per share (2007: EUR 0.80).

MINORITY INTEREST

In 2008, equity of minority interest decreased based on the payout of the share of minority holders in Terme Krka – Strunjan (EUR 8,036 thousand), dividend payout (EUR 113 thousand) and the loss of Golf Grad Otočec (EUR 64 thousand).

Closing balance of minority holders as at the year-end shall include solely the minority holders of the Golf Grad Otočec.

21. EARNINGS PER SHARE

Basic earnings per share amounted to EUR 4.61 and showed an increase of 18% compared to the previous year's result (2007: EUR 3.92). The calculation of earnings per share took account of the net profit for the period attributable to the majority stockholders in the amount of EUR 155,955 thousand (2007: EUR 132,552 thousand). The weighted average number of shares was accounted for in the calculation for both years, i.e. 33,799,500 for shares for 2008 (same number in 2007), while 1,626,620 of own shares held by the controlling company were eliminated from the calculation. All shares issued by the controlling company are ordinary shares, hence the diluted earnings per share ratio equalled the basic earnings per share.

22. BORROWINGS

in EUR thousand	31 Dec 2008	31 Dec 2007
Long-term borrowings	**83,734**	**87,183**
– borrowings from domestic banks	83,306	86,612
– borrowings from foreign banks	428	571
Short-term borrowings	**100,111**	**62,528**
– current portion of long term borrowings	29,542	50,094
– borrowings from domestic banks	57,000	3,000
– borrowings from foreign banks	10,007	320
– borrowings from other entities	372	7,824
– interest payable	3,190	1,290
Total borrowings	**183,845**	**149,711**

LONG-TERM BORROWINGS

in EUR thousand	Currency	Maturity	31 Dec 2008 Par value	31 Dec 2008 Carrying amount	31 Dec 2007 Par value	31 Dec 2007 Carrying amount
Borrowing from domestic bank	USD	2008	0	0	6,802	1,362
Borrowing from domestic bank	USD	2008	0	0	6,122	1,021
Borrowing from domestic bank	EUR	2011	40,000	18,182	40,000	25,454
Borrowing from domestic bank	EUR	2012	25,000	20,000	25,000	25,000
Borrowing from domestic bank	EUR	2012	79,000	71,100	79,000	79,000
Borrowing from domestic bank	EUR	2012	8,025	3,411	8,025	4,726
Borrowing from foreign bank	EUR	2012	1,000	583	1,000	714
Total long-term borrowing			**153,025**	**113,276**	**165,949**	**137,277**

As for 2008 no new long-term borrowings were recorded by Group companies.

Long-term borrowings obtained from banks are neither secured by mortgages nor by bank guarantees. The instrument of interest swap was withdrawn in 2008, hence no new hedges were introduced.

Short-term borrowings are denominated in euro and were extended for the period of one year. The borrowings are not secured.

23. PROVISIONS

in EUR thousand	Balance at 31 Dec 2007	Formation	Utilisation	Reversal	Balance at 31 Dec 2008
Provisions for retirement benefits and anniversary bonuses	47,408	4,498	–2,724	0	49,182
Other provisions	96,233	5,650	–1,199	–203	100,481
– provisions for lawsuits	90,356	5,500	–109	0	95,747
– other provisions	5,877	150	–1,090	–203	4,734
Total provisions	**143,641**	**10,148**	**–3,923**	**–203**	**149,663**

The amounts of provisions for lawsuits referring to intellectual property are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated amount, if the indemnification claim is not yet disclosed. External advisors for litigations referring to intellectual property are engaged for defining the anticipated amounts. Furthermore, the management verifies the justification of the formed provisions with a view to the prospects for a favourable or unfavourable lawsuit outcome every year. The Group formed additional provisions for lawsuits relating to prescription pharmaceuticals (EUR 4,500 thousand) and provisions for a lawsuit brought against a natural person in connection with alleged patent violations (EUR 1,000 thousand). Lawsuits relating to intellectual property are usually long and it is difficult to predict their duration. Accordingly, provisions for lawsuits are not discounted.

Provisions for retirement benefits and anniversary bonuses are based on a calculation performed by a certified actuary and they were accounted for under following assumptions:

- discount rate of 4.70% in the reporting period (2007: 5.85%) referring to the harmonised long-term government bond yield within the euro area (Source: ECB);
- valid amounts of retirement benefits and anniversary bonuses as defined by internal acts of individual companies or local regulations;
- employee turnover depending in particular upon the employees' age;
- mortality level calculated on the basis of last mortality tables available;
- increase in wages and salaries attributable to inflation rate and career promotion. The said increase took account of the inflation of 2% (2007: 3.5%) as well as the career promotion i.e. 2% (2007: 2%)

The estimates and the assumptions that have been applied are based on the actual state of affairs during the preparation of the calculation of the actuary. The projected unit method was applied in the calculation. Actuarial deficits or surpluses that have occurred in connection with retirement benefits and anniversary bonuses are recognised in the income statement either as expense or income.

24. GOVERNMENT GRANTS AND GRANTS BY THE EUROPEAN UNION

in EUR thousand	Balance at 31 Dec 2007	Grants received	Reversals	Balance at 31 Dec 2008
Grants received for the Beta plant in Šentjernej	258	0	–44	214
Grants received for the health resorts Dolenjske Toplice and Šmarješke Toplice	2,186	2,456	–142	4,500
Grants by the European Regional Development Fund	39	0	–5	34
Free receipt of property, plant and equipment	616	0	–11	605
Total grants received	**3,099**	**2,456**	**–202**	**5,353**

The recorded amounts of grants received from the government and the European Union are decreased by the proportionate share of depreciation of assets to which the grants refer to.

25. TRADE PAYABLES

in EUR thousand	31 Dec 2008	31 Dec 2007
Payables to domestic suppliers	37,863	36,633
Payables to foreign suppliers	31,739	41,145
Payables from advances	394	684
Total trade payables	**69,996**	**78,462**

26. OTHER CURRENT LIABILITIES

in EUR thousand	31 Dec 2008	31 Dec 2007
Accrued contractual discounts on products sold to other customers	18,517	14,263
Payables to employees – gross wages, other charges	18,555	20,966
Other	12,502	8,295
Total other current liabilities	**49,574**	**43,524**

27. CONTINGENT LIABILITIES

in EUR thousand	31 Dec 2008	31 Dec 2007
Guarantees issued	2,019	5,290
Other	2,017	952
Total contingent liabilities	**4,036**	**6,242**

The highest value among guarantees issued relates to the Customs Administration of the Republic of Slovenia (EUR 1,500 thousand). The item 'Other' includes the bills received for the receivables of Krka-Farma Zagreb (EUR 1,397 thousand) and the affected property in Serbia (EUR 620 thousand).

28. FINANCIAL INSTRUMENTS

Long-term stability of the Group's performance is managed by means of active risk management policies as presented in detail under ' Risk management'. Due to the high amount of international import and export business, the Group is primarily exposed to foreign exchange and interest rate risks, as well as to credit risks. Derivative financial instruments are used for hedging the Group's exposure against foreign exchange and interest rate risks.

CREDIT RISK

Credit risk is hedged by the assessment of the customers' credit rating as well as by debt collection procedures.

Credit risk exposure

The carrying amount of financial assets represents the biggest exposure to credit risk. Following status was shown as at the balance sheet date:

in EUR thousand	Note	31 Dec 2008	31 Dec 2007
Financial assets available for sale	14	6,343	10,721
Financial assets at fair value through profit or loss		553	1,353
Loans	13	5.285	5,041
Receivables	17	237,228	179,834
– thereof trade receivables		218,448	160,295
Cash and cash equivalents	18	7,604	15,784
Interest bearing derivatives (assets)	14	0	673
Foreign currency derivatives (assets)	14	190	910
Total		**257,203**	**214,316**

As for the financial assets, most of the credit risk relates to loans extended and receivables. Their maximum exposure to credit risk is shown in terms of geographic regions:

in EUR thousand	31 Dec 2008	31 Dec 2007
Slovenia	27,754	25,879
South-East Europe	69,618	48,177
Eastern Europe	85,456	48,010
Central Europe	31,298	27,077
Western Europe and overseas markets	28,387	35,732
Total	**242,513**	**184,875**

Short-term trade receivables are not secured.

AGEING STRUCTURE OF LOANS AND RECEIVABLES AS AT THE BALANCE SHEET DATE

in EUR thousand	Gross value 2008	Allowance 2008	Gross value 2007	Allowance 2007
Not past due receivables	225,823	1,255	143,001	499
Past due 20 days	4,939	74	18,590	183
Past due 21 to 50 days	2,747	770	10,133	208
Past due 51 to 180 days	6,469	2,582	8,205	338
More than 180 days	13,055	5,839	8,829	2,655
Total	**253,033**	**10,520**	**188,758**	**3,883**

MOVEMENT OF ALLOWANCES FOR RECEIVABLES

in EUR thousand	2008	2007
Balance at 1 January	**3,883**	**4,354**
Formation of allowance for impairment	8,174	1,178
Write-off of receivables charged against allowance	–2,028	–1,317
Reversal of impairment	–452	–490
Collection of bad debts	–32	–71
Exchange differences	975	32
Increase by the amount of newly included companies	0	197
Balance at 31 December	**10,520**	**3,883**

LIQUIDITY RISK

Due to an accurate planning of cash flows and short-term credit lines that were agreed with the banks in advance, the liquidity risk was low in 2008 despite the financial market turbulence.

Maturity of financial liabilities

Financial liabilities in terms of maturity are outlined in the schedule below.

MATURITY OF FINANCIAL LIABILITIES AS AT 31 DECEMBER 2008

		Contractual cash flow				
in EUR thousand	Carrying amount	Total	Up to 6 months	Between 6 and 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Long-term borrowings from banks	114,747	126,406	17,162	16,756	33,671	58,817
Short-term borrowings from banks	68,672	70,131	36,463	33,668	0	0
Other short-.term borrowings	426	432	176	256	0	0
Trade and other payables	130,103	130,103	130,103	0	0	0
Total non-derivative financial liabilities	**313,948**	**327,072**	**183,904**	**50,680**	**33,671**	**58,817**
Derivatives						
Other forward contracts for inflow hedging	–190	–190	–190	0	0	0
Total derivatives	**–190**	**–190**	**–190**	**0**	**0**	**0**
Total	**313,758**	**326,882**	**183,714**	**50,680**	**33,671**	**58,817**

MATURITY OF FINANCIAL LIABILITIES AS AT 31 DECEMBER 2007

in EUR thousand	Carrying amount	Contractual cash flow				
		Total	Up to 6 months	Between 6 and 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Long-term borrowings from banks	137,129	151,613	40,010	14,617	26,104	70,882
Short-term borrowings from banks	4,721	4,773	4,773	0	0	0
Other short-term borrowings	7,861	8,211	5,121	3,090	0	0
Trade and other payables	124,204	124,204	124,204	0	0	0
Total non-derivative financial liabilities	**273,915**	**288,801**	**174,108**	**17,707**	**26,104**	**70,882**
Derivatives						
Other forward contracts for inflow hedging	–910	–916	–916	0	0	0
Total derivatives	**–910**	**–916**	**–916**	**0**	**0**	**0**
Total	**273,005**	**287,885**	**173,192**	**17,707**	**26,104**	**70,882**

FOREIGN EXCHANGE RISK

Exposure to foreign currency risk

in EUR thousand	31 Dec 2008				
	EUR	USD	PLN	HRK	RUB
Trade and other receivables	105,639	40,570	18,227	42,527	7,267
Borrowings from banks	–183,845	0	0	0	0
Trade payables	–56,860	–8,009	–920	–178	–26
Balance sheet exposure (gross)	**–135,066**	**32,561**	**17,307**	**42,349**	**7,241**
Estimated sales	581,570	88,508	126,414	53,634	171,953
Estimated purchases	–497,000	–70,300	–25,500	–13,400	–15,000
Exposure (gross)	**84,570**	**18,208**	**100,914**	**40,234**	**156,953**
Derivatives	**0**	**–22,698**	**0**	**0**	**0**
Net exposure	**–50,496**	**28,071**	**118,221**	**82,583**	**164,194**

in EUR thousand	31 Dec 2007				
	EUR	USD	PLN	HRK	RUB
Trade and other receivables	36,471	56,853	18,099	26,829	7,608
Borrowings from banks	–146,992	–2,719	0	0	0
Trade payables	–61,856	–9,998	–2,266	–1,155	–569
Balance sheet exposure (gross)	**–172,377**	**44,136**	**15,833**	**25,674**	**7,039**
Sales	635,471	93,763	113,709	46,824	27,935
Purchases	–414,123	–67,071	–22,921	–11,756	–13,078
Exposure (gross)	**221,348**	**26,692**	**90,788**	**35,068**	**14,857**
Derivatives	**0**	**–17,697**	**0**	**0**	**0**
Net exposure	**48,971**	**53,131**	**106,621**	**60,742**	**21,896**

Notes to the consolidated financial statements

Estimated sales and purchases stated in the 2008 schedule ground on the Company's business plan for 2009, whereas estimated sales and purchases stated in the 2007 schedule take account of the Company's actual sales and purchases made in 2008.

