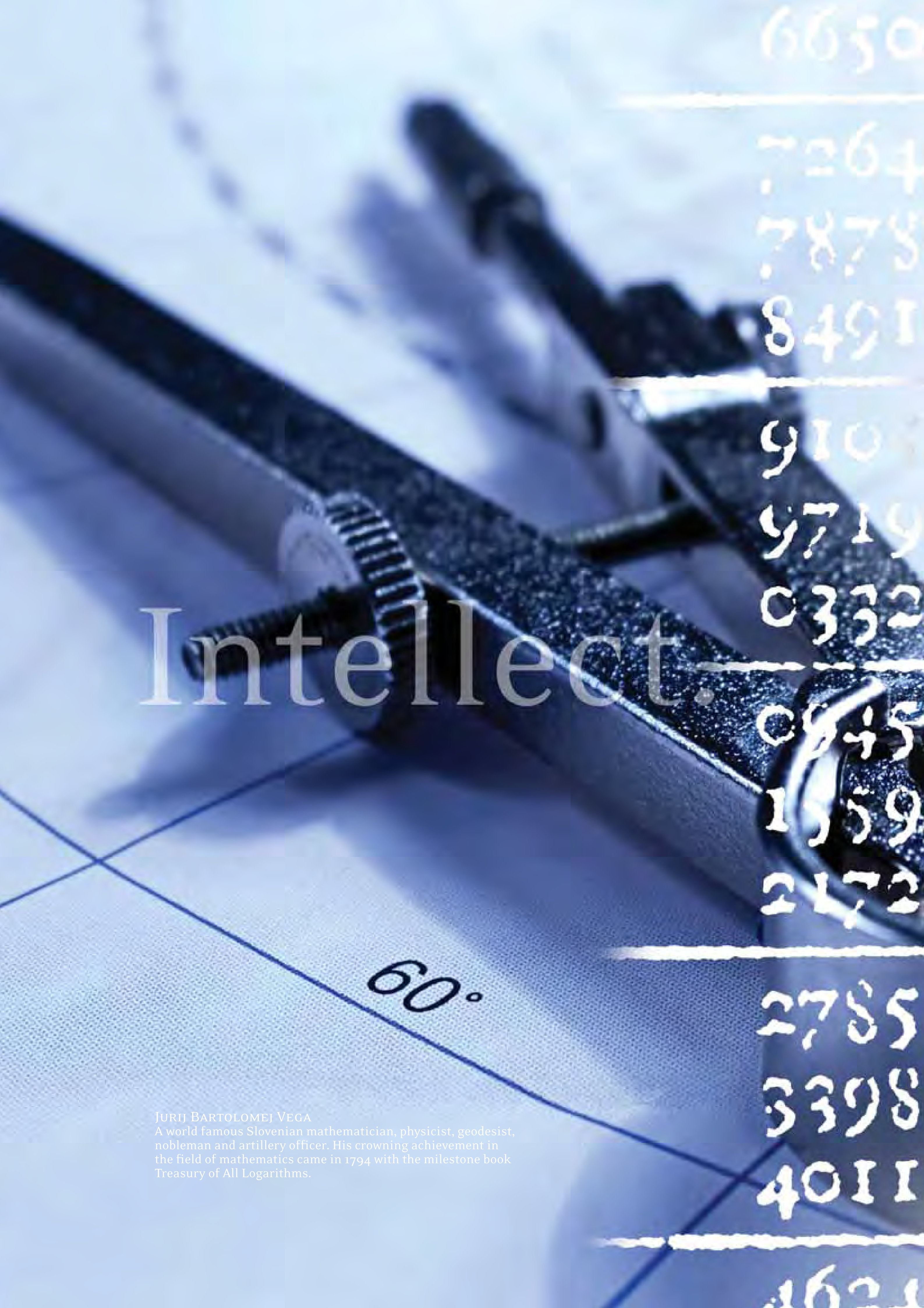

Intellect.

JURIJ BARTOLOMEJ VEGA
A world famous Slovenian mathematician, physicist, geodesist, nobleman and artillery officer. His crowning achievement in the field of mathematics came in 1794 with the milestone book Treasury of All Logarithms.

Financial Statements

Formula for success:
systematic approach + knowledge + x

Content

Financial statements of Krka, d. d., Novo mesto and the Krka Group and the related notes 86
Introduction to the financial statements 86
Statement of compliance 86
Consolidated financial statements of the Krka Group 87
Consolidated balance sheet 87
Consolidated income statement 88
Consolidated statement of changes in equity 88
Consolidated cash flow statement 89
Notes to the consolidated financial statements 90
Auditor's report 119
Financial statements of Krka, d. d., Novo mesto 120
Balance sheet 120
Income statement 121
Statement of changes in equity 121
Cash flow statement 122
Notes to the financial statements 123
Auditor's report 155
Financial statements of the Krka Group and Krka, d. d., Novo mesto, presented in euros 156
Consolidated balance sheet 156
Consolidated income statement 157
Consolidated statement of changes in equity 157
Consolidated cash flow statement 158
Balance sheet of the Krka Company 159
Income statement of the Krka Company 160
Statement of changes in equity of the Krka Company 160
Cash flow statement of the Krka Company 161

Financial statements of Krka, d. d., Novo mesto and the Krka Group and the related notes

Introduction to the financial statements

The financial statements consist of two separate sections.

The first section comprises the financial statements and related notes of the Krka Group, whereas the second section presents the financial statements and related notes of the 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 according to provisions of 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 Management's Responsibility includes an acknowledgement of responsibility for all financial statements of both the Company and the Group. It is presented at the beginning of the financial statements.

The financial statements of the Company and the Krka Group are presented in Slovenian tolars. However, in the enclosure at the end of the financial statements, the amounts in the financial statements are denominated in euro.

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 2006.

The Management Board hereby acknowledges that:
- the financial statements 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 both for the Company and the Group have been prepared in accordance with the effective legislation and the IFRS.

The Company's 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.

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

Novo mesto, March 2007

Consolidated financial statements of the Krka Group

Consolidated balance sheet

in thousand SIT	Notes	31 Dec 2006	31 Dec 2005
Assets			
Property, plant and equipment	13	121,454,523	108,165,231
Intangible assets	14	5,657,387	5,058,450
Investments in associates	15	484,924	270,761
Long-term loans	16	854,125	889,825
Other investments	17	1,614,502	1,280,164
Deferred tax assets	12	7,630,242	4,778,324
Other non-current assets	18	60,523	12,312
Non-current assets		137,756,226	120,455,067
Inventories	19	27,780,408	28,966,629
Trade and other receivables	20	36,878,315	33,008,703
Current investments	21	5,767,420	3,391,005
Cash and cash equivalents	22	2,491,950	3,027,752
Current assets		72,918,093	68,394,089
Total assets		210,674,319	188,849,156
Equity			
Share capital	23	14,170,448	14,170,448
Own shares	23	-4,670,280	-4,670,280
Reserves	23	35,385,325	34,885,325
Retained earnings	23	89,160,409	68,131,642
Reserves for fair value	23	833,938	561,602
Translation reserve	23	36,962	4,648
Equity holders of the parent		134,916,802	113,083,385
Minority interest	23	1,894,871	1,813,556
Total equity		136,811,673	114,896,941
Liabilities			
Borrowings	25	8,287,723	11,669,435
Provisions	26	29,368,758	23,967,902
Grants received	27	665,588	445,849
Deferred tax liabilities	12	964,560	285,236
Total non-current liabilities		39,286,629	36,368,422
Trade payables	28	14,591,502	14,043,571
Borrowings	25	11,686,988	9,120,664
Income tax liabilities		1,682,258	6,689,431
Other liabilities	29	6,615,269	7,730,127
Total current liabilities		34,576,017	37,583,793
Total liabilities		73,862,646	73,952,215
Total equity and liabilities		210,674,319	188,849,156

Consolidated Income Statement

in thousand SIT	Notes	2006	2005
Sales revenues	1	160,068,654	132,757,626
Production cost of goods sold	3	59,666,880	51,847,673
Gross operating yield		100,401,774	80,909,953
Sales and marketing	4	39,742,948	41,609,639
R&D costs	5	12,617,134	9,611,856
Administrative expenses	6	12,831,170	13,386,461
Other operating income	2	854,137	12,221,261
Operating profit		36,064,659	28,523,258
Financial income	10	3,714,449	3,989,327
Financial expenses	10	4,131,242	2,982,607
Net financial expenses / income		-416,793	1,006,720
Profit before tax		35,647,866	29,529,978
Income tax expense	11	8,787,472	6,210,850
Profit for the period		26,860,394	23,319,128
Equity holders of the parent		26,763,403	23,288,582
Minority interest		96,991	30,546
Earnings per share (in SIT)	24	7,918	6,890

Consolidated Statement of Changes in Equity

	Called capital	Own shares	Reserves			Retained earnings			Fair value reserves	Minority interest	Total equity
in thousand SIT			Share premium	Legal reserves	Statutory reserves	Profit reserves	Net profit for the period	Net profit carried forward			
Balance at 01 Jan 2005	14,170,448	-4,670,280	28,993,129	3,592,196	1,500,000	45,467,881	10,637,826	-4,964,998	579,946	1,819,476	97,125,624
Entry of net profit for the period	0	0	0	0	0	0	23,288,582	0	0	30,546	23,319,128
Formation of statutory reserves	0	0	0	0	800,000	0	-800,000	0	0	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board of the Krka Company	0	0	0	0	0	6,500,000	-6,500,000	0	0	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	-10,637,826	10,637,826	0	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	5,886,801	0	-5,886,801	0	0	0
Dividends paid	0	0	0	0	0	-3,874,859	0	-911,438	0	-31,850	-4,818,147
Recognised income and expenses	0	0	0	0	0	0	0	-711,352	-13,696	-4,616	-729,664
Balance at 31 Dec 2005	14,170,448	-4,670,280	28,993,129	3,592,196	2,300,000	53,979,823	15,988,582	-1,836,763	566,250	1,813,556	114,896,941
Entry of net profit for the period	0	0	0	0	0	0	26,763,403	0	0	96,991	26,860,394
Formation of statutory reserves	0	0	0	0	500,000	0	-500,000	0	0	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board of the Krka Company	0	0	0	0	0	4,800,000	-4,800,000	0	0	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	-15,988,582	15,988,582	0	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	7,312,001	0	-7,312,001	0	0	0
Dividends paid	0	0	0	0	0	0	0	-5,631,286	0	-15,676	-5,646,962
Recognised income and expenses	0	0	0	0	0	0	0	396,650	304,650	0	701,300
Balance at 31 Dec 2006	14,170,448	-4,670,280	28,993,129	3,592,196	2,800,000	66,091,824	21,463,403	1,605,182	870,900	1,894,871	136,811,673

Consolidated Cash Flow Statement

in thousand SIT	Notes	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		26,860,394	23,319,128
Adjustments for:		20,518,784	18,432,818
– amortisation / depreciation		11,431,881	10,970,573
– foreign exchange gain		-470,159	-572,441
– foreign exchange loss		993,772	836,799
– investment income		-2,355,852	-9,694
– financial income		871,404	-70,253
– financial expenses		1,193,527	1,012,153
– income taxes and other taxes not included in operating expenses		8,787,472	6,210,850
– other		66,739	54,831
Operating profit before changes in net operating current assets		47,379,178	41,751,946
Change in trade receivables		-4,524,385	-8,954,104
Change in inventories		1,186,221	-8,931,557
Change in operating liabilities		-263,937	3,254,225
Change in other current liabilities and provisions		4,733,198	3,662,565
Income taxes paid		-15,699,329	-4,528,103
Cash generated from operations		32,810,946	26,254,972
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		184,159	116,262
Proceeds from sale of current investments		243,050	64,744
Dividends received		48,200	40,496
Proceeds from property, plant and equipment		374,982	365,498
Purchase of intangible assets	14	-1,748,992	-1,847,877
Purchase of property, plant and equipment	13	-23,223,475	-18,018,146
Proceeds / payments in connection with long-term loans	16	-6,081	86,150
Proceeds / payments in connection with non-current assets	18	-275,504	-1,529
Acquisition of current investments		-1,869,729	-1,820,853
Acquisition of derivative financial instruments		435,486	-334,251
Net cash used in investing activities		-25,837,905	-21,349,506
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from an increase in current financial liabilities		2,514,404	3,965,392
Interest paid		-1,141,607	-547,754
Payment of non-current financial liabilities		-3,154,116	-3,337,574
Dividends paid		-5,639,582	-4,809,077
Net cash used in financing activities		-7,420,901	-4,729,013
Net increase in cash and cash equivalents		-447,860	176,453
Cash and cash equivalents at beginning of period		3,027,752	2,841,099
Effect of exchange rate fluctuations on cash held		-87,942	10,200
Net cash and cash equivalents at end of period		2,491,950	3,027,752

Notes to the consolidated financial statements

Summary of significant accounting policies

Krka, d. d., Novo mesto (Company) is the controlling or the parent company in the Krka Group with its registered seat at Šmarješka cesta 6, 8501 Novo mesto in Slovenia. The consolidated financial statements for the year ended 31 December 2006 refer to the Krka Group that comprises the parent company, its subsidiaries and an associated company.

1. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU.

The financial statements of the Group were authorised for issue by the Management Board on 15 March 2007.

2. Basis of preparation

These consolidated financial statements are presented in Slovene tolar (SIT), which is the Company's functional currency. All financial information presented in SIT has been rounded to the nearest thousand.

The consolidated financial statements have been prepared on the historical cost basis. The fair value has been taken into account by derivative financial instruments, financial instruments held for trading, and financial instruments available for sale.

The preparation of financial statements 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. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:
Note 26 – measurement of defined benefit obligations,
Note 26 – provisions for lawsuits,
Note 31 – valuation of financial instruments.

3. Significant accounting policies

The Group applies the same accounting policies in all periods, presented in the accompanying consolidated financial statements.

The Group companies apply uniform accounting policies.

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.

4. Basis of consolidation

Subsidiaries
Subsidiaries are entities controlled by the Group. 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. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates
Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

Transactions eliminated on consolidation
Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

5. Foreign currency

Foreign currency transactions
Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as a hedge of the net investment in a foreign operation.

Financial statements of foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to SIT at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to SIT at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity – translation reserve.

Hedge of net investment in foreign operation
Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in foreign operation are recognised directly in equity, in the translation reserve, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged net investment is disposed of, the cumulative amount in equity is transferred to profit or loss as an adjustment to the profit or loss on disposal.

6. 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 plus (for instruments not recognised at fair value through profit or loss) any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

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 for financial income and expense is discussed in note 12.

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.

Investments at fair value through profit or loss
An instrument is classified as 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. 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.

Other
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.

Cash flow hedges
Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Economic hedges
Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognised in profit or loss as part of foreign currency gains and losses.

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.

7. Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (see accounting policy "Impairment"). Property, plant and equipment revalued to their fair value at 01 January 2004 or the date of transition to IFRS, were 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 costs, 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.

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. 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 is not depreciated.

The estimated useful lives are as follows:

• land	3-60 years
• plant and equipment	5-20 years
• furniture	5 years
• computer equipment	4-6 years
• means of transportation	5-15 years

8. Intangible assets

Research and development
As for the research and development function, the item of intangible assets comprise the purchase of the registration documentation. All other costs referring to the research development work within the Group are recognised in the income statement as expense upon their accrual.

Other intangible assets
Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses (see accounting policy "Impairment").

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

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 from the date that they are available for use.

The estimated useful lives are as follows:

• recognised development costs	5 years
• software	2-10 years
• other intangible assets	5-10 years

9. Inventories

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 stated at the fixed price variances. Inventories of finished products and work in progress are valued at fixed prices, which in addition to direct cost of material include also cost of production (direct labour, direct cost of depreciation, direct cost of services and indirect cost of production such as energy, maintenance, quality, etc.). Inventories of work in progress and finished products are carried at fixed prices. 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 fixed price variances.

Inventories of materials are stated at the lower of cost and net realisable value, whereas inventories of finished products at the lower of fixed price and net realisable value.

10. Impairment

Financial assets
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 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 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 recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. 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.

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.

11. 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 are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions for lawsuits
The Group discloses provisions for lawsuits related to alleged patent infringements. Provisions entirely refer to drugs for heart and cardiovascular diseases. Each year the Group verifies the justification of the formed provisions with a view to the litigation status and the prospects for a favourable or unfavourable lawsuit outcome. 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.

Provisions for termination pay and anniversary bonuses
Pursuant to the legislation, the Group is liable to pay to its employees anniversary bonuses and termination pay 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 termination pays and anniversary bonuses paid to employees in those countries, where this legal obligation exists. The obligation is calculated by estimating the costs of termination pay upon retirement and the costs of all expected anniversary bonuses until retirement. The selected annual discount rate is set at 4.75% and represents the return rate on long-term government bonds. The calculation is performed by a certified actuary. Actuarial gains and losses are recognised in the income statement.

Provisions for ecological improvements and provisions for grants were both already used up and decreased by the depreciation amount.

12. Sales revenues

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Transfers of risks and rewards vary depending on the individual terms of the sales contract. 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. 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.

13. Financial income and financial expenses

Financial income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Financial expenses comprise interest expense on borrowings, foreign currency 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.

14. Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Also deferred tax on these items is recorded within equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet 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 temporary differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by 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 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.

15. Earnings per share (EPS)

The Group presents basic earnings per share (EPS), which is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The diluted EPS is not determined, as the Group issued solely ordinary shares.

16. Segment reporting

With respect to the strategic direction of its operations and criteria for the formation of business segments (common therapeutic characteristics of products, marketing and advertising methods and level of risk) the Group distinguishes between following three segments: human health products (prescription pharmaceuticals, OTC products and cosmetics), animal health products and health-resort and tourist services.

Geographical segments, within which we find geographically related countries with a similar level of economic development and purchasing power, as well as similar economic and political characteristics, are as follows: the European Union, South-East Europe, Eastern Europe, Central Europe and the remaining Western Europe and overseas markets.

The Group's basic form of reporting bases on geographical segments, which reflect the Group's internal organisation. Certain business functions are entirely or mostly carried out by the parent company that holds the controlling share in terms of sale as well as asset value. The Group boasts of an own strong sales marketing network, with the emphasis on five key markets i.e. Slovenia, the Russian Federation, Croatia, Poland and the Western Europe. Each of these markets is involved in one of the geographical regions that are specified as geographical segments. In the light thereof the geographical segments are given priority during reporting. Operating results, assets and liabilities by geographical segments include items that may directly be attributable to the segment, as well as items that may reasonably be allocated to the segment.