Krka plans to change the billing system in the Russian Federation in 2009, namely from EUR to RUB.

Part of the open position denominated in USD was secured by using derivatives, while the other part remained unsecured. As for the sale of US dollars, forward contracts were used as hedging instruments.

SIGNIFICANT FOREIGN EXCHANGE RATES

	Average exchange rate*		Final exchange rate*	
	2008	2007	2008	2007
USD	1.47	1.37	1.39	1.47
PLN	3.51	3.78	4.15	3.59
HRK	7.22	7.34	7.36	7.33
RUB	36.45	35.02	41.28	35.99

* number of local currency units for 1 euro

Sensitivity analysis
A 1% percent increase of the euro value in respect of currencies stated as at 31 December would increase or decrease the net profit referring to values stated below. The analysis assumes that other remaining elements, interest rates in particular, remain unchanged. The 2007 analysis was prepared on the same basis.

	Impact on the profit or loss	
in EUR thousand	2008	2007
USD	278	526
PLN	1,171	1,056
HRK	818	601
RUB	1,626	217

A 1% decrease of the euro value in respect of currencies stated as at 31 December would have the same effect – but in reverse direction - provided that all other elements remain unchanged.

INTEREST RATE RISK

In 2004, three long-term borrowings (two of them denominated in US dollars, one in euros) were hedged by using interest rate swaps, whereas in coming years no further hedging instruments were applied. By the end of the reporting period the interest rate for one of the long-term borrowings was fixed in 2004 whereas the remaining two borrowings that were secured were repaid. Accordingly, no interest rate hedging instruments were applied by the end of 2008.

Exposure to interest rate risk

in EUR thousand	2008	2007
Financial instruments at fixed interest rate	**–174**	**–32,361**
Financial assets	5,198	3,300
Financial liabilities	–5,372	–35,661
Financial instruments at variable interest rate	**–175,196**	**–112,529**
Financial assets	87	231
Financial liabilities	–175,283	–112,760

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 balance sheet date would have no impact on the profit or loss.

Analysis of the cash flow's sensitivity by applying the variable interest rate

Change of the interest rate by 100 basis points on the date of reporting would increase (decrease) the net profit or loss referring to values stated below. The 2007 analysis was prepared on the same basis considering that all elements, foreign exchange rate in particular, remain unchanged.

IMPACT OF THE POSSIBLE INTEREST RATE CHANGE ON THE PROFIT OR LOSS AS AT 31 DECEMBER 2008

in EUR thousand	Increase by 100 basis points	Decrease by 100 basis points
Financial instruments at variable interest rate	–1,752	1,752
Contract on the interest rate swap	0	0
Net variability of cash flow	**–1,752**	**1,752**

IMPACT OF THE POSSIBLE INTEREST RATE CHANGE ON THE PROFIT OR LOSS AS AT 31 DECEMBER 2007

in EUR thousand	Increase by 100 basis points	Decrease by 100 basis points
Financial instruments at variable interest rate	–1,125	1,125
Interest rate swap	760	–760
Net variability of cash flow	**–365**	**365**

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

Notes to the consolidated financial statements

LONG-TERM BORROWINGS

in EUR thousand	31 Dec 2008	31 Dec 2007
Long-term borrowings	113,276	137,277
– short-term portion of long-term borrowings	29,542	50,094
Average balance of long-term borrowings	125,277	92,619
Interest paid (financial year)	6,744	2,657
Other cost of raising long-term borrowings	67	6
Average interest rate of long-term borrowings (financial year)	5.44%	2.88%
Maturity in three years or less	67%	70%
Maturity in more than three years	33%	30%
Currency structure of long-term borrowings:		
– US dollar	0%	2%
– Euro	100%	98%
Structure of long-term borrowings in terms of interest rates:		
– variable	100%	80%
– fixed	0%	20%

SHORT-TERM BORROWINGS

in EUR thousand	31 Dec 2008	31 Dec 2007
Short-term borrowings including short-term portion of long-term borrowings	96,921	61,238
– from banks	96,549	53,414
– from other entities	372	7,824
Short-term borrowings exclusive of short-term portion of long-term borrowings	67,379	11,144
Average balance of short-term borrowings (financial year)	39,262	22,863
Interest paid (financial year)	2,386	1,310
Other cost of raising short-term borrowings	35	6
Average cost of short-term borrowings (financial year)	6.17%	5.76%
Currency structure of short-term borrowings		
– Euro	100%	100%
Structure of short-term borrowings in terms of interest rates:		
– variable	92%	30%
– fixed	8%	70%

FAIR VALUE

in EUR thousand	2008 Carrying amount	2008 Fair value	2007 Carrying amount	2007 Fair value
Long-term loans	3,892	3,892	3,531	3,531
Non-current investments	6,591	6,591	10,981	10,981
– financial assets available for sale	6,343	6,343	10,721	10,721
– other non-current investments	248	248	260	260
Short-term loans	1,393	1,393	1,510	1,510
Current investments	553	553	1,353	1,353
– instruments held for trading	128	128	538	538
– other current investments	425	425	815	815
Trade and other receivables	237,228	237,228	179,834	179,834
Cash and cash equivalents	7,604	7,604	15,784	15,784
Interest bearing derivatives	0	0	673	673
– assets	0	0	673	673
Foreign currency derivatives	190	190	910	910
– assets	190	190	910	910
Borrowings	–183,845	–180,008	–149,711	–139,560
Trade and other payables	–130,103	–130,103	–124,204	–124,204
Total	**–56,497**	**–52,660**	**–59,339**	**–49,188**

The manners of the fair value measurement of the individual types of financial instruments are presented below.

Securities held for trading

The fair value is computed on the basis of the stock exchange quotation of the respective securities as at the balance sheet date, and it is not decreased by any costs that may arise upon the sale or purchase of securities.

Options, futures contracts and interest rate swaps

Fair values of purchased and sold options, futures contracts and interest rate swaps are submitted on the last day of each Quarterly of the financial year by the bank in which the individual instrument was purchased or sold, or by another bank with which an umbrella contract on derivatives was signed.

Financial assets available for sale

If the shares are listed on the stock exchange market, their fair value equals the market value as at the balance sheet date, not decreased by any costs that may arise upon the sale or purchase of the said shares. Other financial assets available for sale are recorded at the net carrying amount as at the balance sheet date, representing the assessed fair value.

Interest bearing loans and borrowings

The fair value of loans and borrowings is calculated by applying the discounted cash flow of the principal and interest. The discount interest rate was computed by considering the yield for Slovenia's government bonds in Europe with a 2-year maturity, based on the report about the market situation at 31 December 2008 published by Abanka. The yield-to-maturity of these papers was recorded at 1.796% (2007: 3.997%).

As for loans, the variable interest rate changing each 12 months is being applied, thus the carrying amount equals the assessed fair value.

Receivables and liabilities

Short-term receivables and payables are recorded at net carrying amount, which is considered to be their fair value.

29. TRANSACTIONS WITH RELATED ENTITIES

DATA ON GROUPS OF PERSONS

As at the year-end, the members of the Management Board of the Krka Company held 58990 of shares in the Krka Company, representing a 0.167% of the total equity (i.e. 0.175 of voting rights), and the Managing Directors of subsidiaries held 7655 of shares or 0.062% of the total equity (i.e. 0.023 of voting rights). A questionnaire on related entities is completed by the members of the Management Board and other management staff on a yearly basis, which is afterwards used by the Group to check the existence of any other business relations between the individual company and the employees. No such business relations were recorded in 2008.

EMOLUMENTS OF GROUPS OF PERSONS IN 2008

in EUR thousand	2008	2007
Management Board members in the controlling company and managers of subsidiaries	3,360	2,653
Members of the Supervisory Board / Boards of Directors	165	184
Persons employed under individual employment contracts	22,783	19,341
Total emoluments of groups of persons	**26,308**	**22,178**

Emoluments of the Management board members in the controlling company and of managers in subsidiaries, as well as emoluments of employees include salaries and wages, fringe benefits and any other receipts.

Emoluments of the Supervisory Board members in the controlling company represent remuneration for the tasks performed within the Supervisory Board. Emoluments of the Supervisory Board members in subsidiaries, who simultaneously act as Management Board members in the controlling company or are employed under individual employment contracts, also include solely remuneration for the tasks performed within the Supervisory Boards.

LOANS GRANTED TO GROUPS OF PERSONS

	Balance		Repayments	
in EUR thousand	31 Dec 2008	31 Dec 2007	2008	2007
Members of the Management Board	10	14	4	4
Members of the Supervisory Board / Boards of Directors (employee representatives)	0	1	1	1
Persons employed under individual employment contracts	307	353	70	87
Total loans to groups of persons	**317**	**368**	**74**	**92**

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

30. GROUP PROFILE

Transactions between Group companies and the groups of persons were implemented on the basis of sale and purchase contracts. Market prices for products and services have been applied in transactions between related entities.

	Ownership share 31 Dec 2008	Share capital at 31 Dec 2008	Currency	Number of employees at 31 Dec 2008	Number of employees at 31 Dec 2007
Controlling company					
KRKA, d. d., Novo mesto	100%	59,126,194	EUR	5250	4891
Subsidiaries					
Terme Krka, d. o. o., Novo mesto	100%	14,753,239	EUR	679	646
KRKA-FARMA d. o. o., Zagreb, Croatia	100%	143,027,200	HRK	145	141
KRKA ROMANIA S.R.L., Bucharest, Romania	100%	38,545	RON	0	0
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100%	111,080	RSD	13	9
KRKA-FARMA DOOEL, Skopje, Macedonia	100%	49,060,618	MKD	25	25
OOO KRKA-RUS, Istra, Russian Federation	100%	1,111,374,765	RUB	130	105
OOO KRKA FARMA, Sergiev Posad, Russian Federation	100%	3,874,800	RUB	33	24
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	100%	17,490,000	PLN	759	649
KRKA ČR, s. r. o., Prague, Czech Republic	100%	100,000	CZK	175	0
KRKA Magyarország Kft, Budapest, Hungary	100%	12,600,000	HUF	115	101
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100%	334,080	SKK	87	0
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650,000	EUR	163	168
KRKA Sverige AB, Stockholm, Sweden	100%	150,000	SEK	3	5
ALTERNOVA Arzneimittel GmbH, Vienna, Austria*	100%	36,500	EUR	16	
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100%	10,000	EUR	9	13
KRKA USA, LLC, Wilmington, USA	100%	10,000	USD	0	0
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1,000	EUR	0	0

* Company was taken over in 2008, hence no data on the number of employees is provided for 2007.

Subsidiary Terme Krka holds shares in the company Terme Krka – Strunjan, d. o. o. (100%) and in Golf Grad Otočec, d. o. o. (56.37%).

EDUCATIONAL STRUCTURE OF EMPLOYEES IN THE GROUP

	2008		2007	
	Headcount	Share (in %)	Headcount	Share (in %)
PhD	70	1.0	63	1.0
MSc	177	2.4	166	2.7
University education	3351	45.9	2720	43.8
Higher professional education	590	8.1	371	6.0
Vocational college education	231	3.2	226	3.6
Secondary school education	1421	19.5	1214	19.6
Skilled workers	1260	17.3	1232	19.8
Unskilled workers	194	2.6	217	3.5
Total (average for the period)	**7294**	**100.0**	**6209**	**100.0**

31. TRANSACTIONS WITH AUDIT FIRMS

The annual fee for auditing the Group amounted to EUR 411 thousand.

32. EVENTS AFTER THE BALANCE SHEET DATE

In January 2009 two subsidiaries i.e. KRKA ROMANIA S. R. L. in Bucharest, Romania (registered in Mid December 2008) and KRKA FARMA, d. o. o., Sarajevo, Bosnia and Herzegovina (registered in mid-January 2009) started their operations. The sole owner of both companies is Krka. The representative office in Bucharest has been replaced by a newly established company, whereas the controlling company's representative office in Sarajevo shall continue to operate in addition to a newly established company. In February 2009 Krka registered a representative office in Yerevan Armenia. On 1 January 2009 company Terme Krka – Strunjan, that became 100%-owned by Terme Krka in autumn 2008, was merged with Terme Krka and performs its operations as one of its business units.

On 13 January 2009 the District Court in Ljubljana issued a decision temporarily prohibiting the producing and marketing of Valsaden due to alleged violation of patents of Novartis AG, Basel, Switzerland, EP 0914 119 or EP 1 410 797, in Slovenia. The object of both patents is the procedure of producing firm pharmaceutical forms (tablets) that contain a combination of valsartan and hydrochlorothiazide. The said decision was issued ex parte, then revoked on 17 February 2009 based on appeal, whereas during the report's publication the respective decision has not become final yet. However, Novartis AG filed a lawsuit to establish alleged violation. The same court deals also with the case of issuing a temporary injunction of the patent EP 1 410 797, due to alleged violation of products that contain solely the valsartan ingredient. The court procedure is not closed yet.

On 26 January 2009, the subsidiary Krka-Polska Sp. z o. o., Warsaw (hereinafter: Krka Polska) received a decision from the Industrial Court in Warsaw by which Krka Polska is temporarily prohibited from importing and placing on Poland's markets the medicine Monkasta® which contains the ingredient montelukast, due to alleged violation of the patent PL 178 671 owned by Merck & Co., USA. This decision was issued ex parte, i.e. without obtaining an answer from Krka Polska. Thus, Krka Polska appealed against the court decision. The company Merck & Co. filed another lawsuit due to alleged violation of the patent PL 178 671 relating to one of the procedures used in the production of the montelukast ingredient. This montelukast is efficiently produced by Krka using another procedure and accordingly by no means violates the said patent of Merck & Co. in Poland.

On 23 February 2009 the District Court in Ljubljana issued a decision by which it is refusing the request of Novartis AG Switzerland to issue a temporary injunction or ban Krka to produce and conduct marketing activities in connection with Valsacor (tablets in all forms) or any other product that may violate the patent EP 1 410 797 in Slovenia. This decision is not final yet and Novartis may appeal against the court decision.

On 12 March 2009, the subsidiary Krka Sverige AB (hereinafter: Krka Sverige) received a decision from the Higher Court in Oslo that revokes the interim injunction that was issued by the Oslo Court of Execution and Enforcement on 18 November 2008 in connection with the dispute on alleged infringement of the patent that refers to the production of the donepezil ingredient in Norway between the companies Pfizer AS with its seat in Norway and Eisai Co, Ltd., Japan (hereinafter 'plaintiffs') and the company Krka Sverige; based on the interim injunction Krka Sverige was by Court of Execution and Enforcement prohibited from producing and marketing the medicine that contains donepezil in Norway. With this decision being issued, Krka Sverige shall now start marketing the said product containing donepezil in Norway. The procedure of alleged patent infringement is still in progress. Considering the statement of affairs and the legal argumentation in the procedure for issuing the interim injunction, Krka Sverige believes to be able to prove that it is not violating the patent.

A lawsuit was brought against Krka's subsidiary Krka Polska Sp. z o. o., Warsaw on 13 March 2009 at the District Court in Warsaw by the company Novartis AG, Switzerland due to alleged violation of the patent relating to the firm pharmaceutical form (tablet) that contains valsartan and auxiliary substances. The plaintiff demands that Krka Polska should be prohibited from producing, using, selling, offering for sale, marketing and importing the Valsacor medicine or film coated tablets containing valsartan under another commercial name in Poland. In 2008, the Higher Court in Warsaw rejected finally the plaintiff's demand to issue an interim injunction due to alleged violation of the said patent. Krka Polska shall submit an appeal in a legally defined deadline. Krka considers that it is not violating the respective patent. In 2005 Krka had filed an action for revoking the patent, the violation of which is claimed by Novartis.

The stated events have no impact on the 2008 financial statements of the Krka Group.

KPMG

Independent Auditor's Report

To the Supervisory Board of KRKA, d.d., Novo mesto

We have audited the accompanying consolidated financial statements of the KRKA Group which comprise the consolidated balance sheet as at 31 December 2008, the consolidated income statement, the consolidated statement of changes in equity, the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves 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 misstatements 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 2008, its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

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

Andrej Korinšek, B.Sc.Ec.
Certified Auditor
Managing Director

Ljubljana, 20 March 2009

KPMG Slovenija, d.o.o.
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Financial statements of
Krka, d. d., Novo mesto

BALANCE SHEET

in EUR thousand	Notes	31 Dec 2008	31 Dec 2007
Assets			
Property, plant and equipment	11	475,577	422,891
Intangible assets	12	28,137	24,466
Investments in subsidiaries	13	225,054	218,178
Deferred tax assets	16	28,732	28,653
Long-term loans	14	4,633	6,936
Non-current investments	15	6,134	10,513
Other non-current assets		308	366
Total non-current assets		**768,575**	**712,003**
Inventories	17	170,206	127,276
Trade and other receivables	18	252,742	189,132
Short-term loans	14	31,832	23,575
Current investments, including derivatives	15	743	2,932
Cash and cash equivalents	19	294	2,340
Total current assets		**455,817**	**345,255**
Total assets		**1,224,392**	**1,057,258**
Equity			
Share capital	20	59,126	59,126
Own shares	20	–19,489	–19,489
Reserves	20	155,786	156,990
Retained earnings	20	601,780	475,383
Total equity		**797,203**	**672,010**
Liabilities			
Long-term borrowings	22	81,209	83,200
Provisions	23	139,309	131,994
Government grants and grants by the European Union	24	853	913
Deferred tax liabilities	16	696	1,925
Total non-current liabilities		**222,067**	**218,032**
Trade payables	25	73,237	67,542
Short-term borrowings	22	88,752	65,747
Income tax liabilities		9,105	2,132
Other current liabilities	26	34,028	31,795
Total current liabilities		**205,122**	**167,216**
Total liabilities		**427,189**	**385,248**
Total equity and liabilities		**1,224,392**	**1,057,258**

INCOME STATEMENT

in EUR thousand	Notes	2008	2007
Revenues	5	826,160	686,729
Production cost of goods sold		–272,200	–241,052
Gross profit		**553,960**	**445,677**
Other operating income	6	2,551	1,328
Distribution expenses		–205,133	–173,878
R&D costs		–76,551	–58,300
Administrative expenses		–51,185	–46,155
Result from operating activities		**223,642**	**168,672**
Financial income	9	4,856	11,791
Financial expenses	9	–22,780	–16,265
Net financial expenses		**–17,924**	**–4,474**
Profit before tax		**205,718**	**164,198**
Income tax expense	10	–44,588	–37,677
Profit for the period		**161,130**	**126,521**
Basic earnings per share (in EUR)	**21**	**4.77**	**3.74**
Diluted earnings per share (in EUR)	**21**	**4.77**	**3.74**

Financial statements of Krka, d. d., Novo mesto

STATEMENT OF CHANGES IN EQUITY

			Reserves				Retained earnings			
in EUR thousand	Share capital	Own shares	Share premium	Legal reserves	Statutory reserves	Fair value reserves	Other revenue reserves	Net profit for the period	Net profit carried forward	Total
Balance at 1 Jan 2007	**59,132**	**–19,489**	**120,986**	**14,990**	**11,684**	**3,480**	**275,796**	**90,911**	**12,428**	**569,918**
Net profit for the period	0	0	0	0	0	0	0	126,521	0	126,521
Formation of statutory reserves	0	0	0	0	2,500	0	0	–2,500	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board	0	0	0	0	0	0	43,000	–43,000	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	0	–90,911	90,911	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	–6	0	6	0	0	0	38,149	0	–38,149	0
Dividends paid	0	0	0	0	0	0	0	0	–27,040	–27,040
Changes in fair value of financial assets available for sale	0	0	0	0	0	4,229	0	0	0	4,229
Deferred tax effects – changes in fair value of financial assets available for sale	0	0	0	0	0	–885	0	0	0	–885
Deferred tax effect and tax effect of transition to IFRS	0	0	0	0	0	0	0	0	–733	–733
Balance at 31 Dec 2007	**59,126**	**–19,489**	**120,992**	**14,990**	**14,184**	**6,824**	**356,945**	**81,021**	**37,417**	**672,010**
Balance at 1 Jan 2008	**59,126**	**–19,489**	**120,992**	**14,990**	**14,184**	**6,824**	**356,945**	**81,021**	**37,417**	**672,010**
Net profit for the period	0	0	0	0	0	0	0	161,130	0	161,130
Formation of statutory reserves	0	0	0	0	3,000	0	0	–3,000	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board	0	0	0	0	0	0	50,000	–50,000	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	0	–81,021	81,021	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	0	43,472	0	–43,472	0
Dividends paid	0	0	0	0	0	0	0	0	–30,828	–30,828
Changes in fair value of financial assets available for sale	0	0	0	0	0	–5,432	0	0	0	–5,432
Deferred tax effects – changes in fair value of financial assets available for sale	0	0	0	0	0	1,228	0	0	0	1,228
Deferred tax effect and tax effect of transition to IFRS	0	0	0	0	0	0	0	0	–905	–905
Balance at 31 Dec 2008	**59,126**	**–19,489**	**120,992**	**14,990**	**17,184**	**2,620**	**450,417**	**108,130**	**43,233**	**797,203**

CASH FLOW STATEMENT

in EUR thousand	Notes	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		**161,130**	**126,521**
Adjustments for:		**106,603**	**79,603**
– amortisation/depreciation	11, 12	51,729	44,383
– foreign exchange gain		–6,727	–1,859
– foreign exchange loss		9,136	3,905
– investment income		–6,361	–12,698
– investment expense		5,364	4,466
– interest expense and other financial expense		8,874	3,729
– income tax		44,588	37,677
Operating profit before changes in net operating current assets and provisions		**267,733**	**206,124**
Change in trade receivables		–66,466	–32,021
Change in inventories		–42,930	–27,796
Change in operating debts (liabilities)		6,504	11,325
Change in provisions		7,315	15,188
Change in grants received from the government and the European Union		–60	464
Change in other current liabilities		3,537	6,446
Income taxes paid		–39,993	–45,501
Cash generated from operations		**135,640**	**134,229**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		2,271	756
Proceeds from sale of current investments		14	1,263
Dividends received	9	21	216
Proportionate profit of subsidiaries	9	682	4,400
Proceeds from sale of property, plant and equipment and intangible assets		4,917	907
Sale of subsidiary		0	56
Purchase of intangible assets	12	–8,858	–7,291
Purchase of property, plant and equipment	11	–104,581	–86,360
Acquisition of subsidiaries and minority interest net of cash		–6,876	–96,857
Given long-term loans		–1,120	–3,389
Proceeds from repayment of long-term loans		3,575	1,506
Acquisition of non-current investments	15	–1,085	–163
Proceeds from sale of non-current investments		346	3
Acquisition of current investments and loans		–41,402	–41,121
Proceeds from sale of current investments and repayment of short-term loans		32,421	45,518
Payments in connection with derivative financial instruments	9	–1,099	–63
Proceeds from derivative financial instruments	9	1,886	2,164
Net cash used in investing activities		**–118,888**	**–178,455**
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		–6,984	–3,145
Repayment of long-term borrowings		–22,533	–12,913
Acquisition of long-term borrowings		0	104,000
Repayment of short-term borrowings		–319,833	–318,218
Acquisition of short-term borrowings		361,508	299,559
Dividends paid		–30,739	–26,993
Net cash used in financing activities		**–18,581**	**42,290**
Net increase in cash and cash equivalents		**–1,829**	**–1,936**
Cash and cash equivalents at beginning of period		2,340	4,498
Effect of exchange rate fluctuations on cash held		–217	–222
Net cash and cash equivalents at end of period		**294**	**2,340**

Notes to the financial statements of Krka, d. d., Novo mesto

Krka, d. d., Novo mesto (hereinafter 'Company') is the controlling company in the Krka Group with its registered seat at Šmarješka cesta 6, 8501 Novo mesto, Slovenia.

1. BASIS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

STATEMENT OF COMPLIANCE

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

The financial statements of the Company were approved by the Management Board on 19 February 2009.

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 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 23 – measurement of defined benefit obligations,
- Note 23 – provisions for lawsuits and contingent liabilities,
- Note 28 – 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 CURRENCY

Foreign currency transactions

Transactions 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 date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, a financial liability designated as a hedge, or qualifying cash flow hedges, which are recognised directly in equity.

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.

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 as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting of financial income and expenses is discussed in Note 'Financial income and financial expenses'.

Available-for-sale financial assets

The Company's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value. Changes in fair value are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss. Impairment losses and foreign exchange gains and losses on available-for-sale monetary items are recognised directly in profit or loss.

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value and in accordance with the Company's investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Receivables and loans

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Derivative financial instruments

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately. If the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value. Attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Economic hedges

The Company does not account for cash flow hedges (hedge accounting).

Economic hedges are applied if the hedging instrument no longer meets the criteria for hedge accounting. These derivative instruments are applied for hedging monetary assets and liabilities denominated in foreign currencies, as well as for hedging the assets exposed to interest rate risk. Changes in the fair value of such derivatives are recognised in profit or loss as part of financial income and expenses.

Investments in subsidiaries

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 the latter retains the right to profit distribution. If the investment is required to be impaired due to subsidiary's loss, the amount of loss due to impairment is measured as a difference between the carrying amount and the present value of expected future cash flows.

Share capital

Repurchase of share capital

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

Dividends

Dividends are recognised as a liability in the period in which they are declared by the Annual Meeting.

PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (see accounting policy 'Impairment'). The cost of property, plant and equipment as at 1 January 2004, the date of transition to IFRS, is determined by reference to its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other directly attributable cost of preparing the asset for its intended use, and (if applicable) costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within 'other operating income' or 'other operating expenses' in profit or loss.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the 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.

Notes to the
financial statements of Krka, d. d., Novo mesto

The estimated useful lives are as follows:

– for buildings	15 to 60 years,
– for plant and equipment	2 to 20 years,
– for furniture	5 years,
– for computer equipment	4 to 6 years,
– for means of transportation	5 to 15 years.