As for business segments the Group reports solely on the revenue. 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.

17. New standards and interpretations not yet adopted

The list below presents the new standards, amendments to standards and interpretations that are not yet effective for the year ended 31 December 2006, and have thus not been applied in preparing the consolidated financial statements:

IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures
The standard requires extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to Group's financial instruments and share capital.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 8 Scope of IFRS 2 Share-based Payment
addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Group's 2007 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

IFRIC 9 Reassessment of Embedded Derivatives
requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 10 Interim Financial Reporting and Impairment
prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e. 1 January 2004). The adoption of IFRIC 10 will result in a decrease in deferred tax.

18. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where 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.

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.

19. 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 2006 and 31 December 2005, the income statement for the year that ended 31 December 2006, as well as additional data required for the adjustment of inflows and outflows.

1. Geographical and business segments

Segment information is presented in respect of the Group's business and geographical segments. The primary reporting format is geographical segments, whereby these are presented both by location of customers and by location of assets. A considerable portion of immovable and movable property is located at the parent company's headquarters in Slovenia. It must be taken into consideration that the major part of the assets held by the parent 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".

Sales revenues by business segments

in thousand SIT	2006	2005
Human health products	147,733,973	121,884,064
– prescription pharmaceuticals	128,433,891	105,743,337
– self-medication products	17,005,552	14,107,551
– cosmetic products	2,294,530	2,033,176
Animal health products	5,472,455	4,795,829
Health-resort and tourist services	6,702,075	5,848,349
Other	160,151	229,384
Total sales revenues	160,068,654	132,757,626
– of which sales revenues from sale of services	7,794,661	6,671,441

Geographical segments

in thousand SIT	European Union		South-East Europe		Eastern Europe		The remaining western Europe and overseas markets		Eliminations		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Sales revenue to non-Group entities	86,864,894	74,744,853	26,591,750	22,629,039	43,299,480	32,762,642	3,312,530	2,621,092	0	0	160,068,654	132,757,626
Sales revenues to Group entities	14,041,427	17,465,891	10,052,048	9,453,177	6,928,574	2,558,096	926,023	0	-31,948,072	-29,477,164	0	0
Total sales revenues	100,906,321	92,210,744	36,643,798	32,082,216	50,228,054	35,320,738	4,238,553	2,621,092	-31,948,072	-29,477,164	160,068,654	132,757,626
Segment's results from operations	22,937,371	16,771,965	7,256,129	6,237,398	9,292,593	5,232,387	759,429	562,900	0	0	40,245,522	28,804,650
Other operating income											854,137	12,221,261
Unallocated costs											5,035,000	12,502,653
Operating profit											36,064,659	28,523,258
Net financial income/ expenses											-416,793	1,006,720
Income tax expense											-8,787,472	-6,210,850
Profit for the period											26,860,394	23,319,128
Segment's assets	136,060,877	126,294,480	21,989,112	23,098,921	30,863,251	22,809,361	1,067,290	965,541	0	0	189,980,530	173,168,303
Unallocated assets	0	0	0	0	0	0	0	0	0	0	20,693,789	15,680,853
Total assets	0	0	0	0	0	0	0	0	0	0	210,674,319	188,849,156
Investments	23,613,037	19,842,467	711,665	1,446,984	602,158	210,754	0	0	0	0	24,926,860	21,500,205
Impairment of receivables and inventories											1,285,889	998,214
Total liabilities											73,862,646	73,952,215

2. Other operating income

in thousand SIT	2006	2005
Utilisation and reversal of non-current provisions	87,583	11,534,731
Reversal of allowances for receivables	157,705	162,436
Profit from the sale of fixed assets	235,219	306,133
Other operating income	373,630	217,961
Total other operating income	854,137	12,221,261

3. Production cost of goods sold

In 2006, production cost of goods sold increased by 15% over the previous year's results. As for their share among the sales revenues, the production costs decreased from 39.1% in 2005 to 37.3% in 2006. The decrease is a result of a more favourable product mix of goods sold, as well as stronger cost efficiency due to a better productivity (contemporary technological procedures, an improved utilisation level of production capacities) achieved in the parent company, as well as in production facilities of subsidiaries located abroad.

4. Sales and marketing

Sales and marketing expenses comprise the costs of the domestic and foreign marketing sales network, as well as provisions formed for lawsuits, which may cause an irregular increase of these costs in individual periods. In 2006, the sales and marketing expenses recorded a decrease of 4% if compared to the previous year's figures. The decrease was mostly due to the fact that the amount includes 5,035,000 thousand SIT of newly formed provisions for the lawsuit relating to drugs for heart and cardiovascular diseases, which is less than the amount of provisions formed for lawsuits in 2005 (12,502,563 thousand SIT). Sales and marketing expenses have increased by 19%, provided that provisions are not taken into account.

5. R&D costs

All R&D costs recorded are charged against the income statement of 2006, since research and development costs are not capitalised. Compared to 2005, the relevant costs increased by 31%, while their share among the sales revenues records an increase from 7.2% to 7.9% over the previous year.

6. Administrative expenses

Compared to 2005, administrative expenses decreased by 4%, whereby its share in the structure of sales revenues decreased from 10.1% to 8.0%. The item of administrative expenses is inclusive of other operating expenses.

7. Costs in terms of type

in thousand SIT	2006	2005
Cost of goods and materials	38,391,428	35,766,811
Cost of services	29,976,820	24,044,136
Employee benefits expense	37,300,534	33,955,292
Depreciation	11,431,881	10,970,573
Provisions formed for lawsuits	5,132,507	12,822,817
Provisions formed for termination pay and anniversary bonuses	901,582	638,563
Other operating expenses	3,439,087	3,335,794
Total costs in terms of type	126,573,839	121,533,986
Changes in the value of inventories	1,715,708	5,078,357
Total	124,858,131	116,455,629

8. Employee benefits cost

in thousand SIT	2006	2005
Gross wages and salaries, continued pay	29,155,508	25,971,593
Social security contributions and payroll tax	6,416,336	6,363,912
Other employee benefits cost	1,728,690	1,619,787
Total employee benefits costs	37,300,534	33,955,292

Other employee benefits cost in the reporting period include the vacation bonus, travel allowances, meal allowance and some other repayments to employees.

9. Other operating expenses

in thousand SIT	2006	2005
Grants, assistance	536,555	520,989
Environmental levies	353,892	342,076
Fiscal charges irrespective of operating results	537,684	496,470
Loss in the sale of fixed assets	303,233	252,734
Impairments and inventory write-offs	988,329	549,916
Impairments and receivable write-offs	297,560	448,298
Other costs	421,834	725,311
Total	3,439,087	3,335,794

10. Financial income and financial expenses

in thousand SIT	2006	2005
Exchange differences	1,391,549	3,696,640
Interest income	175,561	140,348
Change in fair value of investments (through profit or loss)	396,828	19,159
Gain on the sale of securities	259,212	64,744
Income from derivative financial instruments	1,101,095	27,726
Dividend income	390,204	40,710
Total financial income	3,714,449	3,989,327
Exchange differences	2,609,267	1,611,147
Interest paid	920,674	730,177
Impairments due to revaluation of investments at fair value	131,778	39,748
Expense from derivative financial instruments	180,508	589,690
Other expenses	289,015	11,845
Total financial expenses	4,131,242	2,982,607
Net financial expenses / income	-416,793	1,006,720

11. Income tax expense

in thousand SIT	2006	2005
Actual income tax	10,297,864	9,758,335
Deferred tax	-1,510,392	-3,547,485
Total	8,787,472	6,210,850
Profit before tax	35,647,866	29,529,978
Income tax calculated using the tax rates of individual countries	8,807,103	7,382,495
Non-deductible expenses	763,994	1,272,294
Tax incentives	-1,434,724	-1,161,781
Tax exempt revenues	-28,660	-750,533
Effect of restatements due to the transition to IFRS	0	-233,479
Effects of differences in tax rates and other items	679,759	-298,146
Total income tax expenses	8,787,472	6,210,850

12. Deferred tax assets and deferred tax liabilities

	Assets		Liabilities		Assets – Liabilities	
in thousand SIT	2006	2005	2006	2005	2006	2005
Investments	162,462	288,338	248,772	367,165	-86,310	-78,828
Receivables	64,194	116,585	-7,211	0	71,405	116,585
Inventories	146,635	131,112	0	-1,026	146,635	132,138
Provisions for lawsuits	4,033,639	3,125,641	0	0	4,033,639	3,125,641
Provisions for termination pay	2,522,923	391,269	0	0	2,522,923	391,269
Tax effects of the transition and adjustment to IFRS	700,389	725,380	722,999	-80,904	-22,610	806,284
Total	7,630,242	4,778,324	964,560	285,236	6,665,682	4,493,089

	Assets – Liabilities		Through profit and loss		Through equity	
in thousand SIT	2006	2005	2006	2005	2006	2005
Investments	-86,310	-78,828	63,234	273,220	-149,544	-352,048
Receivables	71,405	116,585	68,302	106,184	3,103	330,307
Inventories	146,635	132,138	154,398	178,334	-7,763	-46,196
Provisions for lawsuits	4,033,639	3,125,641	1,158,050	3,125,641	2,875,589	0
Provisions for termination pay	2,522,923	391,269	54,611	2,801	2,468,312	68,562
Tax effects of the transition and adjustment to IFRS	-22,610	806,284	118,142	-383,141	-140,752	1,189,424
Total	6,665,682	4,493,089	1,616,736	3,303,039	5,048,946	1,190,049

13. Property, plant and equipment

in thousand SIT	31 Dec 2006	31 Dec 2005
Property	5,425,712	5,168,313
Plant	60,154,990	52,732,548
Equipment	41,105,886	33,583,619
PPE under construction	14,767,935	16,680,751
- advances for PPE	1,446,574	996,748
Total property, plant and equipment	121,454,523	108,165,231

Movements of property, plant and equipment in 2006

in thousand SIT	Property	Plant	Equipment	PPE under construction	Advances for PPE	Total
Cost at 01 Jan 2006	5,168,313	90,153,423	88,698,184	15,684,003	996,748	200,700,671
Additions	0	0	0	23,157,122	930,943	24,088,065
Capitalisation – transfer from PPE under construction	271,086	11,473,438	14,119,887	-25,864,411	0	0
Disposals, deficits, surpluses	-13,687	-465,459	-2,143,158	0	0	-2,622,304
Transfers among assets, reclassifications	0	-45,635	43,530	481,113	-481,117	-2,109
Cost at 31 Dec 2006	5,425,712	101,115,767	100,718,443	13,457,827	1,446,574	222,164,323
Accumulated depreciation at 01 Jan 2006	0	37,420,875	55,114,565	0	0	92,535,440
Depreciation	0	3,886,518	6,425,037	0	0	10,311,555
Capitalisation – prolongation of useful life	0	-136,381	-26,100	136,466	0	-26,015
Disposals, deficits, surpluses	0	-209,802	-1,899,273	0	0	-2,109,075
Transfers among assets, reclassifications	0	-433	-1,672	0	0	-2,105
Accumulated depreciation at 31 Dec 2006	0	40,960,777	59,612,557	136,466	0	100,709,800
Carrying amount at 01 Jan 2006	5,168,313	52,732,548	33,583,619	15,684,003	996,748	108,165,231
Carrying amount at 31 Dec 2006	5,425,712	60,154,990	41,105,886	13,321,361	1,446,574	121,454,523

Movements of property, plant and equipment in 2005

in thousand SIT	Property	Plant	Equipment	PPE under construction	Advances for PPE	Total
Cost at 01 Jan 2005	5,064,126	86,930,566	82,682,313	8,145,374	1,384,168	184,206,547
Additions	0	0	0	20,976,956	-385,972	20,590,984
Capitalisation – transfer from PPE under construction	311,174	3,641,745	9,482,991	-13,434,462	-1,448	0
Disposals, deficits, surpluses	-206,987	-417,225	-3,473,771	-3,865	0	-4,101,848
Transfer to intangible assets	0	-1,663	6,651	0	0	4,988
Cost at 31 Dec 2005	5,168,313	90,153,423	88,698,184	15,684,003	996,748	200,700,671
Accumulated depreciation at 01 Jan 2005	0	33,822,675	51,843,958	0	0	85,666,633
Depreciation	0	3,614,385	6,402,707	0	0	10,017,092
Capitalisation – prolongation of useful life	0	4,424	-6,545	0	0	-2,121
Disposals, deficits, surpluses	0	-19,850	-3,127,025	0	0	-3,146,875
Transfer to intangible assets	0	-759	1,470	0	0	711
Accumulated depreciation at 31 Dec 2005	0	37,420,875	55,114,565	0	0	92,535,440
Carrying amount at 01 Jan 2005	5,064,126	53,107,891	30,838,355	8,145,374	1,384,168	98,539,914
Carrying amount at 31 Dec 2005	5,168,313	52,732,548	33,583,619	15,684,003	996,748	108,165,231

Expenses for property, plant and equipment, presented in the cash flow statement, differ from those stated in the schedule of movement by the amount e.g. difference that occurs between the opening and the closing balance of trade payables.

14. Intangible assets

in thousand SIT	31 Dec 2006	31 Dec 2005
R&D cost	682,254	603,482
Long-term property rights	4,002,911	3,611,856
Intangible assets under construction	972,222	843,112
Total intangible assets	5,657,387	5,058,450

The most significant share in the structure of the Group's intangible assets refers to the purchase of new software, namely for the Synthesis 4 (273,675 thousand SIT), for handling of registration documentation (121,389 thousand SIT) and the upgrading of the SAP software (84,557 thousand SIT).
Intangible assets under construction comprise payments for the registration documentation as regards new drugs.

Movements of intangible assets in 2006

in thousand SIT	R&D cost	Long-term property rights	IA under construction	Total
Cost at 01 Jan 2006	1,338,613	5,197,931	843,112	7,379,656
Additions	0	2	1,743,726	1,743,728
Transfer from IA under construction	416,816	1,203,063	-1,614,616	5,263
Disposals	-40,630	-1,722	0	-42,352
Transfers to property, plant and equipment	0	2,105	0	2,105
Cost at 31 Dec 2006	1,714,799	6,401,379	972,222	9,088,400
Accumulated amortisation at 01 Jan 2006	735,131	1,586,075	0	2,321,206
Amortisation	297,843	822,483	0	1,120,326
Disposals	-429	-12,195	0	-12,624
Transfers to property, plant and equipment	0	2,105	0	2,105
Accumulated amortisation at 31 Dec 2006	1,032,545	2,398,468	0	3,431,013
Carrying amount at 01 Jan 2006	603,482	3,611,856	843,112	5,058,450
Carrying amount at 31 Dec 2006	682,254	4,002,911	972,222	5,657,387

Movements of intangible assets in 2005

in thousand SIT	R&D cost	Long-term property rights	IA under construction	Total
Cost at 01 Jan 2005	1 160,561	4,049,427	358,544	5,568,532
Additions	0	67	1,862,381	1,862,448
Transfer from IA under construction	222,508	1,170,053	-1,377,813	14,748
Disposals	-43,484	-17,600	0	-61,084
Transfers to property, plant and equipment	-972	-4,016	0	-4,988
Cost at 31 Dec 2005	1,338,613	5,197,931	843,112	7,379,656
Accumulated amortisation at 01 Jan 2005	566,002	850,727	0	1,416,729
Amortisation	211,576	741,905	0	953,481
Disposals	-42,131	-6,163	0	-48,294
Transfers to property, plant and equipment	-316	-394	0	-710
Accumulated amortisation at 31 Dec 2005	735,131	1,586,075	0	2,321,206
Carrying amount at 01 Jan 2005	594,559	3,198,700	358,544	4,151,803
Carrying amount at 31 Dec 2005	603,482	3,611,856	843,112	5,058,450

15. Investments in associates

The item of investments in associates fully refers to interests of the subsidiary Terme Krka in the associate company Golf Grad Otočec, d.o.o.. As for this item, no goodwill or bad will was calculated.

16. Long-term loans

Long-term loans are extended by the parent company, whereas some Group companies extend loans also to its employees for housing, scholarship and relocation purposes in compliance with internal acts. Loans of the parent company 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; the repayment period must not exceed 15 years.

Movements of long-term loans in 2006

in thousand SIT	Long-term loans
Cost at 01 Jan 2006	903,839
New loans	385,687
Repayments	-413,919
Exchange differences	590
Transfer to short-term loans	-10,517
Cost at 31 Dec 2006	865,680
Value adjustment at 01 Jan 2006	14,014
Decrease (write-off)	-2,459
Value adjustment at 31 Dec 2006	11,555
Carrying amount at 01 Jan 2006	889,825
Carrying amount at 31 Dec 2006	854,125

Movements of long-term loans in 2005

in thousand SIT	Long-term loans
Cost at 01 Jan 2005	949,114
New loans	294,028
Repayments	-335,458
Exchange differences	1,652
Transfer to short-term loans	-5,497
Cost at 31 Dec 2005	903,839
Value adjustment at 01 Jan 2005	16,884
Increase	91
Decrease (write-off)	-2,961
Value adjustment at 31 Dec 2005	14,014
Carrying amount at 01 Jan 2005	932,230
Carrying amount at 31 Dec 2005	889,825

17. Other non-current investments

in thousand SIT	31 Dec 2006	31 Dec 2005
Instruments available-for-sale	1,552,111	1,217,773
Other non-current investments	62,391	62,391
Total non-current investments	1,614,502	1,280,164

Other non-current investments include items of cultural and historical value.

Movements of non-current investments in 2006

in thousand SIT	AFS instruments	Other non-current investments	Total
Cost at 01 Jan 2006	1,225,475	62,391	1,287,866
Increase	315	0	315
Change in fair value	334,023	0	334,023
Balance at 31 Dec 2006	1,559,813	62,391	1,622,204
Value adjustment at 01 Jan 2006	7,702	0	7,702
Balance at 31 Dec 2006	7,702	0	7,702
Carrying amount at 01 Jan 2006	1,217,773	62,391	1,280,164
Carrying amount at 31 Dec 2006	1,552,111	62,391	1,614,502

Movements of non-current investments in 2005

in thousand SIT	AFS instruments	Other non-current investments	Total
Cost at 01 Jan 2005	1,176,369	62,391	1,238,760
Increase	313	0	313
Decrease	-6,783	0	-6,783
Change in fair value	55,576	0	55,576
Balance at 31 Dec 2005	1,225,475	62,391	1,287,866
Value adjustment at 01 Jan 2005	7,595	0	7,595
Increase	107	0	107
Balance at 31 Dec 2005	7,702	0	7,702
Carrying amount at 01 Jan 2005	1,168,774	62,391	1,231,165
Carrying amount at 31 Dec 2005	1,217,773	62,391	1,280,164

18. Other non-current assets

Other non-current assets include collaterals given in connection with representations abroad (40,393 thousand SIT), payments made for the reserve housing fund (2,162 thousand SIT) and other assets in the amount of 17,968 thousand SIT.