INTANGIBLE ASSETS

Research and development
All other costs referring to the research and development work within the Company are recognised in the income statement as expense upon their accrual.

Other intangible assets
Other intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses (see accounting policy 'Impairment').

Subsequent expenditure
Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss when incurred.

Amortisation
Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets (except for goodwill, trademarks and customer database) 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 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, direct cost of depreciation, direct cost of services, energy, maintenance and quality management. Inventories of work in progress and finished products are carried at standard cost. An inventory unit of merchandise is valued at cost including cost of purchase, import duties and all costs directly attributable to the acquisition, decreased by discounts. Inventories of merchandise are carried at weighted average prices.

IMPAIRMENT

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 equity 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 equity.

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 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.

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.

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 upon retirement. For these obligations, long-term provisions are formed. There is no other obligation in respect of pension.

Provisions are determined by discounting, at the balance sheet 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 for lawsuits

The Company discloses provisions for lawsuits referring to alleged patent infringements. The eligibility of provisions formed in terms of the lawsuit's favourable or unfavourable outcome is assessed on an annual basis. The amounts of provisions are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated potential amount, if the indemnification claim is not yet disclosed.

REVENUES

Revenues from sale of goods are recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For sales of goods, transfer usually occurs when the product is received at the customer's warehouse.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, also continuing managerial involvement with the goods. Revenues from the sale of goods and services rendered are measured at selling prices stated in invoices or other documents, reduced by rebates approved either when the sale is made or subsequently, including those granted for early payment.

GOVERNMENT GRANTS

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Company will comply with the conditions associated with the grant. Grants that compensate the Company for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Company for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

FINANCIAL INCOME AND EXPENSES

Financial income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Financial expenses comprise interest expense on borrowings, 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.

INCOME TAX

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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 years.

Deferred tax is recognised using the balance sheet 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

Notes to the financial statements of Krka, d. d., Novo mesto

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 reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

EARNINGS PER SHARE

The Company presents basic and diluted earnings per share (EPS) data. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS equals the basic EPS, as all shares of the Company belong to the same class of ordinary registered shares.

SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment). Segments are different in terms of risks and returns. Segment information is presented in respect of the Company's business and geographical segments. The Company's primary format for segment reporting is based on geographical segments. Company's segment reporting is based on the Company's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Geographical segments include following: the European Union (all countries of the EU), 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 regions). Within the structure of business segments, the share of human health products represents more than 90% of the Company's sale in terms of value.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise other operating income, unallocated costs (provisions for lawsuits), net financial income and expenses, income tax assets and assets that cannot be reasonably allocated to an individual segment, and depreciation/amortisation relating to these assets.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Numerous new standards, amendments to standards and interpretations that are not yet effective for the year ended 31 December 2008, and have thus not been applied in preparing the financial statements are presented below:

1. IFRS 8 Operating Segments (effective from 1 January 2009)

The Standard introduces the "management approach". IFRS 8 that the Company will have to take into account during the preparation of the 2009 financial statements requires segment disclosure based on internal reports which will be evaluated regularly by the Company's Chief Operating Decision Maker in deciding how to allocate resources and in assessing performance.

Currently the Company presents segment information in respect of its business and geographical segments.

2. Revised IAS 23 Borrowing costs (effective from 1 January 2009)

The revised standard removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

The revised IAS 23 will become mandatory for the Company's 2009 consolidated financial statements and will constitute a change in accounting policy for the Company. In accordance with the transitional provisions the Company will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.

3. Amendments to IFRS 2 Share-based Payment (effective from 1 January 2009)

The amendments to the standard clarify the definition of vesting conditions and introduce the concept of non-vesting conditions. Non-vesting conditions are to be reflected in grant-date fair value and failure to meet non-vesting conditions will generally result in treatment as a cancellation.

The amendments to IFRS 2 are not relevant to the Company's operations as the Company does not have any share-based compensation plans.

4. Amendments to IAS 1 Presentation of Financial Statements (effective from 1 January 2009)

The amended standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income (effectively combining the income statement and all non-owner changes in equity in a single statement), or in two separate statements (a separate income statement followed by a statement of comprehensive income).

The Company will prepare two separate statements in the consolidated financial statements for the financial year 2009.

5. Amendment to IAS 27, Consolidated and Separate Financial Statements (effective from 1 January 2009)

The amendments remove the definition of "cost method" currently set out in IAS 27, and instead require all dividends from a subsidiary, jointly controlled entity or associate to be recognised as income in the separate financial statements of the investor when the right to receive the dividend is established.

Amendments to IAS 27 are not relevant where these refer to the consolidated financial statements of the Company. However, they will have an impact on individual upon the financial statements of individual companies as the dividends will be recognised prior to the actual dividend payout.

6. Amendments to IAS 32 Financial Instruments: Presentation, and IAS 1 Presentation of Financial Statements (effective from 1 January 2009)

The amendments introduce an exemption to the principle otherwise applied in IAS 32 for the classification of instruments as equity; the amendments allow certain puttable instruments issued by an entity that would normally be classified as liabilities to be classified as equity if, and only if, they meet certain conditions.

The amendments are not relevant to the Company's consolidated financial statements as none of the Company companies issued any puttable instruments in the past.

7. IFRIC 13 Customer Loyalty Programmes (effective from 1 January 2008)

It addresses the accounting by entities that participate in customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services.

IFRIC 13, which becomes mandatory for the Company's 2009 financial statements, is not expected to have any impact on the consolidated financial statements.

3. DETERMINATION OF FAIR VALUE

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods presented below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their close price as regards foreign securities, whereas with investments made in Slovenia the average price per share at the reporting date is considered. The fair value of held-to-maturity investments is determined for reporting purposes only.

Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps equals the market price recorded as at the balance sheet 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.

CASH FLOW STATEMENT

The cash flow statement has been prepared under the indirect method based upon items from the balance sheet as at 31 December 2008 and 31 December 2007, the income statement for the year that ended 31 December 2008, as well as additional data required for the adjustment of inflows and outflows.

Notes to the
financial statements of Krka, d. d., Novo mesto

4. FINANCIAL RISK MANAGEMENT

Its rapid increase in operations and the worldwide presence expose the Company to various forms of risk. Hence, the Company applies adequate risk mechanisms and various organisational units are liable for their management.

Business risks are managed on a decentralised basis, whereas financial risks are monitored by the controlling company's Finance Division on a centralised basis. As for the risk management, adequate measures and mechanism are applied whereas the management gets also a feedback on the efficiency of the adopted measures.

The Company monitors the risks systematically and in connection with financial risks applies also adequate quantitative methods for studying the exposure to and size of possible damage.

A brief summary of financial risk management policies is given below; detailed comments, data and ratios are given within the Management Report under 'Risk Management', as well as in Note 28 (Financial instruments) of the consolidated financial statements.

CREDIT RISK

Company's exposure to credit risk depends upon individual customers and economic situations in respective countries. The Company generates sales revenues in five regions, of which each represents a quarter in total sales, whereas two regions have a share of 9 or 15 percent. The risk is not concentrated on individual business partner as the number of diverse customers is quite high.

The credit control is conducted by the Risk Management department within the Finance Division. The credit control procedure includes the credit rating of customers who on an annual basis purchase from the Company products worth EUR 100,000 and more; the control procedure includes also active monitoring of payments by customers. More than 400 customers of the Krka Company are included in the credit control system.

The results of the credit control are positive. Considering the market situation the Company keeps its credit risk exposure under control by regular monitoring due trade receivables, the aging structure of receivables and the average payment deadlines.

No significant receivable write-offs due to default have been recorded in 2008.

LIQUIDITY RISK

The liquidity risk is managed on a centralised basis and by applying various mechanisms (revolving credit lines, balance of short-term and long-term sources) lowers the exposure of the parent company and its subsidiaries to such a risk. Despite turbulences on the financial markets, the Company succeeded to avoid the liquidity risk by keeping low indebtedness and high credit standing.

The Company's working capital increased slightly in 2008 mostly due to higher inventory and receivables. Compared to 2007 the short-term indebtedness increased a bit. Short-term financing is conducted based on bank credit lines for the purpose of covering possible cash deficits.

In 2008 the cash flow planning system was upgraded and perfectly works with the support of the company's central business information system.

FOREIGN EXCHANGE RISK

The Company is exposed to foreign exchange risks due to its extensive international operations. The emphasis lies on the exchange rates of the US dollar, the Polish zloty, the Croatian kuna, the Russian rouble, the Hungarian forint, the Serbian dinar, and the Macedonian denar.

The open foreign currency item represents the Company's gross balance sheet exposure to the individual foreign currency.

The open foreign currency position denominated in US dollar fell back in 2008 as most of the controlling company's sale was charged in euro. Other foreign currency positions have not changed compared to the previous year.

In 2008, the policies of hedging against currency risk have not changed. The exposure to the change of US dollar as the biggest risk was actively managed. Part of the open foreign currency denominated in US dollar was hedged by applying derivatives, whereas the remaining part was not hedged. Futures contracts were used as hedging instruments. With the open foreign currency item denominated in US dollar, the Company generated foreign exchange gains.

The Company's foreign exchange risk exposure referring to the Polish zloty, the Croatian kuna, the Russian rouble and the Serbian dinar was not hedged. As the stated exchange rates went down, the Company recorded foreign exchange losses that were partly neutralised with foreign exchange gains generated in the first 6 months of the year, when the value of the said currencies rose in relation to euro.

INTEREST RATE RISK

By the end of 2008, three long-term borrowings were recorded by the Company with the 6-month EURIBOR reference rate. The Company's exposure to interest rate risk has not increased as the Company has not raised any new long-term borrowings.

In 2008, the European Central Bank lowered the key interest rate by 150 points. As the reference rate is expected to fall, no new hedge instruments were introduced. By the end of 2008 the Company has withdrawn the instrument of interest swap which was used in 2004 to fix an interest rate for one of the long-term borrowings; hence no interest rate hedge instruments were applied by the end of 2008.

CAPITAL MANAGEMENT

The Company's management has decided to maintain a large amount of equity in order to keep the confidence and to secure further development of the Krka Company. The Company defined return on equity as one of the key ratios, namely as a relation between the generated net profit of the majority stockholders and the average value of the majority stockholder's equity. In the past five years, the return on equity (ROE) increased from 16.8% to 21.9%.

The Krka Company implements the method of moderately increasing the dividend amount, paid out on an annual basis. The Management Board and the Supervisory Board of the Company define the amount of the dividend. Dividends are paid from the Company's accumulated profit which is formed pursuant to regulations applicable in Slovenia and allocated pursuant to the resolution adopted by the Annual Meeting.

In compliance with the resolution of the Annual Meeting, the Company has formed a fund of own shares up to 5% of the share capital. As at the balance sheet date own shares were recorded in the amount of 1,626,620 i.e. 4.6% of the share capital.

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. GEOGRAPHICAL AND BUSINESS SEGMENTS

Segment information is presented in respect of the Company's business and geographical segments, with the latter being the primary reporting format. Geographical segments are presented by location of customers.

Those items of revenue, expenses, assets, and liabilities that are not directly attributable to reportable segments or cannot be reliably allocated to reportable segments by the application of certain criteria are presented under the item 'Unallocated'.

GEOGRAPHICAL SEGMENTS

	European Union		South-East Europe		Eastern Europe		Other markets		Unallocated		Total	
in EUR thousand	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Revenues	**504,705**	**416,849**	**80,362**	**73,423**	**225,289**	**174,172**	**15,804**	**22,285**	**0**	**0**	**826,160**	**686,729**
Segment's results from operations	**173,653**	**135,247**	**26,985**	**27,439**	**25,479**	**17,845**	**474**	**798**	**0**	**0**	**226,591**	**181,329**
Other operating income									2,551	1,328	2,551	1,328
Unallocated costs									-5,500	-13,985	-5,500	-13,985
Operating profit											**223,642**	**168,672**
Net financial income/expenses									-17,924	-4,474	-17,924	-4,474
Income tax expense									-44,588	-37,677	-44,588	-37,677
Profit for the period											**161,130**	**126,521**
Total assets	**618,703**	**557,363**	**83,507**	**57,523**	**185,760**	**115,260**	**10,601**	**11,234**	**325,821**	**315,878**	**1,224,392**	**1,057,258**
Total liabilities	**260,972**	**233,847**	**41,553**	**41,190**	**116,492**	**97,709**	**8,172**	**12,502**	**0**	**0**	**427,189**	**385,248**
Capital expenditure	114,421	94,678	0	0	0	0	0	0	0	0	114,421	94,678
Depreciation of property, plant and equipment	23,424	20,814	3,145	2,107	6,935	4,184	392	401	12,675	12,119	46,571	39,625
Amortisation of intangible assets	3,151	2,888	502	509	1,406	1,207	99	154	0	0	5,158	4,758

BUSINESS SEGMENTS

	Human health products		Other		Total	
in EUR thousand	2008	2007	2008	2007	2008	2007
Revenues	800,373	661,295	25,787	25,434	826,160	686,729
Capital expenditure	113,706	94,028	715	650	114,421	94,678
Assets	1,182,774	1,021,312	41,618	35,946	1,224,392	1,057,258

6. OTHER OPERATING INCOME

in EUR thousand	2008	2007
Reversal of non-current provisions, government and EU grants	244	238
Profit from the sale of property, plant and equipment and intangible assets	1,509	483
Other operating income	798	607
Total other operating income	**2,551**	**1,328**

Utilised non-current provisions for ecological improvements in the amount of EUR 162 thousand represent the major item within reversal of non-current provisions, government grants and amounts granted by the European Union. Other operating income comprises compensations received (EUR 270 thousand), repayment of scholarships and other training expenses (EUR 167 thousand) and the collected receivables from previous periods (EUR 32 thousand).

7. EMPLOYEE BENEFITS COST

in EUR thousand	2008	2007
Gross wages and salaries and continued pay	130,236	111,852
Social security contributions and payroll tax	23,497	22,244
Other employee benefits cost	6,511	5,978
Retirement benefits and anniversary bonuses	4,394	3,231
Total employee benefits cost	**164,638**	**143,305**

Other employee benefits cost in the reporting period includes the vacation bonus and travel allowances.

Compulsory pension and disability insurance (comprising both the employee's and the employer's contribution) payable in 2008 amounted to EUR 25,865 thousand. Additional pension insurance amounted to EUR 3,810 thousand.

8. OTHER OPERATING EXPENSES

in EUR thousand	2008	2007
Grants and assistance for humanitarian and other purposes	1,884	2,363
Environmental levies	1,422	1,625
Other levies	3,079	2,923
Loss in the sale of property, plant and equipment and intangible assets	1,944	1,358
Write-offs and allowances for inventories	6,350	5,049
Other costs	2,827	2,185
Total other operating expenses	**17,506**	**15,503**

9. FINANCIAL INCOME AND FINANCIAL EXPENSES

in EUR thousand	2008	2007
Interest income	1,814	897
Change in fair value of investments through profit or loss	0	1,793
Gain on the sale of securities	260	2,064
Income from derivative financial instruments, thereof:	2,076	2,421
– inflows	1,886	2,164
– changes in fair value	190	257
Dividend income	21	216
Proportionate profit of subsidiaries	682	4,400
Reversal of allowances for receivables	3	0
Total financial income	**4,856**	**11,791**
Exchange differences	–6,781	–9,233
Interest expense	–8,700	–3,651
Change in fair value of investments through profit or loss	–736	–1,613
Expenses from derivative financial instruments, thereof:	–2,682	–302
– outflows	–1,099	–63
– changes in fair value	–1,583	–239
Other expenses	–176	–877
Allowances for receivables	–3,307	–507
Write-off of receivables	–398	–82
Total financial expenses	**–22,780**	**–16,265**
Net financial income/expenses	**–17,924**	**–4,474**

10. INCOME TAX

ADJUSTMENT TO EFFECTIVE TAX RATE

in EUR thousand	2008	2007
Income tax	45,572	39,479
Deferred tax	–984	–1,802
Total income tax	**44,588**	**37,677**
Profit before tax	205,718	164,198
Income tax calculated using the 22-percent tax rate (23-percent for 2007)	45,258	37,765
Tax exempt expenses	4,449	4,679
Tax incentives	–4,964	–3,694
Tax exempt revenues	–155	–1,073
Total income tax expense	**44,588**	**37,677**
Effective tax rate	**21.7 %**	**22.9 %**

Investments in research and development and other incentives (additional pension insurance, donations, part of the salaries and wages paid out to the disabled, etc.) account for the major portion of tax incentives.

11. PROPERTY, PLANT AND EQUIPMENT

in EUR thousand	31 Dec 2008	31 Dec 2007
Property	17,108	13,662
Plant	193,405	172,362
Equipment	220,624	165,489
PPE under construction	44,440	71,378
Total property, plant and equipment	**475,577**	**422,891**

As for the reporting period the Company's largest investment of EUR 25,372 thousand refers to the third stage of the Notol project by which the plant's annual production capacity was increased to 3.5 billion tablets and capsules. Further investments were made also to increase the pallet production capacity (EUR 12,646 thousand), investments to add additional production lines in the Sinteza plant (EUR 7,881 thousand EUR) and EUR 7,005 thousand were invested in the reconstruction of the Bršljin plant.

MOVEMENTS OF PROPERTY, PLANT AND EQUIPMENT (PPE)

in EUR thousand	Property	Plant	Equipment	PPE under construction	Total
Cost of purchase					
Balance at 1 Jan 2007	**13,153**	**284,747**	**359,867**	**54,075**	**711,842**
Additions	0	0	0	86,360	86,360
Capitalisation – transfer from PPE under construction	668	17,397	50,845	–69,057	–147
Disposals, deficits, surpluses	–159	–1,565	–9,037	0	–10,761
Balance at 31 Dec 2007	**13,662**	**300,579**	**401,675**	**71,378**	**787,294**
Balance at 1 Jan 2008	**13,662**	**300,579**	**401,675**	**71,378**	**787,294**
Additions	0	0	0	104,581	104,581
Capitalisation – transfer from PPE under construction	3,509	37,550	90,460	–131,519	0
Disposals, deficits, surpluses	–77	–5,224	–13,363	0	–18,664
Transfers within PPE	14	–17	3	0	0
Balance at 31 Dec 2008	**17,108**	**332,888**	**478,775**	**44,440**	**873,211**
Accumulated depreciation					
Balance at 1 Jan 2007	**0**	**–115,964**	**–218,436**	**0**	**–334,400**
Depreciation	0	–13,449	–26,176	0	–39,625
Disposals, deficits, surpluses	0	1,196	8,426	0	9,622
Balance at 31 Dec 2007	**0**	**–128,217**	**–236,186**	**0**	**–364,403**
Balance at 1 Jan 2008	**0**	**–128,217**	**–236,186**	**0**	**–364,403**
Depreciation	0	–14,613	–31,958	0	–46,571
Disposals, deficits, surpluses	0	3,347	9,993	0	13,340
Balance at 31 Dec 2008	**0**	**–139,483**	**–258,151**	**0**	**–397,634**
Carrying amount					
Balance at 1 Jan 2007	**13,153**	**168,783**	**141,431**	**54,075**	**377,442**
Balance at 31 Dec 2007	**13,662**	**172,362**	**165,489**	**71,378**	**422,891**
Balance at 1 Jan 2008	**13,662**	**172,362**	**165,489**	**71,378**	**422,891**
Balance at 31 Dec 2008	**17,108**	**193,405**	**220,624**	**44,440**	**475,577**

Based on the contracts that had been signed in connection with the ongoing investments, the Company accounted for EUR 30,805 thousand of future liabilities resulting from acquisition of property, plant and equipment as at the balance sheet date.

12. INTANGIBLE ASSETS

in EUR thousand	31 Dec 2008	31 Dec 2007
Proprietary rights	25,019	20,258
Intangible assets in progress	3,118	4,208
Total intangible assets	**28,137**	**24,466**

Intangible assets refer to software and registration documentation for new drugs.

MOVEMENTS OF INTANGIBLE ASSETS

in EUR thousand	Proprietary rights	Intangible assets in progress	Total
Cost of purchase			
Balance at 1 Jan 2007	**31,191**	**4,053**	**35,244**
Additions	30	7,260	7,290
Transfer from IA under construction	7,105	–7,105	0
Disposals	–498	0	–498
Balance at 31 Dec 2007	**37,828**	**4,208**	**42,036**
Balance at 1 Jan 2008	**37,828**	**4,208**	**42,036**
Additions	0	8,859	8,859
Transfer from IA under construction	9,949	–9,949	0
Disposals	–31	0	–31
Balance at 31 Dec 2008	**47,746**	**3,118**	**50,864**
Accumulated amortisation			
Balance at 1 Jan 2007	**–12,844**	**0**	**–12,844**
Amortisation	–4,758	0	–4,758
Disposals	32	0	32
Balance at 31 Dec 2007	**–17,570**	**0**	**–17,570**
Balance at 1 Jan 2008	**–17,570**	**0**	**–17,570**
Amortisation	–5,158	0	–5,158
Disposals	1	0	1
Balance at 31 Dec 2008	**–22,727**	**0**	**–22,727**
Carrying amount			
Balance at 1 Jan 2007	**18,347**	**4,053**	**22,400**
Balance at 31 Dec 2007	**20,258**	**4,208**	**24,466**
Balance at 1 Jan 2008	**20,258**	**4,208**	**24,466**
Balance at 31 Dec 2008	**25,019**	**3,118**	**28,137**

13. INVESTMENTS IN SUBSIDIARIES

MOVEMENTS OF INVESTMENTS IN SUBSIDIARIES IN 2008

in EUR thousand	Investments in subsidiaries
Cost at 1 Jan 2008	**218,178**
Investment in the acquisition of a company	1,294
Establishment of new companies	20
Subsequent payments	5,562
Balance at 31 Dec 2008	**225,054**
Carrying amount at 1 Jan 2008	**218,178**
Carrying amount at 31 Dec 2008	**225,054**

MOVEMENTS OF INVESTMENTS IN SUBSIDIARIES IN 2007

in EUR thousand	Investments in subsidiaries
Cost at 1 Jan 2007	**121,513**
Investment in the acquisition of a company	97,000
Establishment of new companies	42
Sale of investment	–192
Subsequent payments	–185
Balance at 31 Dec 2007	**218,178**
Carrying amount at 1 Jan 2007	**121,513**
Carrying amount at 31 Dec 2007	**218,178**

INTERESTS IN SUBSIDIARIES

	Share in equity (%)	Share capital	Value of share – carrying amount	
in EUR thousand	31 Dec 2008	31 Dec 2008	31 Dec 2008	31 Dec 2008
Terme Krka, d. o. o., Novo mesto, Slovenia	100	14,753	45,407	45,407
KRKA-FARMA d. o. o., Zagreb, Croatia	100	19,500	19,738	19,738
KRKA ROMANIA S.R.L., Bucharest, Romania	100	10	10	0
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	100	1	42	42
KRKA-FARMA DOOEL, Skopje, Macedonia	100	810	802	802
OOO KRKA-RUS, Istra, Russian Federation	100	26,843	33,019	33,019
OOO KRKA FARMA, Sergiev Posad, Russian Federation	100	94	492	492
KRKA-POLSKA, Sp. z. o. o., Warsaw, Poland	100	4,218	18,697	18,697
KRKA ČR, s. r. o., Prague, Czech Republic	100	4	3,404	3
KRKA Magyarország Kft, Budapest, Hungary	100	47	1,658	1.704
KRKA Slovensko, s.r.o., Bratislava, Slovakia	100	11	1,610	0
TAD Pharma GmbH, Cuxhaven, Germany	100	6,650	97,000	97,000
KRKA Sverige AB, Stockholm, Sweden	100	14	18	827
ALTERNOVA Arzneimittel GmbH, Vienna, Austria	100	37	1,294	0
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	100	10	1,855	10
KRKA USA, LLC, Wilmington, USA	100	7	7	7
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100	1	1	1
KRKA Aussenhandels GmbH, Munich, Germany	100		0	404
KRKA PHARMA GmbH, Frankfurt, Germany	100		0	25
Total			**225,054**	**218,178**

In January 2008 two subsidiaries i.e. KRKA ČR, s. r. o., Czech Republic and KRKA Slovensko, s.r.o., Slovakia started their operations. The sole owner of both companies is Krka. The company in the Czech Republic had previously been dormant, while the company in Slovakia is a newly established entity. Another company whose entire share capital is held by the Company, KRKA Romania S.R.L. in Romania was established in December 2008.

In the first half of 2008, two companies in Germany, i.e. KRKA Aussenhandels GmbH, Munich and KRKA PHARMA GmbH, Frankfurt were merged with TAD Pharma GmbH. All assets, equity, rights and obligations of the acquired companies were transferred to TAD Pharma.

On 6 November 2008, Krka entered a contract purchasing a 100% share in ALTERNOVA Arzneimittel GmbH, Vienna, Austria from the company Paranova Group A/S, Ballerup, Denmark, by cash in the amount of EUR 1,294 thousand.

The registered seat of Krka-Farma, d. o. o., Novi Sad was transferred to Belgrade. Hence the corporate name of the company was also changed to KRKA-FARMA DOO BEOGRAD.

14. LOANS

in EUR thousand	31 Dec 2008	31 Dec 2007
Long-term loans:	**4,633**	**6,936**
– long-term loans to subsidiaries	1,069	3,524
– long-term loans to other entities	3,564	3,412
Short-term loans:	**31,832**	**23,575**
– short-term loans to subsidiaries	30,581	22,162
– short-term loans to other entities	1,002	1,283
– short-term interest receivable	249	130
Total loans	**36,465**	**30,511**

In conformity with internal acts the Company extends long-term loans to its employees. These loans are mainly 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 2008 the interest rate ranged between 4.731% and 6.315%. The repayment period must not exceed 15 years.