19. Inventories

in thousand SIT	31 Dec 2006	31 Dec 2005
Material	8,780,740	9,900,962
Work in progress	7,288,730	4,986,820
Products	11,196,713	13,440,723
Merchandise	449,825	630,146
Advances	64,400	7,978
Total inventories	27,780,408	28,966,629

Impairment and write-off of inventories was carried out in the reporting period in the amount of 988,329 thousand SIT; in 2005 the same amounted to 549,916 thousand SIT.

20. Receivables

in thousand SIT	31 Dec 2006	31 Dec 2005
Trade receivables	33,684,499	30,255,828
Other receivables	3,193,816	2,752,875
Total receivables	36,878,315	33,008,703

TRADE RECEIVABLES

in thousand SIT	Gross value	Adjustment	Net value at 31 Dec 2006	Net value at 31 Dec 2005
Domestic customers	2,960,141	60,316	2,899,825	3,212,640
Foreign customers	31,742,135	957,462	30,784,674	27,043,188
Total	34,702,276	1,017,778	33,684,499	30,255,828

Trade receivables are not secured. The Group formed allowances for receivables in the amount of 297,560 thousand SIT, whereas in 2005 they were recorded at 448,298 thousand SIT.

Other receivables

Other receivables refer mostly to VAT receivables.

21. Current investments

in thousand SIT	31 Dec 2006	31 Dec 2005
Instruments held for trading	2,849,357	1,524,869
Interest bearing current investments	904,434	665,431
Other current investments	1,751,139	994,546
Short-term loans granted	262,490	206,159
Total current investments	5,767,420	3,391,005

Purchases made in 2006 resulted in an increase of instruments held for trading, which comprise shares issued by other companies (2,200,563 thousand SIT), marketable shares (372,045 thousand SIT), non-marketable shares 3,917 thousand SIT).

Interest bearing current investments include government bonds in the amount of 719,973 thousand SIT, debt certificates in the amount of 100,587 thousand SIT, and bank deposits in the amount of 83,874 thousand SIT.

Current investments bore the fixed interest rate (2005: 83%) and none of the investments bore the variable interest rate (2005: 17%).

Most of other current investments refer to mutual funds (domestic and foreign) in the amount of 1,158,389 thousand SIT and managed funds in the amount of 216,902 thousand SIT.

92% of short-term loans bear the fixed interest rate (2005: 100%) and 8% (2005: 0%) of short-term loans the variable interest rate.

22. Cash and cash equivalents

in thousand SIT	31 Dec 2006	31 Dec 2005
Cash in hand	18,508	19,219
Bank balances	2,332,669	2,964,091
Other	140,773	44,442
Total cash and cash equivalents	2,491,950	3,027,752

23. Equity

in thousand SIT	31 Dec 2006	31 Dec 2005
Share capital	14,170,448	14,170,448
Own shares	-4,670,280	-4,670,280
Reserves	35,385,325	34,885,325
- share premium	28,993,129	28,993,129
- legal reserves	3,592,196	3,592,196
- statutory reserves	2,800,000	2,300,000
Retained earnings	89,160,409	68,131,642
Fair value reserves	833,938	561,602
Translation reserve	36,962	4,648
Equity holders of the parent	134,916,802	113,083,385
Minority interest	1,894,871	1,813,556
Total equity	136,811,673	114,896,941

Share capital

Share capital is divided into 3,542,612 ordinary shares of the parent company at par value of 4,000 SIT. There is only one class of shares, whose first and only issue was carried out in 1995.

Own shares

As of the balance sheet date the parent company recorded 162,662 own shares amounting to 650,648 thousand SIT, i.e. 4.6% of the share capital value. The number of shares in this reporting period remained unchanged if compared to 2005.

Reserves

The Group's reserves comprise the share premium, legal and statutory reserves. None of the aforesaid reserve may be used for payout of dividends and other equity interests. With respect to legal possibilities, the Group has increased reserves in the reporting period by 500,000 thousand SIT of additionally formed statutory reserves.

Retained earnings

The increase in Group's retained earnings is attributable to the net profit (26,763,403 thousand SIT) and the net income and expense recognised directly in equity (396,650 thousand SIT). The decrease, on the other hand, is a result of statutory reserves (500,000 thousand SIT) additionally formed pursuant to the resolution adopted by the Management Board of the parent company, and the dividend payout (5,631,286 thousand SIT). 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.

Fair value reserves

Fair value reserves record an increase of 272,336 thousand SIT, i.e. amount of the revaluation of non-current investments to market price.

Translation reserve

Translation reserve is a result of exchange differences that occurred among the operating results of subsidiaries presented in the consolidated income statement (average exchange rate) or the consolidated balance sheet (exchange rate of 31 December).

Minority interest

Minority interest includes shares of minority stockholders in subsidiaries of Terme Krka (1,888,527 thousand SIT) and Helvetius (6,344 thousand SIT).

Statement of recognised income and expense

in thousand SIT	31 Dec 2006	31 Dec 2005
Purchase of shares in subsidiaries	0	-4,616
Translation reserve	32,314	-55,312
Deferred taxes	709,458	-799,015
Tax effects of the transition and adjustment to IFRS	-379,547	0
Refund of default interest paid in respect of taxes	66,739	87,663
Total recognised income and expense for the period	428,964	-771,280

24. Earnings per share

Earnings per share amount to 7,918.28 SIT and show an increase of 15% compared to the previous year's result (2005: 6,890.21 SIT). The calculation for both years bases upon the equity interest of the majority stockholder and 3,379,950 shares, whereas 162,662 own shares of the parent company were not taken into account. All shares issued by the Company are ordinary shares, hence the diluted earnings per share ratio was not calculated.

25. Borrowings

in thousand SIT	31 Dec 2006	31 Dec 2005
Long-term borrowings	8,287,723	11,669,435
- borrowings from domestic banks	8,287,723	11,631,002
- borrowings from other entities	0	38,433
Short-term borrowings	11,493,010	8,972,820
- borrowings from domestic banks	5,952,072	5,107,105
- borrowings from foreign banks	2,817,265	1,339,308
- borrowings from other entities	2,723,673	2,526,407
Interest payable	193,978	147,844
Total borrowings	19,974,711	20,790,099

Movement of long-term borrowings

in thousand SIT	Borrowings from banks	Borrowings from other entities	Total
Balance at 01 Jan 2005	14,509,441	86,702	14,596,143
New borrowings	1,433,426	0	1,433,426
Repayments	-1,547,507	-49,745	-1,597,252
Balance of transfer at 01 Jan 2005	1,426,068	49,421	1,475,489
Transfer to current liabilities at 31 Dec 2005	-4,586,389	-50,938	-4,637,327
Exchange differences	395,963	2,994	398,957
Balance at 31 Dec 2005	11,631,002	38,434	11,669,436
Repayments	-4,043,925	-49,983	-4,093,908
Balance of transfer at 01 Jan 2006	4,101,618	50,938	4,152,556
Transfer to current liabilities at 31 Dec 2006	-3,166,554	-39,389	-3,205,943
Exchange differences	-234,418	0	-234,418
Balance at 31 Dec 2006	8,287,723	0	8,287,723

Long-term borrowings are denominated in euro and US dollar and were extended by three domestic banks for the period of up to 7 years. The borrowings were raised for financing the investments in current assets. The Group raised no new long-term borrowing in the reporting period.

Long-term borrowings obtained from banks are neither secured by mortgages nor by bank guarantees. The Group issued bills of exchange for the borrowings which are pursuant to IFRS 4 considered as Insurance Contracts and treated as contingent liabilities (Note 30). The Group hedged three long-term borrowings that are considered to form the major part of the borrowed amount by using interest rate swaps.

Movement of short-term borrowings

in thousand SIT	Short-term borrowings from banks	Short-term borrowings from other entities	Total
Balance at 01 Jan 2005	2,075,748	3,009,396	5,085,144
New borrowings	21,690,840	2,838,964	24,529,804
Repayments	-21,906,564	-3,372,891	-25,279,455
Transfer from non-current liabilities	4,586,389	50,938	4,637,327
Balance at 31 Dec 2005	6,446,413	2,526,407	8,972,820
New borrowings	35,772,467	729,636	36,502,103
Repayments	-36,618,544	-571,759	-37,190,303
Transfer from non-current liabilities	3,166,554	39,389	3,205,943
Exchange differences	2,447	0	2,447
Balance at 31 Dec 2006	8,769,337	2,723,673	11,493,010

26. Provisions

in thousand SIT	Balance at 31 Dec 2005	Formation	Utilisation and reversal	Balance at 31 Dec 2006
Provisions for termination pay and anniversary bonuses	10,664,604	901,582	596,652	10,969,534
Other provisions	13,303,298	5,145,756	49,830	18,399,224
– provisions for lawsuits	13,141,610	5,132,507	552	18,273,565
– provisions for ecological restoration	119,937	6,895	40,543	86,289
– other provisions	41,751	6,354	8,735	39,370
Total provisions	23,967,902	6,047,338	646,482	29,368,758

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 potential amount, if the indemnification claim is not yet disclosed. External advisors for litigations referring to intellectual property are engaged for defining the anticipated potential 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 in the amount of 5,132,507 thousand SIT, of which 5,035,000 thousand SIT refers to the alleged patent infringements in connection with atorvastatin. As for the income statement, the newly formed and utilised provisions are included among other operating expenses or other operating income.

Provisions for payables to employees are based on a calculation performed by a certified actuary, whereby a discount rate of 4.75% p.a. (that grounds on the profitability of 10-year corporate bonds of high credit rating in the euro-zone), as well as certain estimates and assumptions were made regarding the amount of termination pay and anniversary bonuses, age structure of employees, employee turnover, etc. 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. No material discrepancies from the assumptions applied may be expected in the near future.

27. Grants received

in thousand SIT	Balance at 31 Dec 2005	Formation	Utilisation and reversal	Balance at 31 Dec 2006
Grants for the subsidiary Krka-Rus	4,573	0	2,286	2,287
Grants for the plant BETA in Šentjernej	83,033	0	10,600	72,433
Assets for the health resorts Dolenjske and Šmarješke Toplice	358,243	233,787	33,948	558,082
Grants by the European Regional Development Fund	0	6,420	160	6,260
Free receipt of fixed assets	0	26,526	0	26,526
Total grants received	445,849	266,733	46,994	665,588

The recorded amounts of grants received are decreased by the proportionate share of depreciation of assets to which the grants refer to.

28. Trade payables

in thousand SIT	31 Dec 2006	31 Dec 2005
Payables to domestic suppliers	8,556,001	7,743,740
Payables to foreign suppliers	5,923,779	5,776,651
Payables from advances	111,722	523,180
Total trade payables	14,591,502	14,043,571

29. Other current liabilities

in thousand SIT	31 Dec 2006	31 Dec 2005
Accrued contractual discounts on products sold to other customers	1,777,280	3,487,917
Payables to employees – gross wages, other charges	4,131,511	3,421,795
Liabilities in connection with derivative financial instruments	0	234,840
Other	706,478	585,575
Total other current liabilites	6,615,269	7,730,127

30. Contingent liabilities

in thousand SIT	31 Dec 2006	31 Dec 2005
Bills issued in connection with loans	9,840,498	14,164,115
Other guarantees issued	260,386	264,280
Other	539,289	362,579
Total contigent liabilities	10,640,173	14,790,974

31. Financial instruments

Long-term stability of the Group's performance is managed by means of active risk management policies as presented in detail under 'Hedging'. 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. No major debt write-offs due to customers' failures of payments were recorded in 2006.

Interest rate risk

In 2004, three non-current loans (two of them denominated in US dollars, one in euros) were hedged by using interest rate swaps. No further hedging instruments were applied in 2005 and 2006. As at 31 December 2006, the contract value of the hedged item amounted to 9,389,169 thousand SIT, and the Group's interest rate swaps recorded at fair value amounted to 173,353 thousand SIT.

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

LONG-TERM BORROWINGS

in thousand SIT	31 Dec 2006	31 Dec 2005
Long-term borrowings	11,493,666	16,306,762
– short-term portion of long-term borrowings	3,205,943	4,637,327
Average balance of long-term borrowings	13,900,214	16,444,884
Interest paid (financial year)	520,484	546,648
Other costs of raising long-term borrowings	0	0
Average cost of long-term borrowings (financial year)	3.7%	3.3%
Contracted to mature in three years or less	18%	67%
Contracted to mature in more than three years	82%	33%
Currency structure of long-term borrowings:		
– US dollar	14%	18%
– Euro	84%	79%
– Slovenian tolar	2%	3%
Structure of long-term borrowings in terms of interest rates:		
– Variable	100%	100%
– Fixed	0%	0%

SHORT-TERM BORROWINGS

in thousand SIT	31 Dec 2006	31 Dec 2005
Short-term borrowings including short-term portion of long-term borrowings	11,493,010	8,972,820
– from banks	8,769,337	6,446,413
– from other entities	2,723,673	2,526,407
Short-term borrowings	8,287,067	4,335,493
Average balance of short-term borrowings (financial year)	6,311,280	3,889,709
Interest paid (financial year)	288,995	183,529
Other costs of raising short-term borrowings	734	1,253
Average cost of short-term borrowings (financial year)	4.6%	4.8%
Currency structure of short-term borrowings		
– Euro	68%	41%
– Slovenian tolar	32%	59%
Structure of short-term borrowings in terms of interest rates:		
– Variable	68%	41%
– Fixed	32%	59%

Foreign currency risk

Currency options (i.e. range forwards) and futures are used to hedge against foreign currency risks. The contract value of both derivative financial instruments as at the balance sheet date amounted to 11,279,660 thousand SIT, and the fair value recorded in the Balance Sheet as at 31 December 2006 is 201,539 thousand SIT.

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 2006.

Sensitivity analysis

The lowering imbalances in currency positions resulting from the improved structure of the Group's import and export activities, the growing ratio of transactions performed in euros, as well as the hedging instruments have contributed to a lower impact of exchange currency changes upon the Group's financial results. We believe that any future considerable changes in exchange rates will not have a significant impact on the Group's financial results. Due to a relatively low indebtedness and hedging instruments enacted in the past, the same applies to any considerable changes in interest rates that may occur in the future.

Fair value

in thousand SIT	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current investments	2,468,627	2,468,627	2,169,989	2,169,989
– interests and shares	1,552,111	1,552,111	1,217,773	1,217,773
– other non-current investments	62,391	62,391	62,391	62,391
– long-term loans granted	854,125	854,125	889,825	889,825
Current investments	5,767,420	5,767,420	3,391,005	3,391,005
– instruments held for trading	2,849,357	2,849,357	1,524,869	1,524,869
– interest-bearing current investments	904,434	904,434	665,431	665,431
– other current investments	1,751,139	1,751,139	994,546	994,546
– short-term loans granted	262,490	262,490	206,159	206,159
Trade and other receivables	36,878,315	36,878,315	33,008,703	33,008,703
Cash and cash equivalents	2,491,950	2,491,950	3,027,752	3,027,752
Interest bearing derivatives	173,353	173,353	58,491	58,491
– assets	173,353	173,353	65,619	65,619
– liabilities	0	0	-7,128	-7,128
Embedded foreign currency derivatives	201,539	201,539	-168,699	-168,699
– assets	201,539	201,539	59,013	59,013
– liabilities	0	0	-227,712	-227,712
Borrowings	-19,974,711	-19,861,686	-20,790,099	-20,790,099
Trade and other payables	-14,591,502	-14,591,502	-14,043,571	-14,043,571
Total	13,414,991	13,528,016	6,653,571	6,653,571

Fair value measurement

The manner of the fair value measurement of the individual types of financial instruments is 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.

Futures

The fair value of futures is recorded as the difference between the agreed spot rate upon closing a contract and the rate for futures of the same maturity as at the balance sheet date, multiplied by the value of the futures as at the last day of the Quarterly for the last entire financial year. The rate as at the balance sheet date is a sum of the current rate and the market points, reflecting the difference between the interest rates of the two currencies of the futures, under consideration of the maturity. The information on market points may be obtained from any of the Slovenian banks with which an ISDA Master Agreement was signed, or from the specific derivatives valuation models within Reuters information platform.

Options

The fair value of currency options is computed as at the last day of the Quarterly for the last entire financial year, by the use of specific derivatives valuation models available within Reuters information platform.

Interest rate swaps

The fair value of interest rate swaps is computed as at the last day of the Quarterly for the last entire financial year, by the use of specific derivatives valuation models available within Reuters information platform.

Financial assets available for sale

If the shares are listed on the stock exchange market, their fair value equals to 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 with a repayment period exceeding 5 years is recorded under consideration of the discounted cash flow of the principal and interest.

A 4.00% discount rate was applied. It has been computed under consideration of yield to maturity for government bonds of the Republic of Slovenia, based on the information published by the Ljubljana Stock Exchange and/or the TUVL, authorised for secondary trading in government securities. In our opinion, the applied discount rate appropriately reflects the financial market situation in Slovenia as well as in other European financial markets.

Receivables and liabilities

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

32. Transactions with related parties

The transactions carried out among the Group companies were based upon sales contracts, under the application of the market prices of the services performed and products.

Data on groups of persons

As at the year-end, the members of the Management Board of the Krka Company held 5693 of shares in the Krka Company, representing a 0.16% of the total equity, and the Managing Directors of subsidiaries held 2514 of shares or 0.07% of the total equity. 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 2006.