LOANS GRANTED TO SUBSIDIARIES

in EUR thousand	31 Dec 2008	31 Dec 2007
Long-term loans to subsidiaries	**1,069**	**3,524**
KRKA ROMANIA S.R.L., Bucharest, Romania	160	0
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	909	1,023
OOO KRKA-RUS, Istra, Russian Federation	0	1,701
KRKA FARMACÊUTICA, Unipessoal Lda., Estoril, Portugal	0	800
Short-term loans to subsidiaries	**30,828**	**22,289**
Terme Krka, d. o. o., Novo mesto, Slovenia	30,743	5,375
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	29	27
OOO KRKA-RUS, Istra, Russian Federation	0	694
TAD Pharma GmbH, Cuxhaven, Germany	0	16,078
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	56	14
KRKA PHARMA GmbH, Frankfurt, Germany	0	101
Total loans to subsidiaries	**31,897**	**25,813**

15. INVESTMENTS

in EUR thousand	31 Dec 2008	31 Dec 2007
Non-current investments	**6,134**	**10,513**
– financial assets available for sale	6,134	10,513
Current investments, including derivatives	**743**	**2,932**
– instruments held for trading	128	538
– derivatives	190	1,583
– other current investments	425	811
Total investments	**6,877**	**13,445**

Financial assets available for sale include EUR 710 thousand of investments in Slovenia and EUR 5,424 thousand of investments abroad. By signing contracts on capital increase in 2008, the Company became a minority shareholder of two private pharmaceutical and chemical companies in China. These companies are Zhejiang Menovo Pharmaceuticals Co., Ltd. from the city of Shangju and Anhui Menovo Pharmaceuticals Co., Ltd. from the city of Guangde. In each of the firms, the Company acquired a 7.5% stake.

Derivatives include futures contracts amounting to EUR 190 thousand. The amount reflects the fair value of futures contracts relating to the sale of US dollars worth USD 32,000 thousand and the maturity of 30 March 2009.

Other current investments comprise Slovene mutual funds in the amount of EUR 192 thousand (2007: EUR 315 thousand) and assets under management in the amount of EUR 233 thousand (2007: EUR 496 thousand). The change in fair value is disclosed through profit or loss.

MOVEMENT OF NON-CURRENT INVESTMENTS – FINANCIAL ASSETS AVAILABLE FOR SALE

in EUR thousand	Financial assets available for sale
Balance at 1 Jan 2007	**6,269**
Increase	25
Decrease	–10
Change in fair value	4,229
Balance at 31 Dec 2007	**10,513**
Balance at 1 Jan 2008	**10,513**
Increase	1,085
Impairment	–30
Change in fair value	–5,434
Balance at 31 Dec 2008	**6,134**

Adjustments of available-for-sale financial assets to the market value are disclosed in its full amount among equity (Fair value reserve) as the amounts are not lower from the initial cost.

16. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

	Assets		Liabilities		Assets - liabilities	
in EUR thousand	2008	2007	2008	2007	2008	2007
Financial assets available for sale	0	0	696	1,925	-696	-1,925
Receivables	597	168	0	0	597	168
Inventories	0	135	0	0	0	135
Provisions for lawsuits	19,460	19,177	0	0	19,460	19,177
Provisions for retirement benefits	8,675	9,173	0	0	8,675	9,173
Total	**28,732**	**28,653**	**696**	**1,925**	**28,036**	**26,728**

in EUR thousand	Balance at 1 Jan 2007	Recognised in profit or loss	Recognised in equity	Balance at 31 Dec 2007	Recognised in profit or loss	Recognised in equity	Balance at 31 Dec 2008
Financial assets at fair value through profit and loss	**126**	-126	0	**0**	0	0	**0**
Financial assets available for sale	**-1,039**	0	-886	**-1,925**	0	1,229	**-696**
Derivatives	**38**	-38	0	**0**	0	0	**0**
Inventories	**598**	-463	0	**135**	-135	0	**0**
Receivables	**400**	-232	0	**168**	429	0	**597**
Provisions for lawsuits	**16,832**	2,345	0	**19,177**	283	0	**19,460**
Provisions for retirement benefits	**9,653**	317	-797	**9,173**	407	-905	**8,675**
Total	**26,608**	**1,803**	**-1,683**	**26,728**	**984**	**324**	**28,036**

17. INVENTORIES

in EUR thousand	31 Dec 2008	31 Dec 2007
Material	61,154	45,936
Work in progress	49,867	37,222
Products	58,740	46,390
Merchandise	5,865	2,122
Advances	267	66
Allowances and write-off of inventories	-5,687	-4,460
Total inventories	**170,206**	**127,276**

Cost of material, including the changes in the value of products and work in progress accounted for within production cost of goods sold, amounted to EUR 130,407 thousand in 2008 and EUR 118,099 thousand in 2007.

The write down of inventories to net realisable value amounted to EUR 1,821 thousand (2007: EUR 1,266 thousand), whereas the write-off of inventories amounted to EUR 4,529 thousand (2007: EUR 3,783 thousand). The allowances and write-off of inventories were recorded within other operating expenses.

18. TRADE AND OTHER RECEIVABLES

in EUR thousand	31 Dec 2008	31 Dec 2007
Short-term receivables due from subsidiaries	128,650	100,953
Trade receivables	112,821	77,654
Receivables due from other entities	11,271	10,525
Total trade and other receivables	**252,742**	**189,132**

SHORT-TERM RECEIVABLES DUE FROM SUBSIDIARIES

in EUR thousand	31 Dec 2008	31 Dec 2007
KRKA-FARMA d. o. o., Zagreb, Croatia	44,566	30,254
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	7,531	5,665
KRKA-FARMA DOOEL, Skopje, Macedonia	3,373	2,754
OOO KRKA-RUS, Istra, Russian Federation	11,273	9,070
OOO KRKA FARMA, Sergiev Posad, Russian Federation	46,183	23,819
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	12,432	21,472
TAD Pharma GmbH, Cuxhaven, Germany	2,299	6,344
KRKA Sverige AB, Stockholm, Sweden	328	528
ALTERNOVA Arzneimittel GmbH, Vienna, Austria	445	1,000
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	111	0
Receivables due from other Group companies	109	47
Total short-term receivables due from subsidiaries	**128,650**	**100,953**

TRADE RECEIVABLES

in EUR thousand	Gross value	Allowances for doubtful and disputable receivables	Net value at 31 Dec 2008	Net value at 31 Dec 2007
Domestic customers	10,125	122	10,003	9,870
Foreign customers	107,412	4,594	102,818	67,784
Total trade receivables	**117,537**	**4,716**	**112,821**	**77,654**

The receivable write-offs and allowances for receivables that are disclosed among financial expense amounted to EUR 3,705 thousand in 2008 (2007: EUR 589 thousand).

RECEIVABLES DUE FROM OTHER ENTITIES

Receivables due from other entities in the amount of EUR 11,271 thousand refer mostly to receivables arising from VAT refund.

19. CASH AND CASH EQUIVALENTS

in EUR thousand	31 Dec 2008	31. 12. 2007
Cash in hand	10	33
Bank balances	284	2,307
Total cash and cash equivalents	**294**	**2,340**

20. EQUITY

SHARE CAPITAL

Share capital of the Company consists of 35,426,120 ordinary registered no-par value shares. The first and only issue of shares was carried out in 1995 and there is solely one class of shares.

OWN SHARES

As of the balance sheet date the Company recorded 1,626,620 own shares, i.e. 4.6% of the share capital value. Their number in this reporting period remained unchanged if compared to 2007.

RESERVES

The Company's reserves comprise the share premium, legal reserves, statutory reserves and fair value reserves.

As at the balance sheet date **the share premium** is recorded at EUR 120,992 thousand; it has not changed compared to 2007. The share premium consists of the general equity revaluation adjustment (EUR 90,653 thousand) which was during the transfer to IFRS included among share premium, reserves for own shares (EUR 19,489 thousand) and share premium (EUR 10,850 thousand) formed pursuant to the special regulation applicable in the ownership transformation.

Legal reserves amounted to EUR 14,990 thousand as at 31 December 2008 and remained unchanged.

Statutory reserves amounted to EUR 17,184 thousand EUR as at the balance sheet date and show an increase of EUR 3,000 over the previous period. The increase of reserves was approved by the Company's management based on statutory provisions.

Compared to 2007 **the fair value reserve** decreased by EUR 4,204 thousand and as at 31 December 2008 amounts to EUR 2,620 thousand. The total change results from the decrease of fair value of available-for-sale investments (by EUR 5,432 thousand) and the increase of EUR 1,228 thousand referring to the related deferred tax effect.

RETAINED EARNINGS

Retained earnings have increased based on the profit for the period recorded in the amount of EUR 161,130 thousand. The decrease, on the other hand, is a result of allocation of accumulated profit to dividend payout (EUR 30,828 thousand) as confirmed by the 13th Annual Meeting held on 3 July 2008, of an additional formation of statutory reserves (EUR 3,000 thousand), and net expenses recognised directly in retained earnings (EUR 905 thousand) which arise from a decrease in deferred tax assets.

The amount of the dividend payout, shown in the cash flow statement, 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.

DIVIDENDS PER SHARE

As for the reporting period the gross dividend per share amounted to EUR 0.91 per share (2007: EUR 0.80).

ACCUMULATED PROFIT

in EUR thousand	2008	2007
Compulsory appropriation of net profit		
Net profit for the period	**161,130**	**126,521**
– to cover the loss from previous periods	0	0
– allocation to legal reserves	0	0
– allocation to reserves for own shares	0	0
– allocation to statutory reserves	–3,000	–2,500
Net profit after compulsory appropriation	**158,130**	**124,021**
– formation of other income reserves pursuant to a decision adopted by the Management Board and Supervisory Board	–50,000	–43,000
Surplus of net profit	**108,130**	**81,021**
Identification of accumulated profit		
– surplus of net profit	108,130	81,021
– retained earnings from previous periods	43,233	37,416
Accumulated profit	**151,363**	**118,437**

21. EARNINGS PER SHARE

Basic earnings per share amounted to EUR 4.77 and showed an increase of 27.4% compared to the previous year's result (2007: EUR 3.74). The weighted average number of shares was accounted for in the calculation for both years, i.e. 33,799,500 for shares for 2008 (same number in 2007), while 1,626,620 of own shares held by the controlling company 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.

22. BORROWINGS

in EUR thousand	31 Dec 2008	31 Dec 2007
Long-term borrowings	**81,209**	**83,200**
– borrowings from domestic banks	81,209	83,200
Short-term borrowings	**88,752**	**65,747**
– current portion of long-term borrowings	28,073	48,638
– borrowings from Group companies	131	5,000
– borrowings from domestic banks	57,000	3,000
– borrowings from other entities	372	7,824
– interest payable	3,176	1,285
Total borrowings	**169,961**	**148,947**

LONG-TERM BORROWINGS

			31 Dec 2008		31 Dec 2007	
in EUR thousand	Currency	Maturity	Par value	Carrying amount	Par value	Carrying amount
Borrowings from domestic bank	USD	2008	0	0	6,802	1,362
Borrowings from domestic bank	USD	2008	0	0	6,122	1,021
Borrowings from domestic bank	EUR	2011	40,000	18,182	40,000	25,454
Borrowings from domestic bank	EUR	2012	25,000	20,000	25,000	25,000
Borrowings from domestic bank	EUR	2012	79,000	71,100	79,000	79,000
Total long-term borrowings			**144,000**	**109,282**	**156,924**	**131,837**

No new long-term borrowings were taken on in 2008.

Long-term borrowings obtained from banks are neither secured by mortgages nor by bank guarantees. The instrument of interest swap was withdrawn in 2008, hence no new hedges were introduced.

Short-term borrowings are denominated in euro and were extended for the period of one year. The borrowings are not secured.

23. PROVISIONS

in EUR thousand	Balance at 31 Dec 2007	Formation	Utilisation	Reversal	Balance at 31 Dec 2008
Provisions for retirement benefits and anniversary bonuses	43,311	4,394	–2,585	0	45,120
Other provisions	88,683	5,522	–1	–193	94,011
– provisions for lawsuits	88,490	5,500	–1	0	93,989
– other provisions	193	22	0	–193	22
Long-term deferred revenue	0	178	0	0	178
Total provisions	**131,994**	**10,094**	**–2,586**	**–193**	**139,309**

The amounts of provisions for lawsuits referring to intellectual property are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated amount, if the indemnification claim is not yet disclosed. External advisors for litigations referring to intellectual property are engaged for defining the anticipated amounts. Furthermore, the management verifies the justification of the formed provisions with a view to the prospects for a favourable or unfavourable lawsuit outcome every year. The Company formed additional provisions for lawsuits relating to prescription pharmaceuticals (EUR 4,500 thousand) and provisions for a lawsuit brought against a natural person in connection with alleged patent violations (EUR 1,000 thousand). Lawsuits relating to intellectual property are usually long and it is difficult to predict their duration. Accordingly, provisions for lawsuits are not discounted.