Emoluments of groups of persons in 2006

in thousand SIT	Total receipts (gross)	Hereof participation in profit according to the annual meeting resolution
Management Board members in the parent company and managers of subsidiaries	595,216	0
Members of the Supervisory Board / Boards of Directors	105,139	51,291
Persons employed under individual employment contracts	4,732,303	0
Other employees	26,112,313	0
Total emoluments of groups of persons	31,544,970	51,291

Emoluments of the Management Board members in the parent 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 parent 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 parent 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

	Loan balance at 31 Dec 2006	Repayments in 2006
Members of the Management Board	4,928	1,064
Members of the Supervisory Board / Boards of Directors (employee representatives)	362	155
Persons employed under individual employment contracts	97,065	20,859
Other employees	1,251,944	147,204
Total loans to groups of persons	1,354,300	169,282

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

33. Group profile

	Ownership share at 31 Dec 2006	Share capital	Currency	Number of employees at 31 Dec 2006	Number of employees at 31 Dec 2005
Parent company:					
KRKA, d. d., Novo mesto, Slovenia		14,170,448,000	SIT	4272	3978
Subsidiaries in terms of region:					
Terme Krka, d. o. o., Novo mesto, Slovenia**	100%	3,535,466,000	SIT	630	626
KRKA-FARMA d. o. o., Zagreb, Croatia	100%	76,369,900	HRK	115	105
"KRKA-FARMA", d. o. o., Novi Sad, Serbia	100%	119,745	CSD	9	9
KRKA-FARMA DOOEL, Skopje, Macedonia	100%	49,060,618	MKD	23	22
OOO "KRKA-RUS", Istra, Russian Federation	100%	1,111,374,765	RUB	83	53
OOO "KRKA FARMA", Sergiev Posad, Russian Federation	100%	130,000	RUB	17	15
KRKA-Polska, Sp. z o. o., Warsaw, Poland	100%	17,490,000	PLZ	507	410
KRKA Magyarország Kft, Budapest, Hungary	100%	12,600,000	HUF	98	0
KRKA ČR, s. r. o., Prague, Czech Republic *	100%	100,000	CZK	0	0
KRKA Pharma Dublin Limited, Dublin, Ireland	100%	1,000	EUR	0	0
KRKA Sverige AB, Stockholm, Sweden	100%	150,000	SEK	5	4
KRKA Aussenhandels GmbH, Munich, Germany*	100%	255,646	EUR	0	0
HELVETIUS- S. R. L., Trieste, Italy***	80%	51,600	EUR	0	2
Total				5729	5224

* companies, where no operations are carried out
** inclusive of Terme Krka – Strunjan
*** company in the process of dissolution

The subsidiary Terme Krka, d. o. o., Novo mesto holds interests in the companies Terme Krka – Strunjan, d. o. o. (51%) and Golf Grad Otočec, d. o. o. (49.71%).

The consolidated (Group) Annual Report 2006 is available for review at the registered office of the parent company and the web site *www.krka.si.*

Educational structure of employees in the Krka Group

	2006		2005	
	Headcount	Share (in %)	Headcount	Share (in %)
PhD	56	1.0	49	1.0
MSc	156	2.8	146	2.9
University education	2232	40.6	1867	37.1
Higher professional education	266	4.8	190	3.8
Vocational college education	214	3.9	205	4.1
Secondary school education	1120	20.4	1089	21.7
Skilled workers	1202	21.9	1223	24.3
Unskilled workers	248	4.5	261	5.2
Total (average for the period)	5494	100	5030	100

34. Transaction with audit firms

The annual service fee for audit services amounted to 61,441 thousand SIT. In addition to audit services, some of the said companies provided also tax advisory services, which amounted to 8,231 thousand SIT.

35. Events after the balance sheet date

At the beginning of 2007, the parent company paid in initial capital for two new companies, namely KRKA FARMACÊUTICA, LDA, Estoril, Portugal and KRKA USA, LLC, Delaware, USA. Krka is the sole owner of the two companies.

Auditor's report

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 2006, 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.

We also read the Management Report.

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. 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements.

An audit involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, we consider 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 principles 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 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 2006, the result of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as endorsed by the European Union.

The Management Report is in conformity with the audited consolidated 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
Partner

Ljubljana, 15 March 2007

KPMG Slovenija, d.o.o.

1

Financial statements of Krka, d. d., Novo mesto

Balance Sheet

in thousand SIT	Notes	31 Dec 2006	31 Dec 2005
Assets			
Property, plant and equipment	13	90,450,247	78,103,851
Intangible assets	14	5,367,992	4,897,744
Investments in subsidiaries	15	29,119,419	27,561,602
Long-term loans	16	1,275,760	1,364,769
Other investments	17	1,564,637	1,230,301
Deferred tax assets	12	6,625,469	3,732,861
Other non-current assets	18	42,555	8,828
Non-current assets		134,446,079	116,899,956
Inventories	19	23,839,435	26,883,175
Trade and other receivables	20	37,739,554	33,774,998
Current investments	21	7,618,122	3,933,668
Cash and cash equivalents	22	1,077,973	758,768
Current assets		70,275,084	65,350,609
Total assets		204,721,163	182,250,565
Equity			
Share capital	23	14,170,448	14,170,448
Own shares	23	-4,670,280	-4,670,280
Reserves	23	35,385,325	34,885,325
Retained earnings	23	90,855,702	69,504,498
Reserves for fair value	23	833,938	561,602
Total equity		136,575,133	114,451,593
Liabilities			
Borrowings	25	6,983,844	10,011,560
Provisions	26	27,991,402	22,692,910
Grants received	27	107,506	87,605
Deferred tax liabilities	12	947,465	265,879
Total non-current liabilities		36,030,217	33,057,954
Trade payables	28	13,492,783	12,713,863
Borrowings	25	11,288,168	8,495,030
Income tax liabilities		1,604,999	6,598,933
Provisions and other liabilities	29	5,729,863	6,933,192
Total current liabilities		32,115,813	34,741,018
Total liabilities		68,146,030	67,798,972
Total equity and liabilities		204,721,163	182,250,565

Income Statement

in thousand SIT	Notes	2006	2005
Sales revenues	1	140,453,546	116,570,332
Production cost of goods sold	3	51,102,823	45,055,228
Gross operating yield		89,350,723	71,515,104
Sales and marketing	4	32,098,091	35,056,183
R&D costs	5	12,404,660	9,487,512
Administrative expenses	6	10,108,574	10,050,639
Other operating income	2	479,384	11,880,171
Operating profit		35,218,782	28,800,941
Financial income	10	3,541,467	3,283,180
Financial expenses	10	3,473,256	3,734,629
Net financial income / expenses		68,211	-451,449
Profit before tax		35,286,993	28,349,492
Income tax expense	11	8,201,153	5,890,302
Profit for the period		27,085,840	22,459,190
Earnings per share (in SIT)	24	8,014	6,645

Statement of Changes in Equity

			Reserves			Retained earnings				
in thousand SIT	Called capital	Own shares	Share premium	Legal reserves	Statutory reserves	Profit reserves	Net profit for the period	Net profit carried forward	Fair value reserves	Total
Balance at 31 Dec 2004	14,170,448	-4,670,280	28,993,129	3,592,196	1,500,000	45,467,881	10,309,617	-2,745,507	519,986	97,137,470
Correction (Refer to Note 16)								310,966		310,966
Balance at 01 Jan 2005	14,170,448	-4,670,280	28,993,129	3,592,196	1,500,000	45,467,881	10,309,617	-2,434,541	519,986	97,448,436
Entry of net profit for the period	0	0	0	0	0	0	22,459,190	0	0	22,459,190
Formation of statutory reserves	0	0	0	0	800,000	0	-800,000	0	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board	0	0	0	0	0	6,500,000	-6,500,000	0	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	-11,187,984	11,187,984	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	5,886,801	0	-5,886,801	0	0
Dividends paid	0	0	0	0	0	-3,874,859	0	-911,438	0	-4,786,297
Recognised income and expenses	0	0	0	0	0	0	0	-711,352	41,616	-669,736
Balance at 31 Dec 2005	14,170,448	-4,670,280	28,993,129	3,592,196	2,300,000	53,979,823	14,280,823	1,243,852	561,602	114,451,593
Entry of net profit for the period	0	0	0	0	0	0	27,085,840	0	0	27,085,840
Formation of statutory reserves	0	0	0	0	500,000	0	-500,000	0	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board	0	0	0	0	0	4,800,000	-4,800,000	0	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	-14,280,823	14,280,823	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	7,312,001	0	-7,312,001	0	0
Dividends paid	0	0	0	0	0	0	0	-5,631,286	0	-5,631,286
Recognised income and expenses	0	0	0	0	0	0	0	396,650	272,336	668,986
Balance at 31 Dec 2006	14,170,448	-4,670,280	28,993,129	3,592,196	2,800,000	66,091,824	21,785,840	2,978,038	833,938	136,575,133

Cash Flow Statement

in thousand SIT	Notes	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		27,085,840	22,459,190
Adjustments for:		16,398,326	15,927,547
– amortisation /depreciation		8,673,366	8,378,685
– foreign exchange gain		-361,039	-1,523,964
– foreign exchange loss		1,145,677	842,959
– investment income		-2,788,654	-6,219
– investment expense		713,646	1,150,399
– financial income		0	-70,253
– financial expense		747,438	1,180,260
– income taxes and other taxes not included in operating expenses		8,201,153	5,890,302
– other		66,739	85,378
Operating profit before changes in net operating current assets and provisions		43,484,166	38,386,737
Change in trade receivables		-4,813,688	-7,785,501
Change in inventories		3,043,741	-8,399,959
Change in operating debts (liabilities)		-376,424	2,504,351
Change in other current liabilities and provisions		4,342,526	3,387,544
Income taxes paid		-15,138,201	-4,085,332
Cash generated from operations		30,542,120	24,007,840
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		215,829	92,450
Proceeds from sale of investments		243,050	64,744
Dividends received		48,200	25,886
Proportionate profit of subsidiaries		485,751	0
Proceeds from sale of property, plant and equipment		281,907	150,165
Purchase of intangible assets	14	-1,547,755	-1,853,563
Purchase of property, plant and equipment	13	-19,138,163	-12,164,575
Payments related to subsidiaries – capital increase and loss coverage	15	-1,557,816	-2,434,057
Proceeds/payments in connection with long-term loans	16	21,533	56,891
Payments in connection with other non-current assets	18	-33,727	-1,529
Acquisition of current investments		-3,210,646	-2,257,560
Acquisition of derivative financial instruments		435,486	-334,251
Net cash used in investing activities		-23,756,351	-18,655,399
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from an increase in short-term financial liabilities		2,764,802	3,993,805
Interest paid		-721,549	-625,317
Payment of long-term financial liabilities		-2,797,968	-4,264,238
Dividends paid		-5,623,905	-4,809,077
Net cash used in financing activities		-6,378,620	-5,704,827
Net increase in cash and cash equivalents		407,148	-352,386
Cash and cash equivalents at beginning of period		758,768	1,100,954
Effect of exchange rate fluctuations on cash held		-87,942	10,200
Net cash and cash equivalents at end of period		1,077,974	758,768

Notes to the financial statements

Summary of significant accounting policies

Krka, d. d., Novo mesto (hereinafter "Company") is the parent company in the Krka Group with its registered seat at Šmarješka cesta 6, 8501 Novo mesto, Slovenia.

1. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU.

The financial statements of the Company were authorised for issue by the Management Board on 15 March 2007.

2. Basis of preparation

These financial statements are presented in Slovene tolar (SIT), which is the Company's functional currency. All financial information presented in SIT has been rounded to the nearest thousand.

The financial statements have been prepared on the historical cost basis. The fair value has been taken into account with derivative financial instruments, financial instruments held for trading, and financial instruments available for sale.

The preparation of financial statements 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. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 26 – measurement of defined benefit obligations,
- Note 26 – provisions for lawsuits,
- Note 31 – valuation of financial instruments.

3. Significant accounting policies

The Company applies the same accounting policies in all periods, presented in the accompanying financial statements.

The Company established in 2006 that an error occurred upon the transition to the International Financial Reporting Standards in connection with the impairment of a loan granted to a subsidiary. Pursuant to IAS 8, an adjustment of the opening balance of the comparable period was made (refer to Note 16). The effect of the adjustment was recorded in retained earnings as at 1 January 2005.

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.

4. Foreign currency

Foreign currency transactions
Transactions in foreign currencies are translated to Slovenian tolar (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 retranslated to tolar at the exchange rate at that date. The foreign currency gain or loss on monetary items is recognised in profit or loss. Non-monetary assets and liabilities initially denominated in foreign currencies are retranslated

to tolar 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 retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

5. 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 plus (for instruments not recognised at fair value through profit or loss) any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

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 for financial income and expense is discussed in note 11.

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.

Investments at fair value through profit or loss
An instrument is classified as 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. 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.

Other
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.

Cash flow hedges
Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Investments in subsidiaries
Non-current investments made in equity of subsidiaries or associates 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.

6. 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 costs, 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.

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. 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 is not depreciated.

The estimated useful lives are as follows:

• land	3 - 60 years
• plant and equipment	5-20 years
• furniture	5 years
• computer equipment	4-6 years
• means of transportation	5-15 years

7. Intangible assets

Research and development
As for the research and development function, the item of intangible assets comprise the purchase of the registration documentation. All other costs referring to the research 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 amortisa-

tion and accumulated impairment losses (see accounting policy "Impairment").

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

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 from the date that they are available for use.

The estimated useful lives are as follows:

• recognised development costs	5 years
• software	2–10 years
• other intangible assets	5–10 years

8. Inventories

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 valued at fixed prices, which in addition to direct cost of material include also cost of production (direct labour, direct cost of depreciation, direct cost of services and indirect cost of production such as energy, maintenance, quality management, etc.). Inventories of work in progress and finished products are carried at fixed prices. An inventory unit of merchandise is valued at cost including cost of purchase, import duties and all costs directly attributable to the acquisition, decreased by discounts. Inventories of merchandise are carried at moving average prices.

Inventories of materials and merchandise are stated at the lower of cost and net realisable value, whereas inventories of finished products at the lower of fixed price and net realisable value.

9. Impairment

Financial assets
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 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 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 recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. 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.

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.

10. Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions for lawsuits
The Company discloses provisions for lawsuits related to alleged patent infringements. Provisions entirely refer to drugs for heart and cardiovascular diseases. Each year the Company verifies the justification of the formed provisions with a view to the litigation status and the prospects for a favourable or unfavourable lawsuit outcome. 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.

Provisions for termination pay and anniversary bonuses
Pursuant to the local legislation, the Company is liable to pay to its employees anniversary bonuses and termination pay 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 termination pays and anniversary bonuses paid to employees in those countries, where this legal obligation exists. The obligation is calculated by estimating the costs of termination pay upon retirement and the costs of all expected anniversary bonuses until retirement. The selected annual discount rate is set at 4.75% and represents the return rate on long-term government bonds. The calculation is performed by a certified actuary. Actuarial gains and losses are recognised in the income statement.

Provisions for ecological improvements and provisions for grants were both already used up and decreased by the depreciation amount.

11. Sales revenues

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Transfers of risks and rewards vary depending on the individual terms of the sales contract. 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. 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 discounts and 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.

12. Financial income and financial expenses

Financial income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Financial expenses comprise interest expense on borrowings, foreign currency 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.

13. Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Also deferred tax on these items is recorded within equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet 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 temporary differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by 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 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.

14. Earnings per share (EPS)

The Company presents basic earnings per share (EPS) data for its ordinary shares. 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. The diluted EPS is not determined, as the Company issued solely ordinary shares.

15. Segment reporting

With respect to the strategic direction of its operations and criteria for the formation of business segments (common therapeutic characteristics of products, marketing and advertising methods and level of risk) the Company distinguishes between following three segments: human health products (prescription pharmaceuticals, OTC products and cosmetics), animal health products and health-resort and tourist services.

Geographical segments, within which we find geographically related countries with a similar level of economic development and purchasing power, as well as similar economic and political characteristics are as follows: the European Union, South-East Europe, Eastern Europe, Central Europe and the remaining Western Europe and overseas markets.

The Company's basic form of reporting bases on geographical segments, which reflect the Company's internal organisation. Certain business functions are entirely or mostly carried out by the parent company that holds the controlling share in terms of sale as well as asset value. The Company boasts of an own strong sales marketing network, with the emphasis on five key markets i.e. Slovenia, the Russian Federation, Croatia, Poland and the Western Europe. Each of these markets is involved in one of the five geographical regions that are specified as geographical segments. In the light thereof the geographical segments are given priority during reporting. Operating results, assets and liabilities by geographical segments include items that may directly be attributable to the segment, as well as items that may reasonably be allocated to the segment.

As for business segments the Company reports solely on the revenue. 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.

16. New standards and interpretations not yet adopted

The list below presents the new standards, amendments to standards and interpretations that are not yet effective for the year ended 31 December 2006, and have thus not been applied in preparing the financial statements:

IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures
The standard requires extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Company's 2007 financial statements, will require extensive additional disclosures with respect to Company's financial instruments and share capital.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Company's 2007 financial statements, is not expected to have any impact on the financial statements.

IFRIC 8 Scope of IFRS 2 Share-based Payment
addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Company's 2007 financial statements, with retrospective application required. The Company has not yet determined the potential effect of the interpretation.

IFRIC 9 Reassessment of Embedded Derivatives
requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Company's 2007 financial statements, is not expected to have any impact on the financial statements.

IFRIC 10 Interim Financial Reporting and Impairment
prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Company's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Company first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e., 1 January 2004). The adoption of IFRIC 10 will result in a decrease in deferred tax.

17. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where 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, or to the average price per share for investments in Slovenian companies, effective at the reporting date.

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.

18. 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 2006 and 31 December 2005, the income statement for the year that ended 31 December 2006, as well as additional data required for the adjustment of inflows and outflows.

1. Geographical and business segments

Segment information is presented in respect of the Company's business and geographical segments. The primary reporting format is geographical segments, whereby these are presented both by location of customers and by location of assets. A considerable portion of immovable and movable property is located at the Company's headquarters in Slovenia. It must be taken into consideration that the major part of the assets held by the 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".

Sales revenues by business segments

in thousand SIT	2006	2005
Human health products	134,970,288	111,762,137
– prescription pharmaceuticals	115,667,492	95,973,901
– self-medication products	17,082,484	13,825,788
– cosmetic products	2,220,312	1,962,448
Animal health products	5,323,106	4,602,791
Other	160,152	205,404
Total sales revenues	140,453,546	116,570,332
– thereof sales revenues of services	1,075,694	590,151

Geographical segment reporting

	European Union		South-East Europe		Eastern Europe		The remaining western Europe and overseas markets		Total	
in thousand SIT	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Sales revenues	71,274,360	62,420,646	23,374,599	20,027,693	42,504,776	31,500,901	3,299,811	2,621,092	140,453,546	116,570,332
Segment's results from operations	20,128,771	16,682,177	7,549,308	6,441,520	11,340,607	5,718,501	755,712	581,135	39,774,398	29,423,333
Other operating income									479,384	11,880,171
Unallocated costs									-5,035,000	-12,502,563
Operating profit									35,218,782	28,800,941
Net financial income/ expenses									68,211	-451,449
Income tax expense									-8,201,153	-5,890,302
Profit for the period									27,085,840	22,459,190
Segment's assets	110,750,230	101,883,833	17,108,507	20,102,116	24,181,182	16,547,055	1,067,290	987,789	153,107,209	139,520,793
Unallocated assets									51,613,954	42,729,772
Total assets									204,721,163	182,250,565
Investments	21,269,176	16,886,249	0	0	15,156	0	0	0	21,284,332	16,886,249
Impairment of receivables and inventories									1,077,227	925,677
Total liabilities									68,146,030	67,798,972

2. Other operating income

in thousand SIT	2006	2005
Reversal of non-current provisions	53,633	11,498,778
Reversal of allowances for receivables	13,661	106,998
Profit from the sale of fixed assets	139,126	106,926
Other operating income	272,964	167,469
Total other operating income	479,384	11,880,171

Utilized non-current provisions for ecological improvements in the amount of 40,543 thousand SIT represent the major item within reversal of non-current provisions, and subsidies granted by the European Bank for Reconstruction and Development (EBRD) for ecological improvements in the amount of 98,837 thousand SIT represent the major item of other operating income.

3. Production cost of goods sold

In 2006, production cost of goods sold indicated an increase of 13.4% compared to the previous year's figures. As for their share among the sales revenues, the production costs decreased from 38.7% in 2005 to 36.4% in 2006. The decrease is a result of a more favourable product mix of goods sold as well as stronger cost efficiency due to the better productivity (contemporary technological procedures, an improved utilisation level of production capacities).

4. Sales and marketing

Sales and marketing expenses comprise the costs of the domestic and foreign marketing sales network, as well as provisions formed for lawsuits, which has caused an irregular increase of these costs in individual periods. In the reporting period, the sales and marketing expenses were lower by 8.4% than in 2005. The decrease was due to the fact that the 2005 figures included 12,502,563 thousand SIT of newly formed provisions for the lawsuit relating to drugs for heart and cardiovascular diseases, whereas the total amount of provisions formed for lawsuits in 2006 was 5,035,000 thousand SIT. Sales and marketing expenses have increased 20%, provided that provisions are not taken into account.

5. R&D costs

All R&D costs recorded are charged against the income statement of 2006, since research and development costs are not capitalised. Compared to 2005, the relevant costs increased by 30.8% and accounted for 8.8% of the total sales revenues.

6. Administrative expenses

Compared to 2005, administrative expenses increased by 0.6%, and its share in the structure of sales revenues implies a decrease from 8.6% in 2005 to 7.2% in 2006. The item of administrative expenses encompasses also other operating expenses (refer to Note 9).

7. Costs in terms of type

in thousand SIT	2006	2005
Cost of goods and materials	33,694,542	33,574,525
Cost of services	23,850,222	18,599,374
Employee benefits expense	30,347,888	28,097,832
Depreciation	8,673,366	8,378,686
Provisions formed for lawsuits	5,035,000	12,502,563
Provisions formed for termination pay and anniversary bonuses	867,544	559,364
Other operating expenses	2,868,525	2,743,836
Total costs in terms of type	105,337,087	104,456,180
Changes in the value of inventories	-377,061	4,806,618
Total	105,714,148	99,649,562

8. Employee benefits cost

in thousand SIT	2006	2005
Gross wages and salaries and continued pay	23,855,480	21,541,753
Social security contributions and payroll tax	5,215,368	5,333,490
Other employee benefits cost	1,277,040	1,222,589
Total	30,347,888	28,097,832

Other employee benefits cost in the reporting period include the vacation bonus, travel allowances, meal allowance and some other repayments to employees.

Compulsory pension and disability insurance (comprising both the employee's and the employer's contribution) payable in 2006 amounted to 5,725,315 thousand SIT and additional pension insurance amounted to 698,548 thousand SIT.

9. Other operating expenses

in thousand SIT	2006	2005
Grants, assistance	497,991	491,257
Environmental levies	316,000	306,305
Fiscal charges irrespective of operating results	344,505	258,283
Loss in the sale of fixed assets	220,158	198,452
Impairments and inventory write-offs	919,056	537,672
Impairments and receivable write-offs	158,171	388,005
Other costs	412,644	563,862
Total	2,868,525	2,743,836

10. Financial income and financial expenses

in thousand SIT	2006	2005
Exchange differences	1,034,720	3,011,958
Interest income	215,661	133,707
Change in fair value of investments (through profit or loss)	396,828	19,159
Gain on the sale of securities	259,212	64,744
Income from derivative financial instruments	1,101,095	27,726
Dividend income	533,951	25,886
Total financial income	3,541,467	3,283,180
Exchange differences	2,397,369	1,240,989
Interest paid	728,166	634,050
Impairments due to remeasurement of investments at fair value	131,779	39,748
Loss recorded in subsidiaries and covering of loss from previous periods	0	1,150,399
Expense from derivative financial instruments	180,508	589,690
Other expenses	35,434	79,753
Total financial expenses	3,473,256	3,734,629
Net financial income / expenses	68,211	-451,449

11. Income tax expense

in thousand SIT	2006	2005
Actual income tax	9,764,717	9,315,564
Deferred tax	-1,563,564	-3,425,262
Total	8,201,153	5,890,302
Profit before tax	35,286,993	28,349,492
Income tax calculated using the 25-percent tax rate	8,821,748	7,087,373
Non-deductible expenses	795,971	1,227,238
Tax incentives	-1,308,985	-1,140,676
Tax exempt revenues	-185,322	-750,533
Other items	77,741	-533,100
Total	8,201,153	5,890,302

12. Deferred tax assets and deferred tax liabilities

	Assets		Liabilities		Assets – Liabilities	
in thousand SIT	2006	2005	2006	2005	2006	2005
Investments	39,522	66,818	249,098	265,879	-209,576	-199,061
Receivables	95,815	96,275	0	0	95,815	96,275
Inventories	143,297	117,661	0	0	143,297	117,661
Provisions for lawsuits	4,033,639	3,125,641	0	0	4,033,639	3,125,641
Provisions for termination pay	2,313,196	326,466	0	0	2,313,196	326,466
Tax effects of the transition and adjustment to IFRS	0	0	698,367	0	-698,367	0
Total	6,625,469	3,732,861	947,465	265,879	5,678,004	3,466,982

in thousand SIT	Assets – Liabilities		Through profit and loss		Through equity	
	2006	2005	2006	2005	2006	2005
Investments	-209,576	-199,061	39,521	79,125	-249,097	-278,186
Receivables	95,815	96,275	23,161	96,275	72,654	319,906
Inventories	143,297	117,661	143,297	117,661	0	0
Provisions for lawsuits	4,033,639	3,125,641	1,158,050	3,125,641	2,875,589	0
Provisions for termination pay	2,313,196	326,466	199,535	6,560	2,113,661	0
Tax effects of the transition and adjustment to IFRS	-698,367	0	0	0	-698,367	0
Total	5,678,004	3,466,982	1,563,564	3,425,262	4,114,440	41,720

13. Property, plant and equipment

in thousand SIT	31 Dec 2006	31 Dec 2005
Property	3,151,927	2,908,502
Plant	40,447,172	33,547,973
Equipment	33,892,425	27,204,490
PPE under construction	12,958,723	14,442,886
– advances for PPE	1,188,372	594,677
Total property, plant and equipment	90,450,247	78,103,851

Movements of property, plant and equipment in 2006

in thousand SIT	Property	Plant	Equipment	PPE under construction	Advances for PPE	Total
Cost at 01 Jan 2006	2,908,502	59,066,622	76,133,775	13,848,209	594,677	152,551,785
Additions	0	0	0	19,736,577	593,695	20,330,272
Capitalisation – transfer from PPE under construction	257,111	9,515,690	12,015,620	-21,788,421	0	0
Disposals, deficits, surpluses	-13,686	-300,362	-1,954,050	0	0	-2,268,098
Transfer to intangible assets	0	-45,201	43,096	0	0	-2,105
Cost at 31 Dec 2006	3,151,927	68,236,749	86,238,441	11,796,365	1,188,372	170,611,854
Accumulated depreciation at 01 Jan 2006	0	25,518,649	48,929,285	0	0	74,447,934
Depreciation	0	2,504,271	5,132,261	0	0	7,636,532
Capitalisation – prolongation of useful life	0	0	-26,014	26,014	0	0
Disposals, deficits, surpluses	0	-232,910	-1,687,844	0	0	-1,920,754
Transfer to intangible assets	0	-433	-1,672	0	0	-2,105
Accumulated depreciation at 31 Dec 2006	0	27,789,577	52,346,016	26,014	0	80,161,607
Carrying amount at 01 Jan 2006	2,908,502	33,547,973	27,204,490	13,848,209	594,677	78,103,851
Carrying amount at 31 Dec 2006	3,151,927	40,447,172	33,892,425	11,770,351	1,188,372	90,450,247

Movements of property, plant and equipment in 2005

in thousand SIT	Property	Plant	Equipment	PPE under construction	Advances for PPE	Total
Cost at 01 Jan 2005	2,775,096	58,334,764	72,501,301	6,563,124	1,356,002	141,530,287
Additions	0	0	0	15,032,686	-761,325	14,271,361
Capitalisation - transfer from PPE under construction	133,406	962,753	6,641,538	-7,737,697	0	0
Disposals, deficits, surpluses	0	-229,232	-3,015,715	-3,865	0	-3,248,812
Transfer to intangible assets	0	-1,663	6,651	0	0	4,988
Cost at 31 Dec 2005	2,908,502	59,066,622	76,133,775	13,854,248	594,677	152,557,824
Accumulated depreciation at 01 Jan 2005	0	23,168,361	46,834,163	0	0	70,002,524
Depreciation	0	2,430,101	5,055,406	0	0	7,485,507
Capitalisation - prolongation of useful life	0	0	-6,039	6,039	0	0
Disposals, deficits, surpluses	0	-79,054	-2,955,714	0	0	-3,034,768
Transfer to intangible assets	0	-759	1,469	0	0	710
Accumulated depreciation at 31 Dec 2005	0	25,518,649	48,929,285	6,039	0	74,453,973
Carrying amount at 01 Jan 2005	2,775,096	35,166,403	25,667,138	6,563,124	1,356,002	71,527,763
Carrying amount at 31 Dec 2005	2,908,502	33,547,973	27,204,490	13,848,209	594,677	78,103,851

Expenses for property, plant and equipment presented in the cash flow statement differ from those stated in the schedule of movement by the amount of difference that occurs between the opening and the closing balance of trade payables.

14. Intangible assets

in thousand SIT	31 Dec 2006	31 Dec 2005
R&D cost	627,239	530,924
Long-term property rights	3,769,563	3,532,260
Intangible assets under construction	971,190	834,560
Total intangible assets	5,367,992	4,897,744

The most significant share in the structure of the Company's intangible assets refers to the purchase of new software, namely for the Synthesis 4 (273,675 thousand SIT), for handling of registration documentation (121,389 thousand SIT) and the upgrading of the SAP software (84,557 thousand SIT).

Intangible assets under construction comprise payments for the registration documentation as regards new drugs.

Movements of intangible assets in 2006

in thousand SIT	R&D cost	Long-term property rights	IA under construction	Total
Cost at 01 Jan 2006	1,207,826	4,894,268	834,560	6,936,654
Additions	0	2	1,547,753	1,547,755
Transfer from IA under construction	417,108	994,015	-1,411,123	0
Disposals	-40,630	-43	0	-40,673
Transfers to property, plant and equipment	0	2,105	0	2,105
Cost at 31 Dec 2006	1,584,304	5,890,347	971,190	8,445,841
Accumulated amortisation at 01 Jan 2006	676,902	1,362,008	0	2,038,910
Amortisation	280,163	756,671	0	1,036,834
Transfers to property, plant and equipment	0	2,105	0	2,105
Accumulated amortisation at 31 Dec 2006	957,065	2,120,784	0	3,077,849
Carrying amount at 01 Jan 2006	530,924	3,532,260	834,560	4,897,744
Carrying amount at 31 Dec 2006	627,239	3,769,563	971,190	5,367,992

Movements of intangible assets in 2005

in thousand SIT	R&D cost	Long-term property rights	IA under construction	Total
Cost at 01 Jan 2005	1,021,035	3,756,181	350,297	5,127,513
Additions	0	67	1,853,496	1,853,563
Transfer from IA under construction	212,156	1,157,077	-1,369,233	0
Disposals	-25,365	-14,069	0	-39,434
Transfers to property, plant and equipment	0	-4,988	0	-4,988
Cost at 31 Dec 2005	1,207,826	4,894,268	834,560	6,936,654
Accumulated amortisation at 01 Jan 2005	507,706	672,221	0	1,179,927
Amortisation	194,561	698,618	0	893,179
Disposals	-25,365	-8,121	0	-33,486
Transfers to property, plant and equipment	0	-710	0	-710
Accumulated amortisation at 31 Dec 2005	676,902	1,362,008	0	2,038,910
Carrying amount at 01 Jan 2005	513,329	3,083,960	350,297	3,947,586
Carrying amount at 31 Dec 2005	530,924	3,532,260	834,560	4,897,744

15. Investments in subsidiaries

Movements of investments in subsidiaries in 2006

in thousand SIT	Investments in subsidiaries
Cost at 01 Jan 2006	27,561,602
Capital increase	1,557,817
Balance at 31 Dec 2006	29,119,419
Carrying amount at 01 Jan 2006	27,561,602
Carrying amount at 31 Dec 2006	29,119,419

Movements of investments in subsidiaries in 2005

in thousand SIT	Investments in subsidiaries
Cost at 01 Jan 2005	25,178,132
Capital increase, share purchase	2,383,470
Balance at 31 Dec 2005	27,561,602
Carrying amount at 01 Jan 2005	25,178,132
Carrying amount at 31 Dec 2005	27,561,602

Interests in subsidiaries

	Share in equity	Share capital	Value of share	
in thousand SIT	31 Dec 2006	31 Dec 2006	31 Dec 2006	31 Dec 2005
TERME KRKA, d. o. o., Novo mesto, Slovenia**	100%	3,535,466	10,881,283	10,881,283
"KRKA-FARMA" d. o. o. Novi Sad, Serbia	100%	363	10,069	10,069
KRKA-FARMA, d. o. o., Zagreb, Croatia	100%	4,668,036	4,729,973	3,614,230
KRKA-FARMA DOOEL, Skopje, Macedonia	100%	191,479	192,272	192,272
OOO "KRKA-RUS", Istra, Russian Federation	100%	7,677,155	7,912,581	7,912,087
OOO "KRKA FARMA", Sergiev Posad, Russian Federation	100%	26,766	117,806	118,300
KRKA-Polska, Sp. z o. o., Warsaw, Poland	100%	1,094,764	4,480,527	4,480,527
KRKA Magyarország Kft, Budapest, Hungary	100%	12,000	452,715	10,641
KRKA ČR, s. r. o., Prague, Czech Republic*	100%	872	826	826
KRKA Pharma Dublin Limited, Dublin, Ireland	100%	240	240	240
KRKA Sverige AB, Stockholm, Sweden	100%	3,975	198,283	198,283
KRKA Aussenhandels GmbH, Munich, Germany*	100%	61,263	96,719	96,719
HELVETIUS-S. R. L., Trieste, Italy***	80%	12,365	46,125	46,125
Total			29,119,419	27,561,602

* companies, where no operations are carried out
** inclusive of Terme Krka – Strunjan
*** company in the process of dissolution

In 2006, increase of capital stock was carried out in the following companies: Krka-Farma, Zagreb (1,115,743 thousand SIT) and Krka Magyarorszag, Budapest (442,073 thousand SIT).

16. Long-term loans

in thousand SIT	31 Dec 2006	31 Dec 2005
Long-term loans to subsidiaries	454,829	506,074
Long-term loans to other entities	820,931	858,695
Total long-term loans	1,275,760	1,364,769

Long-term loans granted to subsidiaries

The Company extended a loan (denominated in US Dollars) to the company Krka-Rus, Istra for resuming investment projects and for financing current operations. The repayment of the loan is to begin in 2008. The Company extended no new loans in the reporting period.

Long-term loans to other entities

In conformity with internal acts the Company extends long-term loans to its employees. These loans are mainly used for housing, scholarship, and for moving abroad. Loans bear the annual interest rate, which equals the contractually agreed rate set by the Minister of Finance in

Movements of long-term loans in 2006

in thousand SIT	Long-term loans to subsidiaries	Long-term loans to other entities	Total
Cost at 01 Jan 2006	506,074	872,709	1,378,783
New loans	0	373,013	373,013
Repayments	0	-413,819	-413,819
Exchange differences	-51,245	583	-50,662
Cost at 31 Dec 2006	454,829	832,486	1,287,315
Value adjustment at 01 Jan 2006	0	14,014	14,014
Decrease (write-off)	0	-2,459	-2,459
Value adjustment at 31 Dec 2006	0	11,555	11,555
Carrying amount at 01 Jan 2006	506,074	858,695	1,364,769
Carrying amount at 31 Dec 2006	454,829	820,931	1,275,760

Movements of long-term loans in 2005

in thousand SIT	Long-term loans to subsidiaries	Long-term loans to other entities	Total
Cost at 31 Dec 2004	129,424	915,676	1,045,100
Correction of an error upon transition to IFRS	310,966	0	310,966
Cost at 01 Jan 2005	440,390	915,676	1,356,066
New loans	198,938	289,678	488,616
Repayments	-199,122	-334,319	-533,441
Exchange differences	65,868	1,674	67,542
Cost at 31 Dec 2005	506,074	872,709	1,378,783
Value adjustment at 01 Jan 2005	0	16,884	16,884
Increase	0	91	91
Decrease (write-off)	0	-2,961	-2,961
Value adjustment at 31 Dec 2005	0	14,014	14,014
Carrying amount at 01 Jan 2005	440,390	898,792	1,339,182
Carrying amount at 31 Dec 2005	506,074	858,695	1,364,769

accordance with the Corporate Income Tax Act that defines the interest rate for related parties. In 2006, the interest rate ranged between 3.72% and 4.25%. The repayment period must not exceed 15 years.

Upon transition to IFRS, the Company started to apply the cost method for the valuation of investments in subsidiaries; previously, they had been accounted for using the equity method. An error occurred in the amount referring to the investment in Krka Pharma Dublin: by mistake, an impairment of a loan granted by the parent company to the subsidiary for the loss recorded in the periods until 2004 had been carried out. Pursuant to IAS 8, an adjustment of the opening balance of the comparable period was made (310,966 thousand SIT). The effect of the adjustment was recorded in retained earnings.

17. Other non-current investments

in thousand SIT	31 Dec 2006	31 Dec 2005
Financial assets available-for-sale	1,502,246	1,167,910
Other non-current investments	62,391	62,391
Total other non-current investments	1,564,637	1,230,301

Other non-current investments include items of historical and cultural value.