Provisions for retirement benefits and anniversary bonuses are based on a calculation performed by a certified actuary and they were accounted for under following assumptions:

- discount rate of 4.70% in the reporting period (2007: 5.85%) referring to the harmonised long-term government bond yield within the euro area (Source: ECB);
- valid amounts of retirement benefits and anniversary bonuses as defined by internal acts of individual companies or local regulations;
- employee turnover depending in particular upon the employees' age;
- mortality level calculated on the basis of last mortality tables available;
- increase in wages and salaries attributable to inflation rate and career promotion. The said increase took account of the inflation of 2% (2007: 3.5%) as well as the career promotion, i.e. 2% (2007: 2%)

The estimates and the assumptions that have been applied are based on the actual state of affairs during the preparation of the calculation of the actuary. The projected unit method was applied in the calculation. Actuarial deficits or surpluses that have occurred in connection with retirement benefits and anniversary bonuses are recognised in the income statement either as expense or income.

24. GOVERNMENT GRANTS AND GRANTS BY THE EUROPEAN UNION

in EUR thousand	Balance at 31 Dec 2007	Grants received	Reversals	Balance at 31 Dec 2008
Grants received for the Beta plant in Šentjernej	258	0	–44	214
Grants by the European Regional Development Fund	39	0	–5	34
Property, plant and equipment received free-of-charge	616	0	–11	605
Total grants received	**913**	**0**	**–60**	**853**

The recorded amounts of grants received from the government and the European Union are decreased by the proportionate share of depreciation of assets to which the grants refer.

25. TRADE PAYABLES

in EUR thousand	31 Dec 2008	31 Dec 2007
Payables to subsidiaries	14,074	10,050
Payables to domestic suppliers	33,066	29,269
Payables to foreign suppliers	25,970	27,769
Payables from advances	127	454
Total trade payables	**73,237**	**67,542**

TRADE PAYABLES TO SUBSIDIARIES

in EUR thousand	31 Dec 2008	31 Dec 2007
Terme Krka, d. o. o., Novo mesto, Slovenia	86	89
KRKA-FARMA d. o. o., Zagreb, Croatia	508	179
KRKA-FARMA DOOEL, Skopje, Macedonia	457	0
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	7,502	8,134
KRKA Magyarország Kft, Budapest, Hungary	1,100	1,436
KRKA ČR, s. r. o., Prague, Czech Republic	2,889	0
KRKA Slovensko, s.r.o., Bratislava, Slovakia	1,002	0
TAD Pharma GmbH, Cuxhaven, Germany	14	0
KRKA Sverige AB, Stockholm, Sweden	0	1
KRKA USA, LLC, Wilmington, USA	4	2
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	512	209
Total trade payables to subsidiaries	**14,074**	**10,050**

26. OTHER CURRENT LIABILITIES

in EUR thousand	31 Dec 2008	31 Dec 2007
Accrued contractual discounts on products sold to subsidiaries	0	347
Accrued contractual discounts on products sold to other customers	14,897	10,906
Payables to employees – gross wages, other charges	16,783	17,154
Other	2,348	3,388
Total current liabilities	**34,028**	**31,795**

27. CONTINGENT LIABILITIES

in EUR thousand	31 Dec 2008	31 Dec 2007
Guarantees issued	4,666	1,468
Other	620	620
Total contingent liabilities	**5,286**	**2,088**

The highest value among guarantees issued relates to the guarantee issued for the receivables of TAD Farma (EUR 3,000 thousand) and those issued to Customs Administration of the Republic of Slovenia (EUR 1,500 thousand). The item 'Other' includes the affected property in Serbia (EUR 620 thousand).

28. FINANCIAL INSTRUMENTS

Long-term stability of the Company's performance is managed by means of active risk management policies as presented in detail under 'Risk Management'. Due to the high amount of international import and export business, the Company is primarily exposed to foreign exchange and interest rate risks, as well as to credit risks. Derivative financial instruments are used for hedging the Company's exposure against foreign exchange and interest rate risks.

CREDIT RISK

Credit risk exposure

The carrying amount of financial assets represents the biggest exposure to credit risk. Following status was shown as at the reporting date:

in EUR thousand	Notes	31 Dec 2008	31 Dec 2007
Financial assets available for sale	14	6,134	10,513
Financial assets at fair value through profit or loss	14	553	1,349
Loans	13	36,465	30,511
Receivables	17	252,494	188,872
– thereof trade receivables (including subsidiaries)		241,471	178,607
Cash and cash equivalents	18	294	2,340
Interest bearing derivatives (assets)	14	0	673
Foreign currency derivatives (assets)	14	190	910
Total		**296,130**	**235,168**

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 2008	31 Dec 2007
Slovenia	54,125	27,904
South-East Europe	76,509	55,924
Eastern Europe	110,947	60,568
Central Europe	23,484	26,855
Western Europe and overseas markets	23,894	48,132
Total	**288,959**	**219,383**

Short-term trade receivables are not secured.

AGEING STRUCTURE OF LOANS AND RECEIVABLES AS AT THE BALANCE SHEET DATE

in EUR thousand	Gross value 2008	Allowance 2008	Gross value 2007	Allowance 2007
Not past due receivables	205,500	306	147,937	354
Past due 20 days	2,219	11	17,077	42
Past due 21 to 50 days	7,048	692	6,901	9
Past due 51 to 180 days	24,693	2,493	16,219	186
More than 180 days	54,331	1,330	32,857	1,017
Total	**293,791**	**4,832**	**220,991**	**1,608**

MOVEMENT OF ALLOWANCES FOR LOANS AND RECEIVABLES

in EUR thousand	2008	2007
Balance at 1 Jan	**1,608**	**2,398**
Formation of allowance for impairment	3,307	507
Write-off of receivables charged against allowance	–56	–1,205
Reversal of impairment	–3	0
Collection of bad debts	–32	–71
Exchange differences	8	–21
Balance at 31 Dec	**4,832**	**1,608**

LIQUIDITY RISK

Despite problems encountered in the financial markets, the liquidity risk was low in 2008 due to an accurate planning of cash flows, low debt and short-term credit lines that had been agreed with the banks in advance.

Maturity of financial liabilities

Financial liabilities in terms of maturity are outlined in the schedule below.

MATURITY OF FINANCIAL LIABILITIES AS AT 31 DECEMBER 2008

		Contractual cash flows				
in EUR thousand	Carrying amount	Total	Up to 6 months	Between 6 and 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Long-term borrowings from banks	112,254	123,745	17,162	16,756	32,334	57,493
Short-term borrowings from banks	57,196	58,490	25,624	32,866	0	0
Other short-term borrowings	511	513	284	229	0	0
Trade and other payables	116,370	116,370	116,370	0	0	0
Total non-derivative financial liabilities	**286,331**	**299,118**	**159,440**	**49,851**	**32,334**	**57,493**
Derivatives						
Other forward contracts for inflow hedging	–190	–190	–190	0	0	0
Total derivatives	**–190**	**–190**	**–190**	**0**	**0**	**0**
Total	**286,141**	**298,928**	**159,250**	**49,851**	**32,334**	**57,493**

MATURITY OF FINANCIAL LIABILITIES AS AT 31 DECEMBER 2007

		Contractual cash flows				
in EUR thousand	Carrying amount	Total	Up to 6 months	Between 6 and 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Long-term borrowings from banks	132,974	146,951	39,010	13,617	25,104	69,220
Short-term borrowings from banks	3,088	3,022	3,022	0	0	0
Other short-term borrowings	12,885	13,211	7,621	5,590	0	0
Trade and other payables	100,075	100,075	100,075	0	0	0
Total non-derivative financial liabilities	**249,022**	**263,259**	**149,728**	**19,207**	**25,104**	**69,220**
Derivatives						
Other forward contracts for inflow hedging	–910	–916	–916	0	0	0
Total derivatives	**–910**	**–916**	**–916**	**0**	**0**	**0**
Total	**248,112**	**262,343**	**148,812**	**19,207**	**25,104**	**69,220**

FOREIGN EXCHANGE RISK

Exposure to foreign currency risk

	31 Dec 2008		
in EUR thousand	EUR	USD	PLN
Trade and other receivables	183,848	43,375	13,072
Borrowings from banks	-169,961	0	0
Trade payables	-55,207	-7,911	-7,490
Balance sheet exposure (gross)	**-41,320**	**35,464**	**5,582**
Estimated sales	723,098	87,501	104,556
Estimated purchases	-490,000	-70,000	-49,000
Exposure (gross)	**233,098**	**17,501**	**55,556**
Derivatives	**0**	**-22,698**	**0**
Net exposure	**191,778**	**30,267**	**61,138**

	31 Dec 2007		
in EUR thousand	EUR	USD	PLN
Trade and other receivables	72,953	79,846	21,516
Borrowings from banks	-146,564	-2,383	0
Trade payables	-52,984	-10,000	-2,710
Balance sheet exposure (gross)	**-126,595**	**67,463**	**18,806**
Sales	634,591	94,063	92,319
Purchases	-413,516	-66,429	-43,303
Exposure (gross)	**221,075**	**27,634**	**49,016**
Derivatives	**0**	**-17,697**	**0**
Net exposure	**94,480**	**77,400**	**67,822**

Estimated sales and purchases stated in the 2008 schedule are based on the Company's business plan for 2009, whereas estimated sales and purchases stated in the 2007 schedule take account of the Company's actual sales and purchases made in 2008.

Part of the open position denominated in USD was secured by using derivatives, while the other part remained unsecured. As for the sale of US dollars, simple contracts were used as hedging instruments.

SIGNIFICANT FOREIGN EXCHANGE RATES

	Average exchange rate *		Final exchange rate *	
	2008	2007	2008	2007
USD	1.47	1.37	1.39	1.47
PLN	3.51	3.78	4.15	3.59

* number of local currency's units for 1 euro

Sensitivity analysis

A 1% increase of the euro value in respect of currencies stated as at 31 December would increase (decrease) the net profit referring to values stated below. The 2007 analysis was prepared on the same basis considering that other remaining elements, interest rates in particular remain unchanged.

	Impact on the profit or loss	
in EUR thousand	2008	2007
USD	–300	–766
PLN	–605	–672

A 1% decrease of the euro value in respect of currencies stated as at 31 December would have the same effect – but in reverse direction – provided that all other elements remain unchanged.

INTEREST RATE RISK

In 2004, three long-term borrowings (two of them denominated in US dollars, one in euros) were hedged by using interest rate swaps, whereas in coming years no further hedging instruments were applied. By the end of the reporting period the interest rate for one of the long-term borrowings was fixed in 2004 whereas the remaining two borrowings that were secured were repaid. Accordingly, no interest rate hedging instruments were applied by the end of 2008.

Exposure to interest rate risk

in EUR thousand	2008	2007
Financial instruments at fixed interest rate	**29,563**	**–24,426**
Financial assets	35,066	11,235
Financial liabilities	–5,503	–35,661
Financial instruments at variable interest rate	**–160,126**	**–93,803**
Financial assets	1,156	18,197
Financial liabilities	–161,282	–112,000

Analysis of sensitivity of the financial instrument's fair value by applying the fixed interest rate

The Company holds no financial instruments with reference to fixed interest rate, recognised at fair value through profit or loss, and no derivatives designated as a fair value hedge. Thus, a change of the interest rate as at the balance sheet date would have no impact on the profit or loss.

Analysis of the cash flow's sensitivity by applying the variable interest rate

Change of the interest rate by 100 basis points on the date of reporting would increase (decrease) the net profit or loss referring to the values stated below. The 2007 analysis was prepared on the same basis considering that all elements, foreign exchange rate in particular, remain unchanged.

IMPACT OF THE POSSIBLE INTEREST RATE CHANGE ON THE PROFIT OR LOSS AS AT 31 DECEMBER 2008

in EUR thousand	Increase by 100 basis points	Decrease by 100 basis points
Financial instruments at variable interest rate	–1,601	1,601
Contract on the interest rate swap	0	0
Variability of cash flow	**–1,601**	**1,601**

IMPACT OF THE POSSIBLE INTEREST RATE CHANGE ON THE PROFIT OR LOSS AS AT 31 DECEMBER 2007

in EUR thousand	Increase by 100 basis points	Decrease by 100 basis points
Financial instruments at variable interest rate	–938	938
Contract on the interest rate swap	760	–760
Variability of cash flow	**–178**	**178**

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

LONG-TERM BORROWINGS

in EUR thousand	31 Dec 2008	31 Dec 2007
Long-term borrowings	109,282	131,837
– short-term portion of long-term borrowings	28,073	48,638
Average balance of long-term borrowings	120,560	86,450
Interest paid (financial year)	6,440	2,339
Other cost of raising long-term borrowings	67	6
Average interest rate of long-term borrowings (financial year)	5.40%	2.71%
Maturity in three years or less	65%	68%
Maturity in more than three years	35%	32%
Currency structure of long-term borrowings:		
– US Dollar	0%	2%
– Euro	100%	98%
Structure of long-term borrowings in terms of interest rates:		
– variable	100%	79%
– fixed	0%	21%

SHORT-TERM BORROWINGS

in EUR thousand	31 Dec 2008	31 Dec 2007
Short-term borrowings including short-term portion of long-term borrowings	85,576	64,462
– from banks	85,073	51,638
– from other entities	503	12,824
Short-term borrowings excluding short-term portion of long-term borrowings	57,503	15,824
Average balance of short-term borrowings (financial year)	36,664	25,154
Interest paid (financial year)	2,244	1,310
Other costs of raising short-term borrowings	35	6
Average cost of short-term borrowings (financial year)	6.22%	5.23%
Currency structure of short-term borrowings:		
– Euro	100%	100%
Structure of short-term borrowings in terms of interest rates:		
– variable	90%	51%
– fixed	10%	49%

FAIR VALUE

in EUR thousand	2008		2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term loans	4,633	4,633	6,936	6,936
Non-current investments	6,382	6,382	10,773	10,773
– shares and interests	6,134	6,134	10,513	10,513
– other non-current investments	248	248	260	260
Short-term loans	31,832	31,832	23,575	23,575
Current investments	553	553	1,349	1,349
– instruments held for trading	128	128	538	538
– other current investments	425	425	811	811
Trade and other receivables	252,494	252,494	188,872	188,872
Cash and cash equivalents	294	294	2,340	2,340
Interest bearing derivatives	0	0	673	673
– assets	0	0	673	673
Foreign currency derivatives	190	190	910	910
– assets	190	190	910	910
Borrowings	–169,961	–166,414	–148,947	–140,081
Trade and other payables	–116,370	–116,370	–100,075	–100,075
Total	**10,047**	**13,594**	**–13,594**	**–4,728**

The manners of the fair value measurement of the individual types of financial instruments are presented below.