Movements of non-current investments in 2006

in thousand SIT	Financial assets available for sale	Other non-current investments	Total
Cost at 01 Jan 2006	1,175,612	62,391	1,238,003
Increase	313	0	313
Change in fair value	334,023	0	334,023
Balance at 31 Dec 2006	1,509,948	62,391	1,572,339
Value adjustment at 01 Jan 2006	7,702	0	7,702
Balance at 31 Dec 2006	7,702	0	7,702
Carrying amount at 01 Jan 2006	1,167,910	62,391	1,230,301
Carrying amount at 31 Dec 2006	1,502,246	62,391	1,564,637

Movements of non-current investments in 2005

in thousand SIT	Financial assets available for sale	Other non-current investments	Total
Cost at 01 Jan 2005	1,119,723	62,391	1,182,114
Purchase	313	0	313
Change in fair value	55,576	0	55,576
Balance at 31 Dec 2005	1,175,612	62,391	1,238,003
Value adjustment at 01 Jan 2005	7,595	0	7,595
Increase	107	0	107
Balance at 31 Dec 2005	7,702	0	7,702
Carrying amount at 01 Jan 2005	1,112,128	62,391	1,174,519
Carrying amount at 31 Dec 2005	1,167,910	62,391	1,230,301

18. Other non-current assets

Other non-current assets include collaterals given in connection with representations abroad (40,393 thousand SIT) and payments made for the reserve housing fund (2,162 thousand SIT).

19. Inventories

in thousand SIT	31 Dec 2006	31 Dec 2005
Material	7,540,200	9,510,900
Work in progress	6,097,503	4,929,239
Products	9,766,303	11,812,302
Merchandise	432,193	630,146
Advances	3,236	588
Total inventories	23,839,435	26,883,175

In the reporting period the Company carried out an impairment of inventories (152,325 thousand SIT) and a write-off of inventories amounting to 766,731 thousand SIT. In 2005 the impairment amounted to 67,028 thousand SIT whereas the write-off to 470,644 thousand SIT.

20. Receivables

in thousand SIT	31 Dec 2006	31 Dec 2005
Short-term receivables due from subsidiaries	20,196,443	15,314,474
Trade receivables	15,548,263	16,907,748
Receivables due from other entities	1,994,848	1,552,776
Total receivables	37,739,554	33,774,998

Short-term receivables due from subsidiaries

in thousand SIT	31 Dec 2006	31 Dec 2005
KRKA-FARMA d. o. o., Zagreb, Croatia	7,168,636	6,891,748
"KRKA-FARMA" d. o. o. Novi Sad, Serbia	739,863	607,187
KRKA-FARMA DOOEL, Skopje, Macedonia	504,906	1,281,080
OOO "KRKA-RUS", Istra, Russian Federation	2,105,807	248,094
OOO "KRKA FARMA", Sergiev posad, Russian Federation	3,956,068	1,348,038
KRKA-POLSKA, Sp. z o. o., Warsaw, Poland	5,225,712	4,488,802
KRKA Sverige AB, Stockholm, Sweden	491,214	442,509
Operating receivables due from other Group companies	4,237	7,015
Total short-term receivables due from subsidiaries	20,196,443	15,314,473

Trade receivables

in thousand SIT	Gross value	Allowances for doubtful and disputable receivables	Net value at 31 Dec 2006	Net value at 31 Dec 2005
Domestic customers	2,654,328	29,758	2,624,570	2,802,781
Foreign customers	13,427,976	504,283	12,923,693	14,104,967
Total trade receivables	16,082,304	534,041	15,548,263	16,907,748

Trade receivables are not secured. As at 31 December 2006 the ageing structure of trade receivables is as follows: 98% of receivables are past due by six months (including undue receivables), 0.2% of receivables are past due from six months to one year, and 1.8% of receivables are past due for over a year.

In 2006 allowances for receivables were charged against the income statement in the amount of 158,171 thousand SIT (2005: 388,005 thousand SIT).

Receivables due from other entities

Receivables due from other entities in the amount of 1,994,848 thousand SIT refer mostly to receivables arising from VAT refund.

21. Current investments

in thousand SIT	31 Dec 2006	31 Dec 2005
Current investments	5,420,099	3,068,998
– instruments held for trading	2,849,357	1,524,869
– Interest-bearing current investments	820,560	665,431
– other current investments	1,750,182	878,698
Short-term loans	2,198,023	864,670
– short-term loans to subsidiaries	1,952,500	672,111
– short-term loans to other entities	245,523	192,559
Total current investments	7,618,122	3,933,668

The major items of instruments held for trading refers to shares issued by foreign companies (2,200,563 thousand SIT), marketable shares (372,045 thousand SIT) and non-marketable shares (3,917 thousand SIT).

Interest-bearing current investments comprise government bonds (719,973 thousand SIT), and deposit certificates (100,587 thousand SIT). All interest-bearing current investments bear the fixed interest rate (2005: 83%) and none the variable interest rate (2005: 17%).

Most of other current investments refer to mutual funds (domestic and foreign) in the amount of 1,158,389 thousand SIT and managed funds in the amount of 216,902 thousand SIT.

Short-term loans to subsidiaries include a short-term loan to Terme Krka in the amount of 1,636,000 thousand SIT, a loan to the subsidiary Krka-Rus in the amount of 181,931 thousand SIT, as well as interest on loans to subsidiaries in the amount of 134,569 thousand SIT.

92% of short-term loans bear the fixed interest rate (2005: 100%) and 8% (2005: 0%) of short-term loans the variable interest rate.

22. Cash and cash equivalents

in thousand SIT	31 Dec 2006	31 Dec 2005
Cash in hand	16,695	11,352
Bank balances	1,061,278	747,416
Total cash and cah equivalents	1,077,973	758,768

23. Equity

in thousand SIT	31 Dec 2006	31 Dec 2005
Share capital	14,170,448	14,170,448
Own shares	-4,670,280	-4,670,280
Reserves	35,385,325	34,885,325
– share premium	28,993,129	28,993,129
– legal reserves	3,592,196	3,592,196
– statutory reserves	2,800,000	2,300,000
Retained earnings	90,855,702	69,504,498
Fair value reserves	833,938	561,602
Total equity	136,575,133	114,451,593

Share capital

Share capital of the Company consists of 3,542,612 ordinary registered shares at par value of 4,000 SIT. 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 Company recorded 162,662 own shares amounting to 650,648 thousand SIT, i.e. 4.6% of the share capital value. The number of shares in this reporting period remained unchanged if compared to 2005.

Reserves

The Company's reserves comprise the share premium, legal and statutory reserves. None of the aforesaid reserve may be used for payout of dividends and other equity interests. With respect to legal possibilities, the Company increased reserves in the reporting period by 500,000 thousand SIT of additionally formed statutory reserves.

Retained earnings

Retained earnings of the Company are increased by the profit for the period amounting to 27,085,840 thousand SIT and the net income recognised directly in equity (396,650 thousand SIT). The latter include the surplus of deferred tax assets over deferred tax liabilities (329,911 thousand SIT) as well as the refunded default interest that had been overcharged by the tax office (66,739 thousand SIT). The decrease, on the other hand, is a result of statutory reserves (500,000 thousand SIT) additionally formed pursuant to the resolution adopted by the Company's management, and the dividend payout (5,631,286 thousand SIT) as confirmed by the 11th annual meeting held on 6 July 2006. 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.

Fair value reserves

Fair value reserves record an increase of 272,336 thousand SIT, i.e. amount of the revaluation of non-current investments to market price.

Statement of recognised income and expense

in thousand SIT	31 Dec 2006	31 Dec 2005
Deferred taxes	709,458	-799,015
Tax effects of the transition and adjustment to IFRS	-379,547	0
Refund of default interest paid in respect of taxes	66,739	87,663
Total recognised income and expense for the period	396,650	-711,352

Accumulated profit

in thousand SIT	2006	2005*
Compulsory appropriation of net profit		
Net profit for the period	27,085,840	21,580,823
– 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	500,000	800,000
Net profit after compulsory appropriation	26,585,840	20,780,823
– formation of other income reserves pursuant to a decision adopted by the Management Board and Supervisory Board	4,800,000	6,500,000
Surplus of net profit	21,785,840	14,280,823
Identification of accumulated profit		
– surplus of net profit	21,785,840	14,280,823
– retained earnings from previous periods	2,978,037	5,974,464
Accumulated profit	24,763,877	20,255,287

* The accumulated profit for 2005, whose appropriation was decided upon at the annual meeting, was established on the basis of the financial statements prepared in compliance with Slovenian Accounting Standards.

24. Earnings per share

Earnings per share amount to 8,013.68 SIT and show an increase of 21% compared to the previous year's result (2005: 6,644.83 SIT). The calculation for both years bases upon the equity interest of the majority stockholder and 3,379,950 shares, whereas 162,662 own shares were not taken into account. All shares issued by the Company are ordinary shares, hence the diluted earnings per share ratio was not calculated.

25. Borrowings

in thousand SIT	31 Dec 2006	31 Dec 2005
Long-term borrowings	6,983,844	10,011,560
– borrowings from domestic banks	6,983,844	9,973,126
– borrowings from other entities	0	38,434
Short-term borrowings	11,120,221	8,352,968
– borrowings from domestic banks	5,602,783	4,846,617
– borrowings from foreign banks	2,817,265	979,945
– borrowings from other entities	2,700,173	2,526,406
Interest payable	167,947	142,062
Total borrowings	18,272,012	18,506,590

Movement of long-term borrowings

in thousand SIT	Long-term borrowings from banks	Long-term borrowings from other entities	Total
Balance at 01 Jan 2005	13,699,841	86,702	13,786,543
Repayments	-1,447,507	-49,745	-1,497,252
Balance of transfer at 01 Jan 2005	1,426,068	49,421	1,475,489
Transfer to current liabilities at 31 Dec 2005	-4,101,618	-50,938	-4,152,556
Exchange differences	396,342	2,994	399,336
Balance at 31 Dec 2005	9,973,126	38,434	10,011,560
Repayments	-4,043,925	-49,983	-4,093,908
Balance of transfer at 01 Jan 2006	4,101,618	50,938	4,152,556
Transfer to current liabilities at 31 Dec 2006	-2,817,265	-39,389	-2,856,654
Exchange differences	-229,710	0	-229,710
Balance at 31 Dec 2006	6,983,844	0	6,983,844

Long-term borrowings are denominated in euro and US dollar and were extended by three domestic banks for the period of up to 7 years. The borrowings were raised for financing the investments in current assets. The Company raised no new long-term borrowing in the reporting period.

Long-term borrowings obtained from banks are neither secured by mortgages nor by bank guarantees. The Company issued bills of exchange for the borrowings which are pursuant to IFRS 4 considered as Insurance Contracts and treated as contingent liabilities (refer to Note 30). The Company hedged three long-term borrowings that are considered to form the major part of the borrowed amount by using interest rate swaps.

Movement of short-term borrowings

in thousand SIT	Short-term borrowings from banks	Short-term borrowings from other entities	Total
Balance at 01 Jan 2005	1,426,068	3,009,395	4,435,463
New borrowings	21,655,761	2,838,964	24,494,725
Repayments	-21,356,885	-3,372,891	-24,729,776
Transfer from non-current liabilities	4,101,618	50,938	4,152,556
Balance at 31 Dec 2005	5,826,562	2,526,406	8,352,968
New borrowings	35,772,467	706,137	36,478,604
Repayments	-35,998,693	-571,759	-36,570,452
Transfer from non-current liabilities	2,817,265	39,389	2,856,654
Exchange differences	2,447	0	2,447
Balance at 31 Dec 2006	8,420,048	2,700,173	11,120,221

The balance of short-term borrowings include repayments of a long-term bank loan which matured in 2006 (2,817,265 thousand SIT).

The short-term borrowings are denominated in Slovenian tolars for a period of one to six months; some of them were taken on for an indefinite period or at call. The borrowings are not secured.

26. Provisions

in thousand SIT	Balance at 31 Dec 2005	Formation	Utilisation and reversal	Balance at 31 Dec 2006
Provisions for termination pay and anniversary bonuses	9,752,747	867,544	562,916	10,057,375
Other provisions	12,940,163	5,035,002	41,138	17,934,027
- provisions for lawsuits	12,820,158	5,035,000	552	17,854,606
- provisions for ecological restoration	119,937	0	40,543	79,394
- other provisions	68	2	43	27
Total provisions	22,692,910	5,902,546	604,054	27,991,402

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 potential amount, if the indemnification claim is not yet disclosed. External advisors for litigations referring to intellectual property are engaged for defining the anticipated potential 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 in the amount of 5,035,000 thousand SIT which refers to the alleged patent infringements in connection with atorvastatin. As for the income statement, the newly formed and utilised provisions are included among other operating expenses or other operating income.

Provisions for payables to employees are based on a calculation performed by a certified actuary, whereby a discount rate of 4.75% p.a. (that grounds on the profitability of 10-year corporate bonds of high credit rating in the euro-zone), as well as certain estimates and assumptions were made regarding the amount of termination pay and anniversary bonuses, age structure of employees, employee turnover, etc. 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 calculation applied the projected unit method. No material discrepancies from the assumptions applied may be expected in the near future.

27. Grants received

in thousand SIT	Balance at 31 Dec 2005	Formation	Utilisation and reversal	Balance at 31 Dec 2006
Grants for the subsidiary Krka-Rus	4,572	0	2,285	2,287
Grants for the plant BETA in Šentjernej	83,033	0	10,600	72,433
Grants by the European Regional Development Fund	0	6,420	160	6,260
Free receipt of fixed assets	0	26,527	0	26,526
Total grants received	87,605	32,947	13,045	107,506

The recorded amounts of grants received are decreased by the proportionate share of depreciation of assets to which the grants refer to.

28. Trade payables

in thousand SIT	31 Dec 2006	31 Dec 2005
Payables to subsidiaries	401,955	157,079
Payables to domestic suppliers	7,826,024	6,593,827
Payables to foreign suppliers	5,185,963	5,508,753
Payables from advances	78,841	454,204
Total trade payables	13,492,783	12,713,863

PAYABLES TO SUBSIDIARIES

in thousand SIT	31 Dec 2006	31 Dec 2005
TERME KRKA, d. o. o., Novo mesto, Slovenia	20,324	25,899
KRKA-FARMA d. o. o., Zagreb, Croatia	65,028	0
"KRKA-FARMA" d. o. o. Novi Sad, Serbia	0	477
KRKA-POLSKA, Sp. z o. o., Warsaw, Poland	62,540	52,067
KRKA Magyarország Kft, Budapest, Hungary	123,985	0
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	129,762	79,735
KRKA Sverige AB, Stockholm, Sweden	316	176
Helvetius-S. R. L.,Trieste, Italy	0	-1,275
Total payables to subsidiaries	401,955	157,079

29. Other current liabilities

in thousand SIT	31 Dec 2006	31 Dec 2005
Accrued contractual discounts on products sold to subsidiaries	126,580	258,748
Accrued contractual discounts on products sold to other customers	1,777,280	3,307,117
Payables to employees – gross wages, other charges	3,667,675	3,027,437
Liabilities in connection with derivative financial instruments	0	234,840
Other	158,328	105,050
Total other current liabilities	5,729,863	6,933,192

30. Contingent liabilities

in thousand SIT	31 Dec 2006	31 Dec 2005
Bills issued in connection with loans	9,840,498	14,164,115
Guarantees issued to Group companies in connection with loans	14,824	1,917,521
Other guarantees issued	248,386	252,280
Other	539,289	362,579
Total contigent liabilites	10,642,997	16,696,495

31. Financial instruments

Long-term stability of the Company's performance is managed by means of active risk management policies as presented in detail under 'Hedging'. 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 is hedged by the assessment of the customers' credit rating as well as by debt collection procedures. No major debt write-offs due to customers' failures of payments were recorded in 2006.

Interest rate risk

In 2004, three non-current loans (two of them denominated in US dollars, one in euros) were hedged by using interest rate swaps. No further hedging instruments were applied in 2005 and 2006. As at 31 December 2006, the contract value of the hedged item amounted to 9,389,169 thousand SIT, and the Company's interest rate swaps recorded at fair value amounted to 173,353 thousand SIT.

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

Long-term borrowings

in thousand SIT	31 Dec 2006	31 Dec 2005
Long-term borrowings	9,840,498	14,164,116
– short-term portion of long-term borrowings	2,856,654	4,152,556
Average balance of long-term borrowings	12,002,307	14,713,074
Interest paid (financial year)	437,641	464,981
Other cost of long-term borrowings	0	0
Average cost of long-term borrowings (financial year)	3.6%	3.2%
Contracted to mature in three years or less	20%	69%
Contracted to mature in more than three years	80%	31%
Currency structure of long-term borrowings:		
– US dollar	16%	21%
– Euro	84%	78%
– Slovenian tolar	0%	1%
Structure of long-term borrowings in terms of interest rates:		
– Variable interest rate	100%	100%
– Fixed interest rate	0%	0%

Short-term borrowings

in thousand SIT	31 Dec 2006	31 Dec 2005
Short-term borrowings, including short-term portion of long-term loans, thereof:	11,120,221	8,352,968
- borrowings from banks	8,420,048	5,826,562
- borrowings from other entities	2,700,173	2,526,406
Short-term borrowings	8,263,567	4,342,474
Average balance of short-term borrowings	6,321,990	3,747,940
Interest paid (financial year)	288,995	169,069
Other costs of raising long-term borrowings	734	1,253
Average cost of short-term borrowings (financial year)	4.6%	4.5%
Currency structure of short-term borrowings:		
- Euro	67%	43%
- SIT	33%	57%
Interest rate structure of short-term borrowings		
- Variable interest rate	68%	41%
- Fixed interest rate	32%	59%

Foreign currency risk

Currency options (i.e. range forwards) and futures are used to hedge against foreign currency risks. The contract value of both derivative financial instruments as at 31 December 2006 amounted to 11,279,660 thousand SIT, and the fair value recorded in the Balance Sheet as at 31 December 2006 is 201,539 thousand SIT.

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 2006.

Sensitivity analysis

The lowering imbalances in currency positions resulting from the improved structure of the Company's import and export activities, the growing ratio of transactions performed in euros, as well as the hedging instruments have contributed to a lower impact of exchange currency changes upon the Company's financial results. We believe that any considerable future changes in exchange rates will not have a significant impact on the Company's financial results. Due to a relatively low indebtedness and hedging instruments enacted in the past, the same applies to any considerable changes in interest rates that may occur in the future.

Fair value

in thousand SIT	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current investments	2,840,397	2,840,397	2,595,070	2,595,070
– interests and shares	1,502,246	1,502,246	1,167,910	1,167,910
– other non-current investments	62,391	62,391	62,391	62,391
– long-term loans granted	1,275,760	1,275,760	1,364,769	1,364,769
Current investments	7,618,122	7,618,122	3,933,668	3,933,668
– instruments held for trading	2,849,357	2,849,357	1,524,869	1,524,869
– interest-bearing current investments	820,560	820,560	665,431	665,431
– other current investments	1,750,182	1,750,182	878,698	878,698
– short-term loans granted	2,198,023	2,198,023	864,670	864,670
Trade and other receivables	37,739,554	37,739,554	33,774,998	33,774,998
Cash and cash equivalents	1,077,973	1,077,973	758,768	758,768
Interest bearing derivatives	173,353	173,353	58,491	58,491
– assets	173,353	173,353	65,619	65,619
– liabilities	0	0	–7,128	–7,128
Embedded foreign currency derivatives	201,539	201,539	–168,699	–168,699
– assets	201,539	201,539	59,013	59,013
– liabilities	0	0	–227,712	–227,712
Borrowings	–18,272,012	–18,272,012	–18,506,590	–18,506,590
Trade and other payables	–13,492,783	–13,492,783	–12,713,863	–12,713,863
Total	17,886,143	17,886,143	9,731,843	9,731,843

Fair value measurement

The manner of the fair value measurement of the individual types of financial instruments is 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.

Futures

The fair value of futures is recorded as the difference between the agreed spot rate upon closing a contract and the rate for futures of the same maturity as at the balance sheet date, multiplied by the value of the futures as at the last day of the Quarterly for the last entire financial year. The rate as at the balance sheet date is a sum of the current rate and the market points, reflecting the difference between the interest rates of the two currencies of the futures, under consideration of the maturity. The information on market points may be obtained from any of the Slovenian banks with which an ISDA Master Agreement was signed, or from the specific derivatives valuation models within Reuters information platform.

Options

The fair value of currency options is computed as at the last day of the Quarterly for the last entire financial year, by the use of specific derivatives valuation models available within Reuters information platform.

Interest rate swaps

The fair value of interest rate swaps is computed as at the last day of the Quarterly for the last entire financial year, by the use of specific derivatives valuation models available within Reuters information platform.

Financial assets available for sale

If the financial assets are listed on the stock exchange market, their fair value equals to 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 with a repayment period exceeding 5 years is recorded under consideration of the discounted cash flow of the principal and interest. A 4.00% discount rate was applied. It has been computed under consideration of yield to maturity for government bonds of the Republic of Slovenia, based on the information published by the Ljubljana Stock Exchange and/or the TUVL, authorised for secondary trading in government securities. In our opinion, the applied discount rate appropriately reflects the financial market situation in Slovenia as well as in other European financial markets.

Receivables and liabilities

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

32. Transactions with related parties

Intragroup transactions

Transactions with Group companies in 2006 are presented below.

in thousand SIT	Sales	Expenses	Borrowings	Loans
Terme Krka, d. o. o., Novo mesto, Slovenia*	44,610	217,719	0	3,067,000
KRKA-FARMA d. o. o., Zagreb, Croatia	6,978,747	422,955	0	0
"KRKA-FARMA" d. o. o. Novi Sad, Serbia	1,536,148	3,250	0	0
KRKA-FARMA DOOEL, Skopje, Macedonia	1,537,152	0	0	0
OOO "KRKA-RUS", Istra, Russian Federation	2,593,068	0	0	364,491
OOO "KRKA FARMA", Sergiev Posad, Russian Federation	4,335,505	0	0	0
KRKA-POLSKA, Sp. z o. o., Warsaw, Poland	13,996,820	152,742	0	0
KRKA Magyarország Kft, Budapest, Hungary	0	886,124	0	0
KRKA Pharma Dublin Limited, Dublin, Ireland	0	109,683	0	0
KRKA Sverige AB, Stockholm, Sweden	926,023	7,695	0	0
Total	31,948,073	1,800,168	0	3,431,491

* Including the subsidiaries Terme Krka – Strunjan, d. o. o. and Golf Grad Otočec, d. o. o.

The transactions between the parent and the above-mentioned Group companies were based on sales contracts, which included the rendering of products and services at market prices.

For intragroup receivables and liabilities, please refer to Notes 20 and 28.

Related parties as shareholders

As at the year-end, the members of the Management Board of the Krka Company held 5,693 of shares in the Krka Company, representing 0.16% of the total equity, and the Managing Directors of subsidiaries held 2,514 of shares or 0.07% of the total equity. 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 2006.

As at the year-end, the members of the Supervisory Board held 888 of shares in the Krka Company, representing 0.03% of the total equity.

Shares of members of the Management Board and the Supervisory Board in the Krka Company

	2006		2005	
	Number of shares	Share (in %)	Number of shares	Share (in %)
Management Board members				
Jože Colarič	2,100	0.0593	1,700	0.0480
Janez Poljanec	2,206	0.0623	2,206	0.0623
Aleš Rotar	1,277	0.0361	1,157	0.0327
Zvezdana Bajc	110	0.0031	110	0.0031
Danica Novak Malnar	0	0.0000	0	0.0000
Total Management Board	5,693	0.1607	5,173	0.1460
Supervisory Board members				
Gregor Gomišček	12	0.0003	12	0.0003
Marko Kranjec	101	0.0029	101	0.0029
Mateja Božič	0	0.0000	0	0.0000
Anton Rous	0	0.0000	0	0.0000
Draško Veselinovič	0	0.0000	0	0.0000
Alojz Zupančič	514	0.0145	514	0.0145
Sonja Kermc	211	0.0060	211	0.0060
Tomaž Sever	50	0.0014	50	0.0014
Mateja Vrečer	0	0.0000	0	0.0000
Total Supervisory Board	888	0.0251	888	0.0251

Emoluments of groups of persons in 2006

in thousand SIT	Total emoluments	Hereof participation in profit according to the annual meeting
Members of the Management Board	463,285	0
Members of the Supervisory Board	104,570	51,291
Persons employed under individual employment contracts	4,157,476	0
Other employees	21,104,124	0
Total emoluments of groups of persons	25,829,455	51,291

Emoluments of the Management Board members represent salaries and wages, fringe benefits and any other receipts.

Emoluments of the Management Board members in 2006

in thousand SIT	Gross remuneration – fixed portion	Gross remuneration – variable	Fringe benefits and other receipts	Total emoluments
Jože Colarič	63,918	65,632	2,481	132,031
Janez Poljanec	52,917	54,339	3,011	110,267
Aleš Rotar	49,915	51,265	4,193	105,373
Zvezdana Bajc	42,098	42,726	2,998	87,822
Danica Novak Malnar	26,243	0	1,549	27,792
Total emoluments of the Management Board	235,091	213,962	14,232	463,285

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.

The 12 members that performed their tasks in the Supervisory Board until 21 June 2005 were paid out dividends in 2006 pursuant to a resolution adopted at the annual meeting of shareholders, for the work performed as members of the Supervisory Board in the first half of 2005.

The 9 members that performed their tasks in the Supervisory Board from 22 June 2005 on were paid out dividends in 2006 pursuant to a resolution adopted at the annual meeting of shareholders, for the work performed as members of the Supervisory Board in the second half of 2005. In compliance with the resolution adopted at the annual meeting on 6 July 2006, the members of the Supervisory Board from 1 January 2006 shall receive a fixed monthly amount for the tasks performed in the Supervisory Board. Attendance fee is paid to the members of the Supervisory Board, Audit Committee and Nomination and Remuneration Committee for attending the meetings. New amounts of attendance fees were approved at the annual meeting, effective as of the date when the annual meeting took place.

Emoluments of the Supervisory Board members in 2006

in thousand SIT	Monthly remuneration	Attendance fees	Participation in profit	Total
Supervisory Board until 21 June 2005 (12 members)				
Janez Prijatelj, President	0	0	4,460	4,460
Janko Kastelic, Deputy President	0	0	2,230	2,230
Bojan Dejak	0	0	2,230	2,230
Borut Jamnik	0	0	2,230	2,230
Sonja Kermc	0	0	2,230	2,230
Mihaela Korent	0	0	2,230	2,230
Miroslav Kramarič	0	0	2,230	2,230
Darinka Kure	0	0	2,230	2,230
Mojca Osolnik	0	0	2,230	2,230
Boris Petančič	0	0	2,230	2,230
Božena Šuštar	0	0	2,230	2,230
Stanislav Valant	0	0	2,230	2,230
Total	0	0	28,990	28,990
Supervisory Board since 22 June 2005 (9 members)				
Gregor Gomišček, President	6,060	1,316	4,460	11,836
Marko Kranjec, Deputy President	5,799	774	2,230	8,803
Mateja Božič	4,744	542	2,230	7,516
Sonja Kermc	4,744	697	2,230	7,671
Anton Rous	4,744	697	2,230	7,671
Tomaž Sever	4,744	774	2,230	7,748
Draško Veselinovič	5,270	852	2,230	8,352
Mateja Vrečer	4,744	774	2,230	7,748
Alojz Zupančič	5,270	735	2,230	8,235
Total	46,119	7,161	22,300	75,580
GRAND TOTAL	46,119	7,161	51,290	104,570

LOANS GRANTED TO GROUPS OF PERSONS

in thousand SIT	Loan balance as at 31 Dec 2006	Repayments in 2006
Members of the Management Board	2,886	654
Members of the Supervisory Board in the parent company (employee representatives)	362	155
Persons employed under individual employment contracts	84,559	18,923
Other employees	1,251,944	147,204
Total loans to groups of persons	1,339,751	166,936

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

33. Educational structure of employees

	2006		2005	
	Headcount	Share (in %)	Headcount	Share (in %)
PhD	50	1.2	44	1.1
MSc	135	3.3	127	3.3
University education	1612	39.2	1363	35.5
Higher professional education	183	4.4	145	3.8
Vocational college education	142	3.5	139	3.6
Secondary school education	833	20.2	818	21.3
Skilled workers	990	24.0	1022	26.6
Unskilled workers	173	4.2	186	4.8
Total (average for the period)	4118	100	3844	100

34. Transactions with the audit firm

The annual service fee for audit services performed by the audit company KPMG Slovenija, d. o. o. amounted to 23,964 thousand SIT. KPMG poslovno svetovanje d.o.o., on the other hand, provided tax advisory services in the value of 3,185 thousand SIT.

35. Events after the balance sheet date

At the beginning of 2007, initial capital was paid in for two new companies incorporated in Portugal and USA by the parent company Krka, d. d., Novo mesto: KRKA FARMACÊUTICA, LDA, Estoril, Portugal and KRKA USA, LLC, Delaware, USA. Krka, d. d., Novo mesto is the sole shareholder of the two companies.

Auditor's report

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 2006, 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.

We also read the Management Report.

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. 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements.

An audit involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, we consider 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 principles 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 opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company KRKA, d.d., Novo mesto as at 31 December 2006, and the result of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as endorsed by the European Union.

The Management Report is in conformity with the audited 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
Partner

Ljubljana, 15 March 2007

KPMG Slovenija, d.o.o.

Appendix: Financial statements of the Krka Group and Krka, d. d., Novo mesto, presented in euros

The translation of SIT to EUR was conducted in accordance with Note 1 to the Introduction to the Slovenian Accounting Standards (2006) – Change in the presentation currency, approved by the Professional Council of the Slovene Institute of Auditors at its 80th session. Accordingly, all items presented in the financial statements are translated to euro by the use of the official exchange rate of the Bank of Slovenia effective at the last day of the comparable period i.e. 1 EUR=239.6400 SIT for 2006 and 1 EUR=239.5756 SIT for 2005.

Consolidated Balance Sheet

in thousands of euros	31 Dec 2006	31 Dec 2005
Assets		
Property, plant and equipment	506,821	451,487
Intangible assets	23,608	21,114
Investments in associates	2,024	1,130
Long-term loans	3,564	3,714
Other investments	6,737	5,343
Deferred tax assets	31,840	19,945
Other non-current assets	253	51
Non-current assets	574,847	502,785
Inventories	115,926	120,908
Trade and other receivables	153,890	137,780
Current investments	24,067	14,154
Cash and cash equivalents	10,399	12,638
Current assets	304,282	285,480
Total assets	879,128	788,265
Equity		
Share capital	59,132	59,148
Own shares	-19,489	-19,494
Reserves	147,660	145,613
Retained earnings	372,060	284,385
Reserves for fair value	3,480	2,344
Translation reserves	154	19
Equity holders of the parent	562,998	472,015
Minority interest	7,907	7,570
Total equity	570,905	479,585
Liabilities		
Borrowings	34,584	48,709
Provisions	122,554	100,043
Grants received	2,777	1,861
Deferred tax liabilities	4,025	1,190
Total non-current liabilities	163,940	151,803
Trade payables	60,889	58,619
Borrowings	48,769	38,070
Income tax liabilities	7,020	27,922
Other liabilities	27,605	32,266
Total current liabilities	144,283	156,877
Total liabilities	308,223	308,680
Total equity and liabilities	879,128	788,265

Consolidated Income Statement

in thousands of euros	2006	2005
Sales revenues	667,955	554,137
Production cost of goods sold	248,985	216,415
Gross operating yield	418,969	337,722
Sales and marketing	165,844	173,681
R&D costs	52,650	40,120
Administrative expenses	53,544	55,876
Other operating income	3,564	51,012
Operating profit	150,495	119,057
Financial income	15,500	16,652
Financial expenses	17,239	12,450
Net financial expenses / income	-1,739	4,202
Profit before tax	148,756	123,260
Income tax expense	36,669	25,924
Profit for the period	112,086	97,335
Equity holders of the parent	111,682	97,208
Minority interest	405	128
Earnings per share (in EUR)	33	29

Consolidated Statement of Changes in Equity

			Reserves			Retained earnings					
in thousands of euros	Called capital	Own shares	Share premium	Legal reserves	Statutory reserves	Profit reserves	Net profit for the period	Net profit carried forward	Fair value reserves	Minority interest	Total equity
Balance at 01 Jan 2005	59,148	-19,494	121,019	14,994	6,261	189,785	44,403	-20,724	2,421	7,595	405,407
Entry of net profit for the period	0	0	0	0	0	0	97,208	0	0	128	97,335
Formation of statutory reserves	0	0	0	0	3,339	0	-3,339	0	0	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board of the Krka Company	0	0	0	0	0	27,131	-27,131	0	0	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	-44,403	44,403	0	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	24,572	0	-24,572	0	0	0
Dividends paid	0	0	0	0	0	-16,174	0	-3,804	0	-133	-20,111
Recognised income and expenses	0	0	0	0	0	0	0	-2,969	-57	-19	-3,046
Balance at 31 Dec 2005	59,148	-19,494	121,019	14,994	9,600	225,314	66,737	-7,667	2,364	7,570	479,585
Balance at 1 Jan 2006	59,132	-19,489	120,986	14,990	9,579	225,253	66,719	-7,665	2,364	7,568	479,456
Entry of net profit for the period	0	0	0	0	0	0	111,682	0	0	405	112,086
Formation of statutory reserves	0	0	0	0	2,086	0	-2,086	0	0	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board of the Krka Company	0	0	0	0	0	20,030	-20,030	0	0	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	-66,719	66,719	0	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	30,512	0	-30,512	0	0	0
Dividends paid	0	0	0	0	0	0	0	-23,499	0	-65	-23,564
Recognised income and expenses	0	0	0	0	0	0	0	1,655	1,271	0	2,926
Balance at 31 Dec 2006	59,132	-19,489	120,986	14,990	11,684	275,796	89,565	6,698	3,634	7,907	570,905

Consolidated Cash Flow Statement

in thousands of euros	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	112,086	97,335
Adjustments for:	85,623	76,939
– Amortisation /Depreciation	47,704	45,792
– Foreign exchange gain	-1,962	-2,389
– Foreign exchange loss	4,147	3,493
– Investment income	-9,831	-40
– Financial income	3,636	-293
– Financial expenses	4,980	4,225
– Income taxes and other taxes not included in operating expenses	36,669	25,924
– Other	278	229
Operating profit before changes in net operating current assets and provisions	197,710	174,275
Change in trade receivables	-18,880	-37,375
Change in inventories	4,950	-37,281
Change in operating debts (liabilities)	-1,101	13,583
Change in other current liabilities and provisions	19,751	15,288
Income taxes paid	-65,512	-18,901
Cash generated from operations	136,918	109,590
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	768	485
Proceeds from sale of investments	1,014	270
Dividends received	201	169
Proceeds from sale of property, plant and equipment	1,565	1,526
Purchase of intangible assets	-7,298	-7,713
Purchase of property, plant and equipment	-96,910	-75,209
Proceeds/payments in connection with long-term loans	-25	360
Proceeds/payments in connection with other non-current assets	-1,150	-6
Acquisition of current investments	-7,802	-7,600
Acquisition of derivative financial instruments	1,817	-1,395
Net cash used in investing activities	-107,820	-89,114
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from an increase in short-term financial liabilities	10,492	16,552
Interest paid	-4,764	-2,286
Payment of long-term financial liabilities	-13,162	-13,931
Dividends paid	-23,534	-20,073
Net cash used in financing activities	-30,967	-19,739
Net increase in cash and cash equivalents	-1,869	737
Cash and cash equivalents at beginning of period	12,635	11,859
Effect of exchange rate fluctuations on cash held	-367	43
Net cash and cash equivalents at end of period	10,399	12,638

Balance Sheet of the Krka company

in thousands of euros	31 Dec 2006	31 Dec 2005
Assets		
Property, plant and equipment	377,442	326,009
Intangible assets	22,400	20,443
Investments in subsidiaries	121,513	115,043
Long-term loans	5,324	5,697
Other investments	6,529	5,135
Deferred tax assets	27,648	15,581
Other non-current assets	178	37
Non-current assets	561,034	487,946
Inventories	99,480	112,212
Trade and other receivables	157,484	140,978
Current investments	31,790	16,419
Cash and cash equivalents	4,498	3,167
Current assets	293,253	272,777
Total assets	854,286	760,723
Equity		
Share capital	59,132	59,148
Own shares	-19,489	-19,494
Reserves	147,660	145,613
Retained earnings	379,134	290,115
Reserves for fair value	3,480	2,344
Total equity	569,918	477,726
Liabilities		
Borrowings	29,143	41,789
Provisions	116,806	94,721
Grants received	449	366
Deferred tax liabilities	3,954	1,110
Total non-current liabilities	150,351	137,985
Trade payables	56,304	53,068
Borrowings	47,105	35,459
Income tax liabilities	6,698	27,544
Provisions and other liabilities	23,910	28,939
Total current liabilities	134,017	145,011
Total liabilities	284,368	282,996
Total equity and liabilities	854,286	760,723