Securities held for trading

The fair value is computed on the basis of the stock exchange quotation of the respective securities as at the balance sheet date, and it is not decreased by any costs that may arise upon the sale or purchase of securities.

Options, futures contracts and interest rate swaps

Fair values of purchased and sold options, futures contracts and interest rate swaps are submitted on the last day of each Quarterly of the financial year by the bank in which the individual instrument was purchased or sold, or by another bank with which an umbrella contract on derivatives was signed.

Financial assets available for sale

If the shares are listed on the stock exchange market, their fair value equals the market value as at the balance sheet date, not decreased by any costs that may arise upon the sale or purchase of the said shares. Other financial assets available for sale are recorded at the net carrying amount as at the balance sheet date, representing the assessed fair value.

Interest bearing loans and borrowings

The fair value of borrowings is calculated by applying the discounted cash flow of the principal and interest. The discount interest rate was computed by considering the yield for Slovenia's government bonds in Europe with a 2-year maturity, based on the report about the market situation at 31 December 2008 published by Abanka. The yield-to-maturity of these papers was recorded at 1.796% (2007: 3.997%).

As for loans, the variable interest rate changing each 12 months is being applied, thus the carrying amount equals the assessed fair value.

Receivables and liabilities

Short-term receivables and payables are recorded at net carrying amount, which is considered to be their fair value.

29. TRANSACTIONS WITH RELATED PARTIES

INTRAGROUP TRANSACTIONS

Transactions with Group companies in 2008 are presented below.

in EUR thousand	Sales	Expenses	Borrowings	Loans
Terme Krka, d. o. o., Novo mesto, Slovenia *	129	761	0	39,528
KRKA-FARMA d. o. o., Zagreb, Croatia	36,935	3,401	0	0
KRKA Romania S.R.L., Bucharest, Romania	0	0	0	160
KRKA-FARMA DOO BEOGRAD, Belgrade, Serbia	8,617	37	0	0
KRKA-FARMA DOOEL, Skopje, Macedonia	9,296	1,273	0	0
OOO KRKA-RUS, Istra, Russian Federation	14,138	1	0	0
OOO KRKA FARMA, Sergiev Posad, Russian Federation	65,453	397	217	0
KRKA-POLSKA, Sp. z. o. o., Warsaw, Poland	91,726	40,151	0	0
KRKA ČR, s. r. o., Prague, Czech Republic	78	16,227	0	0
KRKA Magyarország Kft, Budapest, Hungary	1	11,260	0	0
KRKA Slovensko, s.r.o., Bratislava, Slovakia	0	5,916	0	0
TAD Pharma GmbH, Cuxhaven, Germany	1,471	0	350	1,000
KRKA Sverige AB, Stockholm, Sweden	8,359	2	800	0
ALTERNOVA Arzneimittel GmbH, Vienna, Austria	111	0	0	0
KRKA Farmacêutica, Unipessoal Lda., Estoril, Portugal	–201	0	0	150
KRKA USA, LLC, Wilmington, USA	0	11	0	0
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	0	563	0	0
Total	**236,113**	**80,000**	**1,367**	**40,838**

* Including the subsidiaries Terme Krka – Strunjan, d.o.o. and 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 14, the balance of borrowings from subsidiaries is presented in Note 22, the balance of receivables due from Group companies is presented in Note 18 and the balance of short-term operating liabilities to Group companies is presented in Note 25.

DATA ON GROUPS OF PERSONS

As at the balance sheet date, the members of the Management Board of the Company held 58990 shares in Krka d.d., representing 0.167% of the total equity and 0.175% of the voting rights.

As at the balance sheet date, the members of the Supervisory Board held 6480 shares in the Company, representing 0.018% of the total equity and 0.019% of voting rights.

Notes to the financial statements of Krka, d. d., Novo mesto

SHARES OF MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD IN THE COMPANY

	31 Dec 2008			31 Dec 2007		
	Number of shares	Share (in %)	Share in voting rights (in %)	Number of shares	Share (in %)	Share in voting rights (in %)
Management Board members						
Jože Colarič	22,500	0.0635	0.0666	22,500	0.0635	0.0666
Janez Poljanec	22,060	0.0623	0.0653	22,060	0.0623	0.0653
Aleš Rotar	12,770	0.0360	0.0378	12,770	0.0360	0.0378
Zvezdana Bajc	1,660	0.0047	0.0049	1,660	0.0047	0.0049
Danica Novak Malnar	0	0.0000	0.0000	0	0.0000	0.0000
Total Management Board	**58,990**	**0.1665**	**0.1746**	**58,990**	**0.1665**	**0.1746**
Supervisory Board members						
Gregor Gomišček	320	0.0009	0.0009	120	0.0003	0.0004
Mateja Božič	0	0.0000	0.0000	0	0.0000	0.0000
Anton Rous	0	0.0000	0.0000	0	0.0000	0.0000
Draško Veselinović	60	0.0002	0.0002	10	0.0000	0.0000
Alojz Zupančič	3,490	0.0099	0.0103	3,890	0.0110	0.0115
Sonja Kermc	2,110	0.0060	0.0062	2,110	0.0060	0.0062
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	**6,480**	**0.0184**	**0.0191**	**6,630**	**0.0187**	**0.0196**

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 2008.

EMOLUMENTS OF GROUPS OF PERSONS IN 2008

in EUR thousand	2008	2007
Members of the Management Board	2,032	1,879
Members of the Supervisory Board	115	146
Persons employed under individual employment contracts	19,094	16,716
Total emoluments of groups of persons	**21,241**	**18,741**

EMOLUMENTS OF THE MANAGEMENT BOARD IN 2008

in EUR thousand	Gross remuneration – fixed portion	Gross remuneration – variable portion	Fringe benefits and other receipts	Total emoluments
Jože Colarič	313	253	9	575
Janez Poljanec	259	205	15	479
Aleš Rotar	247	197	15	459
Zvezdana Bajc	206	163	12	381
Danica Novak Malnar	123	9	6	138
Total emoluments of the Management Board	**1,148**	**827**	**57**	**2,032**

Emoluments of the Management represent salaries and wages, fringe benefits and any other receipts. Emoluments of the employees also represent salaries and wages, fringe benefits, vacation bonus and any other receipts (tenure awards, etc.).

Emoluments of the Supervisory Board members represent remuneration for the tasks performed within the Supervisory Board.

Pursuant to the resolution adopted at the Annual Meeting on 5 July 2007, the members of the Supervisory Board receive remuneration in the form of participation in profit in accordance with the Company's Articles of Association, and attendance fees are paid to the members of the Supervisory Board for attending the supervisory board meetings and its committees. New amounts of attendance fees were approved at the Annual Meeting, effective as at the date when the Annual Meeting took place.

EMOLUMENTS OF THE SUPERVISORY BOARD IN 2008

in EUR thousand	Profit participation	Attendance fees	Total
Gregor Gomišček, President	9	10	19
Mateja Božič	8	3	11
Sonja Kermc	8	7	15
Anton Rous	8	7	15
Tomaž Sever	8	5	13
Draško Veselinovič	8	6	14
Mateja Vrečer	8	5	13
Alojz Zupančič	8	7	15
Total emoluments of the Supervisory Board	**65**	**50**	**115**

LOANS GRANTED TO GROUPS OF PERSONS

	Balance		Repayments	
in EUR thousand	31 Dec 2008	31 Dec 2007	2008	2007
Members of the Management Board	7	9	3	3
Members of the Supervisory Board in the Company (employee representatives)	0	1	1	1
Persons employed under individual employment contracts	278	316	62	80
Total loans to groups of persons	**285**	**326**	**66**	**84**

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

30. EDUCATIONAL STRUCTURE OF EMPLOYEES

	2008		2007	
	Headcount	Share (in %)	Headcount	Share (in %)
PhD	66	1.3	58	1.3
MSc	149	2.9	145	3.2
University education	2236	43.9	1945	42.4
Higher professional education	382	7.5	232	5.1
Vocational college education	161	3.2	152	3.3
Secondary school education	945	18.6	888	19.4
Skilled workers	1033	20.3	1017	22.2
Unskilled workers	120	2.3	144	3.1
Total (average for the period)	**5092**	**100.0**	**4581**	**100.0**

31. TRANSACTIONS WITH THE AUDIT FIRM

The fee for the audit services performed in 2008 by the audit company KPMG Slovenija, podjetje za revidiranje, d.o.o. amounted to EUR 149 thousand. No other services were performed for the Company by the audit company in 2008.

32. EVENTS AFTER THE BALANCE SHEET DATE

In January 2009 two subsidiaries, i.e. KRKA ROMANIA S. R. L. in Bucharest, Romania (registered in Mid December 2008) and KRKA FARMA, d. o. o., Sarajevo, Bosnia and Herzegovina (registered in mid-January 2009) started their operations. The sole owner of both companies is Krka. The representative office in Bucharest has been replaced by a newly established company, whereas the controlling company's representative office in Sarajevo shall continue to operate in addition to a newly established company. In February 2009 Krka registered a representative office in Yerevan Armenia.

On 13 January 2009 the District Court in Ljubljana issued a decision temporarily prohibiting the producing and marketing of Valsaden due to alleged violation of patents of Novartis AG, Basel, Switzerland, EP 0914 119 or EP 1 410 797, in Slovenia. The object of both patents is the procedure of producing firm pharmaceutical forms (tablets) that contain a combination of valsartan and hydrochlorothiazide. The said decision was issued ex parte, then revoked on 17 February 2009 based on appeal, whereas during the report's publication the respective decision has not become final yet. However, Novartis AG filed a lawsuit to establish alleged violation. The same court deals also with the case of issuing a temporary injunction of the patent EP 1 410 797, due to alleged violation of products that contain solely the valsartan ingredient. On 23 February 2009 the District Court in Ljubljana issued a decision by which it is refusing the request of Novartis AG Switzerland to issue a temporary injunction or ban Krka to produce and conduct marketing activities in connection with Valsacor (tablets in all forms) or any other product that may violate the patent EP 1 410 797 in Slovenia. This decision is not final yet and Novartis may appeal against the court decision.

On 23 February 2009 the District Court in Ljubljana issued a decision by which it is refusing the request of Novartis AG Switzerland to issue a temporary injunction or ban Krka to produce and conduct marketing activities in connection with Valsacor (tablets in all forms) or any other product that may violate the patent EP 1 410 797 in Slovenia. This decision is not final yet and Novartis may appeal against the court decision.

The stated events have no impact on the 2008 financial statements of the Company.

KPMG

Independent Auditor's Report

To the Supervisory Board of KRKA, d.d., Novo mesto

We have audited the accompanying financial statements of the company KRKA, d.d., Novo mesto which comprise the balance sheet as at 31 December 2008, the income statement, the statement of changes in equity, the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves 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 misstatements 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., Novo mesto as at 31 December 2008, its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

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

Andrej Korinšek, B.Sc.Ec.
Certified Auditor
Managing Director

Ljubljana, 20 March 2009

KPMG Slovenija, d.o.o.
1

Signature of
2008 Annual report

SIGNATURE OF ELEMENTS OF AND THE FULL 2008 ANNUAL REPORT OF THE KRKA COMPANY AND GROUP

The President and members of the Management Board of Krka, d. d., Novo mesto have been informed of the content of all elements of the 2008 annual report of the Krka Company and Group and with the 2008 annual report of the Krka Company and Group in full. They hereby indicate their agreement and confirm it with their signatures.

Jože Colarič
President of the Management Board and Chief Executive

Janez Poljanec
Member of the Management Board

Aleš Rotar, PhD
Member of the Management Board

Zvezdana Bajc
Member of the Management Board

Danica Novak Malnar
Member of the Management Board – Worker Director

Who's Who in Krka

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