Income Statement of the Krka company

in thousands of euros	2006	2005
Sales revenues	586,102	486,570
Production cost of goods sold	213,248	188,063
Gross operating yield	372,854	298,507
Sales and marketing	133,943	146,326
R&D costs	51,764	39,601
Administrative expenses	42,182	41,952
Other operating income	2,000	49,588
Operating profit	146,965	120,217
Financial income	14,778	13,704
Financial expenses	14,494	15,589
Net financial income / expenses	285	-1,884
Profit before tax	147,250	118,332
Income tax expense	34,223	24,586
Profit for the period	113,027	93,746
Earnings per share (in EUR)	33	28

Statement of changes in equity of the Krka company

			Reserves			Retained earnings				
in thousands of euros	Called capital	Own shares	Share premium	Legal reserves	Statutory reserves	Profit reserves	Net profit for the period	Net profit carried forward	Fair value reserves	Total equity
Balance at 31 Dec 2004	59,148	-19,494	121,019	14,994	6,261	189,785	43,033	-11,460	2,170	405,456
Correction	0	0	0	0	0	0	0	1,298	0	1,298
Balance at 01 Jan 2005	59,148	-19,494	121,019	14,994	6,261	189,785	43,033	-10,162	2,170	406,754
Entry of net profit for the period	0	0	0	0	0	0	93,746	0	0	93,746
Formation of statutory reserves	0	0	0	0	3,339	0	-3,339	0	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board	0	0	0	0	0	27,131	-27,131	0	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	-46,699	46,699	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	24,572	0	-24,572	0	0
Dividends paid	0	0	0	0	0	-16,174	0	-3,804	0	-19,987
Recognised income and expenses	0	0	0	0	0	0	0	-2,969	174	-2,796
Balance at 31 Dec 2005	59,148	-19,494	121,019	14,994	9,600	225,314	59,609	5,192	2,344	477,726
Balance at 1 Jan 2006	59,132	-19,489	120,986	14,990	9,598	225,254	59,593	5,191	2,343	477,598
Entry of net profit for the period	0	0	0	0	0	0	113,027	0	0	113,027
Formation of statutory reserves	0	0	0	0	2,086	0	-2,086	0	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board	0	0	0	0	0	20,030	-20,030	0	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	-59,593	59,593	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	30,512	0	-30,512	0	0
Dividends paid	0	0	0	0	0	0	0	-23,499	0	-23,499
Recognised income and expenses	0	0	0	0	0	0	0	1,655	1,136	2,792
Balance at 31 Dec 2006	59,132	-19,489	120,986	14,990	11,684	275,796	90,911	12,427	3,480	569,918

Cash Flow Statement of the Krka company

in thousands of euros	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	113,027	93,746
Adjustments for:	68,429	66,482
– amortisation /depreciation	36,193	34,973
– foreign exchange gain	-1,507	-6,361
– foreign exchange loss	4,781	3,519
– investment income	-11,637	-26
– investment expense	2,978	4,802
– financial income	0	-293
– financial expense	3,119	4,926
– income taxes and other taxes not included in operating expenses	34,223	24,586
– other	278	356
Operating profit before changes in net operating current assets and provisions	181,456	160,228
Change in trade receivables	-20,087	-32,497
Change in inventories	12,701	-35,062
Change in operating debts (liabilities)	-1,571	10,453
Change in other current liabilities and provisions	18,121	14,140
Income taxes paid	-63,171	-17,052
Cash generated from operations	127,450	100,210
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	901	386
Proceeds from sale of investments	1,014	270
Dividends received	201	108
Proportionate profit of subsidiaries	2,027	0
Proceeds from sale of property, plant and equipment	1,176	627
Purchase of intangible assets	-6,459	-7,737
Purchase of property, plant and equipment	-79,862	-50,776
Payments related to subsidiaries – capital increase and loss coverage	-6,501	-10,160
Proceeds/payments in connection with long-term loans	90	237
Payments in connection with other non-current assets	-141	-6
Acquisition of current investments	-13,398	-9,423
Acquisition of derivative financial instruments	1,817	-1,395
Net cash used in investing activities	-99,133	-77,869
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from an increase in short-term financial liabilities	11,537	16,670
Interest paid	-3,011	-2,610
Payment of long-term financial liabilities	-11,676	-17,799
Dividends paid	-23,468	-20,073
Net cash used in financing activities	-26,618	-23,812
Net increase in cash and cash equivalents	1,699	-1,471
Cash and cash equivalents at beginning of period	3,166	4,595
Effect of exchange rate fluctuations on cash held	-367	43
Net cash and cash equivalents at end of period	4,498	3,167

Who is Who in Krka Company

President of the Management Board and Chief Executive
Jože Colarič
T: +386 7 332 16 50
E: joze.colaric@krka.biz

Member of the Management Board and Director of Product Supply
Janez Poljanec
T: +386 1 475 15 05
E: janez.poljanec@krka.biz

Member of the Management Board and Director of Research and Development
Aleš Rotar
T: +386 7 331 25 07
E: ales.rotar@krka.biz

Member of the Management Board and Director of Economics and Information Processing
Zvezdana Bajc
T: +386 7 332 37 81
E: zvezdana.bajc@krka.biz

Member of the Management Board - Worker Director
Danica Novak Malnar
T: +386 7 331 25 70
E: danica.malnar@krka.biz

Deputy Chief Executive
Vincenc Manček
T: +386 7 331 26 40
E: vinko.mancek@krka.biz

Assistant Chief Executive
Borut Lekše
T: +386 1 475 15 06
E: borut.lekse@krka.biz

Senior Professional Consultant
Dušan Dular
T: +386 7 331 21 86
E: dusan.dular@krka.biz

Technical Director and Director of Engineering and Technical Services
Peter Miklavčič
T: +386 7 331 25 00
E: peter.miklavcic@krka.biz

Director of Marketing and Director of Pharmaceuticals
Elizabeta Suhadolc
T: +386 1 475 13 81
E: elizabeta.suhadolc@krka.biz

Deputy Director of Marketing and Deputy Director of Pharmaceuticals
Alenka Jerman
T: +386 1 475 13 37
E: alenka.jerman@krka.biz

Medical Director
Jože Drinovec
T: +386 1 475 13 35
E: joze.drinovec@krka.biz

Director of Marketing of Self-Medication and Cosmetic Products
Samo Komel
T: +386 1 475 13 77
E: samo.komel@krka.biz

Director of Marketing of Animal Health Products
Jože Primc
T: +386 7 331 23 71
E: joze.primc@krka.biz

Director of Sales and Director of the Region East Europe
Damjan Možina
T: +386 1 475 13 52
E: damjan.mozina@krka.biz

Deputy Director of Sales and Director of the Region Central Europe
Tomaž Sever
T: +386 1 475 13 56
E: tomaz.sever@krka.biz

Deputy Director of Sales for Russian Federation and Director of the Key Market Russian Federation
Miran Bevec
T: +386 1 475 11 85
E: miran.bevec@krka.biz

Director of the Region Slovenia and Director of the Key Market Slovenia
Stane Jarc
T: +386 7 332 38 48
E: stane.jarc@krka.biz

Director of the Region South-East Europe
Zdravko Čuk
T: +386 7 331 27 78
E: zdravko.cuk@krka.biz

Director of the Region West Europe and Overseas Markets and Director of the Key Market West Europe
Boštjan Korošec
T: +386 1 475 12 71
E: bostjan.korosec@krka.biz

Director of the Key Market Croatia
Hrvoje Hudiček
T: + 385 1 631 21 00
E: hrvoje.hudicek@krka.biz

Director of the Key Market Poland
David Bratož
T: + 48 22 573 75 00
E: david.bratoz@krka.biz

Deputy Director of Research and Development and Director of New Products
Suzana Kolenc
T: +386 7 331 20 23
E: suzana.kolenc@krka.biz

Deputy Director of Research and Development and Director of Research
Aleš Hvala
T: +386 7 331 28 94
E: ales.hvala@krka.biz

Director of Development
Božena Šuštar
T: +386 7 331 26 60
E: bozena.sustar@krka.biz

Deputy Director of Product Supply and Director of Purchasing
Branko Pavlič
T: +386 1 475 14 50
E: branko.pavlic@krka.biz

Director of Pharmaceutical Production
Vesna Voćanec
T: +386 7 331 35 47
E: vesna.vocanec@krka.biz

Director of API production
Milan Bezeg
T: +386 7 332 23 49
E: milan.bezeg@krka.biz

Director of Technical Services and Energy Supply
Marko Lampret
T: +386 7 331 26 20
E: marko.lampret@krka.biz

Director of Finance
Brane Kastelec
T: +386 7 331 29 14
E: brane.kastelec@krka.biz

Director of Quality Management
Ljubica Mikša
T: +386 7 331 26 77
E: ljubica.miksa@krka.biz

Director of Human Resources
Boris Dular
T: +386 7 331 26 95
E: boris.dular@krka.biz

Head of Information Technology and Telecommunications
Miran Kapš
T: +386 7 331 24 70
E: miran.kaps@krka.biz

Head of Public Relations
Elvira Medved
T: +386 7 332 10 02
E: elvira.medved@krka.biz

Head of Legal Affairs
Dušan Jenko
T: +386 7 331 25 32
E: dusan.jenko@krka.biz

Head of Safety and Health at Work
Andrej Škulj
T: +386 7 332 22 05
E: andrej.skulj@krka.biz

Head of Public Services
Darja Colarič
T: +386 7 331 25 82
E: darja.colaric@krka.biz

Head of Internal Audit
Mira Rataj Siročić
T: +386 7 331 22 22
E: mira.rataj@krka.biz

Head of the Services for Companies and Representative Offices Abroad
Jožica Štamcar
T: +386 7 331 24 02
E: jozica.stamcar@krka.biz

Addresses of representative offices of Krka, d. d., Novo mesto abroad

Albania
1000 Tirana, Rr. Sami Frashëri,
P. Aviacionit, Sht. 1, Ap. 5
Director **Afrim Ibrahimi**
T: + 355 4 274 585
E: afrim.ibrahimi@krka.biz

Azerbaijan
AZ1102 Baku, 3001 Tbilisi Avenue
Manager **Ivan Gračan**
T: + 386 1 475 1421
E: ivan.gracan@krka.biz

Belarus
220030 Minsk, Ul. Engelsa 34a, str. 2, of. 511
Director **Natallia Tretsyakevich**
T: + 375 172 013 511
E: natallia.tretsyakevich@krka.biz

Bosnia and Herzegovina
71000 Sarajevo, Ul. Džemala Bijedića 125a
Director **Janez Baš**
T: + 387 33 720 550
E: janez.bas@krka.biz

Office:
78000 Banja Luka, Ul. Pave Radana 53
T: + 387 33 720 550
E: janez.bas@krka.biz

Bulgaria
1164 Sofia, Jakubica 19
Director **Aleksandar Spasovski**
T: + 359 2 96 23 450
E: aleksandar.spasovski@krka.biz

China
201206 Shanghai, 1812 Founder Tower
1122 Xin Jin Qiao Road
Director **Andrej Prešeren**
T: + 86 21 6105 2070
E: andrej.preseren@krka.biz

Czech Republic
186 00 Praga 8, Sokolovská 79/192
Director **Andrej Dobovišek**
T: + 420 2 21 115 115
E: andrej.dobovisek@krka.biz

Estonia
11317 Tallinn, Pärnu mnt 139C
Director **Merit Kiili**
T: + 372 6 850 100
E: merit.kiili@krka.biz

Georgia
0160 Tbilisi, 31, K. Gamsakhurdia ave., app. 18
Manager **Jernej Špiler**
T: + 386 1 475 12 42
E: jernej.spiler@krka.biz

India
560066 Bangalore, 57, Phase 1, Palm Meadows
Airport Whietefield Road, Whitefield
Director **Jože Gnidovec**
T: + 91 80 28 54 09 80
E: joze.gnidovec@krka.biz

Kazakhstan
480009 Almaty, Pr. Abaja 153, of. 19 -20
Director **Luiza Beata Nocun**
T: + 7 3272 46 94 83
E: luiza.nocun@krka.biz

Kosovo
10000 Prishtina, Rr. Pashko Vasa, Nr. 18, kati i III,
Qytetza Pejton
Director **Hatixhe Haziri**
T: + 381 38 240 688
E: hatixhe.haziri@krka.biz

Latvia
1010 Riga, Kr. Valdemara 37
Director **Elita Šukele**
T: + 371 733 86 12
E: elita.sukele@krka.biz

Lithuania
01112 Vilnius, A. Goštauto g. 40
Director **Liudvikas Lukošaitis**
T: + 370 52 36 27 40
E: liudvikas.lukosaitis@krka.biz

Moldova
2001 Chisináu, Str. Tighina 49/3
Director **Adrian Chiu**
T: + 373 22 500 561
E: adrian.chiu@krka.biz

Romania
77106 Bucharest, Str. Sevastopol nr. 24, et. 5, Sector 1
Director **Amelia Tataru**
T: + 40 21 310 66 05
E: amelia.tataru@krka.biz

Russian Federation
123022 Moscow, Ul. 2. Zvenigorodskaya, d. 13, str. 41
Director **Aleš Zorko**
T: + 7 495 739 66 00
E: ales.zorko@krka.biz

Serbia
11000 Belgrade, Beogradska 39/6
Director **Andrej Klobučar**
T: + 381 11 323 89 68
E: andrej.klobucar@krka.biz

Slovakia
81105 Bratislava, Moyzesova 4
Director **Marjan Vrbnjak**
T: + 421 2 571 04 501
E: marjan.vrbnjak@krka.biz

Ukraine
01015 Kiev, Ul. Staronavodnitskaya 13, of. 125, PB 42
Director **Jordan Urh**
T: + 380 44 569 28 38
E: jordan.urh@krka.biz

Uzbekistan
100128 Tashkent, Ul. Usmana Yusupova 101,
Shayhontohurski rayon
Director **Guzal Niyazova**
T: + 998 71 144 65 63
E: guzal.niyazova@krka.biz

Krka Company subsidiaries

Croatia
KRKA-FARMA, d. o. o., Zagreb
10002 Zagreb, Radnička cesta 48/2, p. p. 205
Director **Hrvoje Hudiček**
T: + 385 1 631 21 00
E: hrvoje.hudicek@krka.biz

Czech Republic
KRKA ČR, s. r. o., Prague
186 00 Prague 8, Sokolovská 79/192
Director **Andrej Dobovišek**
T: + 420 2 21 115 115
E: andrej.dobovisek@krka.biz

Germany
KRKA Aussenhandels GmbH, Munich
81241 Munich, Planegger Str. 36
Director **Irena Bostič**
T: + 386 1 475 14 72
E: irena.bostic@krka.biz

Hungary
KRKA Magyarország Kft., Budapest
1036 Budapest, Pacsirtamező u. 5/a, I/3
Director **Katalin Hubay**
T: + 36 1 355 84 90
E: katalin.hubay@krka.biz

Ireland
KRKA PHARMA DUBLIN LIMITED
Dublin 2, 1 Stokes Place
St. Stephen's Green
Director **Viktor Kozjan**
T: + 46 8 643 67 66
E: viktor.kozjan@krka.biz

Macedonia
KRKA-FARMA DOOEL, Skopje
1000 Skopje, Mitropolit Teodosij Gologanov br. 28/II-23
Director **Svetlana Stanoevska**
T: + 389 2 32 98 340
E: svetlana.stanoevska@krka.biz

Poland
KRKA-POLSKA Sp. z o.o., Warsaw
02-235 Warsaw, Równoległa 5
Director **David Bratož**
T: + 48 22 573 75 00
E: david.bratoz@krka.biz

Portugal
KRKA Farmacêutica, Unipessoal Lda., Estoril
2765 - 272 Estoril, Avenida de Portugal, 154 -1 º
Director **José Pedro Abrantes Torres**
T: + 351 21 464 36 50
E: pedro.torres@krka.biz

Russian Federation
OOO "KRKA-RUS", Istra
143500 Moskovskaya oblast, Istra, Ul. Moskovskaya, d. 50
Director **Boris Veselič**
T: + 7 495 994 70 70
E: boris.veselic@krka.biz

Office:
123056 Moscow, Gruzinsky pereulok, d. 3, kv. 41-42
T: + 7 495 254 23 76
E: boris.veselic@krka.biz

OOO "KRKA FARMA", Sergiev Posad
141 300 Moskovskaya oblast
Sergiev Posad, Moskovskoe Shosse 46a
Director **Natalya Radchenko**
T: + 7 495 739 66 11
E: nataliya.radchenko@krka.biz

Office:
123022 Moscow, Ul. 2. Zvenigorodskaya, d. 13, str. 41
T: + 7 495 739 66 11
E: nataliya.radchenko@krka.biz

Serbia
"KRKA-FARMA", d. o. o., Novi Sad
21000 Novi Sad, Kralja Petra I. br. 32
Director **Adam Frenc**
T: + 381 21 44 35 11
E: adam.frenc@krka.biz

Slovenia
Terme Krka, d. o. o., Novo mesto
8000 Novo mesto, Ljubljanska cesta 26
Director **Jože Berus**
T: + 386 7 373 19 15
E: joze.berus@terme-krka.si

Sweden
Krka Sverige AB, Stockholm
118 72 Stockholm, Göta Ark 175, Medborgarplatsen 25
Director **Viktor Kozjan**
T: + 46 8 643 67 66
E: viktor.kozjan@krka.biz

Ukraine
DP "KRKA UKRAINA", Kiev
01015 Kiev, Ul. Staronavodnitskaya 13, of. 125, PB 42
Director **Jordan Urh**
T: + 380 44 569 28 38
E: jordan.urh@krka.biz

USA
KRKA USA, LLC, Delaware
4216 Cravens Point Rd., Wilmington, NC 28409, USA
Director **Aleš Rotar**
T: + 386 7 331 25 07
E: ales.rotar@krka.biz

Krka, d. d., Novo mesto
Šmarješka cesta 6
8501 Novo mesto
Slovenia

Phone: + 386 7 331 21 11
E-mail: info@krka.biz

www.krka.si

Published by: Krka, d. d., Novo mesto
Design and production: Mayer McCann d.o.o.
Text: Krka, d. d., Novo mesto
Photography: Dragan Arrigler, archives
Translation: Paul Townend, Suzana Ščavničar, Damjana Jakoš
Print: Gorenjski tisk, Kranj