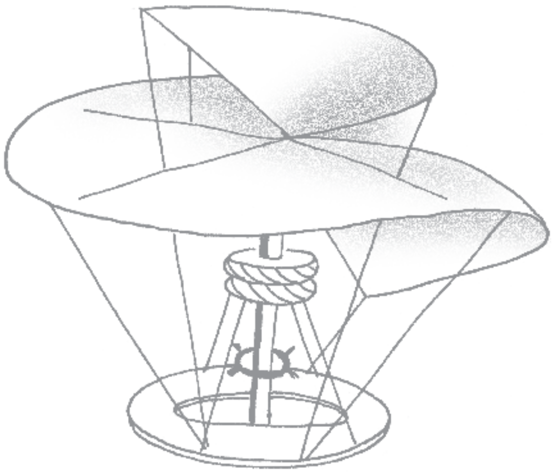
Annual report 2007

Contents


Reaching the heights allows us to see further than the rest.

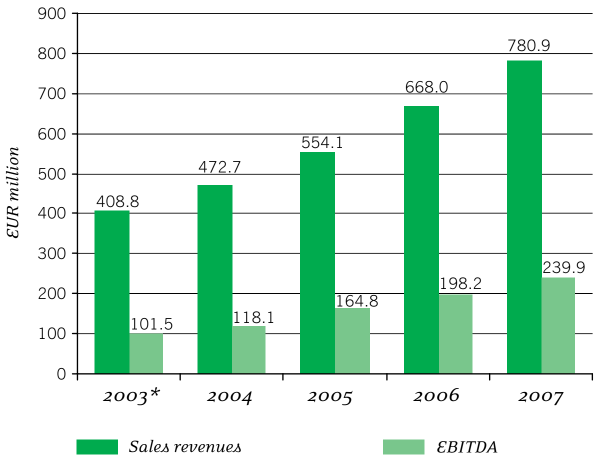
Introduction



The height we grow to depends
on the strength of our roots.
We're not afraid of heights.
We are building on a rich tradition,
heading for the summit, where unlimited opportunities
for further growth will unfold.

Significant achievements

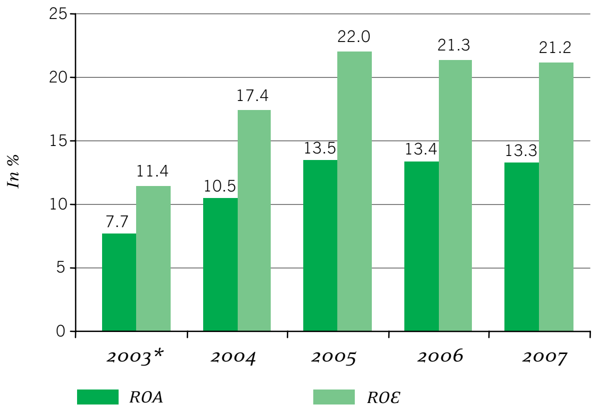
SALES REVENUES AND EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (EBITDA)



In 2007 sales grew by 17%, largely due to rapid growth in Regions Western Europe and Overseas Markets, Central Europe, and South-East Europe.

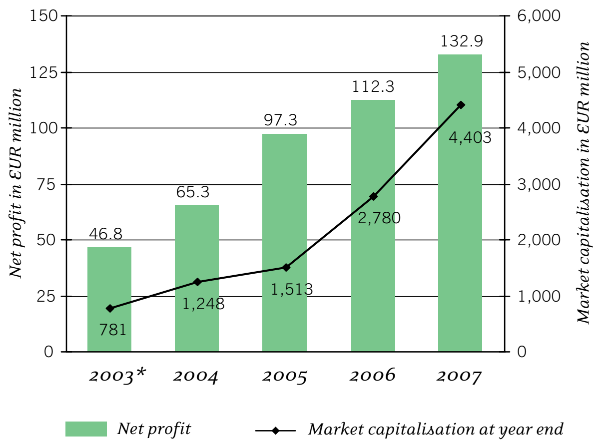
EBITDA grew by 21%, and the EBITDA margin increased by one percentage point.

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



ROA and ROE remained at approximately the same level as in 2006.

NET PROFIT AND MARKET CAPITALISATION



* *The financial statements for 2003 were prepared according to the Slovenian Accounting Standards.*

In 2007 the Krka Group's net profit grew by 19%, and market capitalisation increased by 58%.

The Krka Group financial highlights

EUR thousand	2007	2006	2005	2004	2003
Sales revenues	780,918	667,955	554,137	472,660	408,757
EBIT	182,933	150,495	119,057	74,872	61,008
EBITDA	239,880	198,199	164,849	118,039	101,474
Net profit	132,853	112,086	97,335	65,324	44,627
Non-current assets	749,707	574,846	502,786	446,032	398,059
Current assets	371,711	304,282	285,480	202,980	220,259
Equity	680,913	570,905	479,585	405,125	403,998
Non-current liabilities	253,773	163,941	151,804	156,301	81,686
Current liabilities	186,732	144,282	156,877	87,585	132,634
R&D costs	59,071	52,650	40,120	34,679	30,960
Investments	112,977	107,200	89,537	87,907	91,402
RATIOS	**2007**	**2006**	**2005**	**2004**	**2003**
Net profit margin	17.0%	16.8%	17.6%	13.8%	10.9%
EBIT margin	23.4%	22.5%	21.5%	15.8%	14.9%
EBITDA margin	30.7%	29.7%	29.7%	25.0%	24.8%
ROE[1]	21.2%	21.3%	22.0%	17.4%	11.4%
ROA[2]	13.3%	13.4%	13.5%	10.5%	7.7%
Liabilities/Equity	0.647	0.540	0.644	0.602	0.530
R&D costs/Sales revenues	7.6%	7.9%	7.2%	7.3%	7.6%
NUMBER OF EMPLOYEES	**2007**	**2006**	**2005**	**2004**	**2003**
Year end	6,777	5,759	5,224	4,781	4,522
Average	6,209	5,494	5,030	4,678	4,424
SHARE INFORMATION[3]	**2007**	**2006**	**2005**	**2004**	**2003**
Total number of shares issued	35,426,120	35,426,120	35,426,120	35,426,120	35,426,120
Earnings per share in EUR[4]	3.92	3.30	2.88	1.93	1.32
Dividend per share in EUR	0.80	0.69	0.58	0.50	0.44
Share price at the end of year in EUR	124.29	78.48	42.72	35.24	22.05
Price/Earnings ratio (P/E)	31.71	23.75	14.85	18.26	16.76
Book value of share in EUR[5]	19.22	16.12	13.54	11.44	11.40
Share price/Book value (P/B)	6.47	4.87	3.16	3.08	1.93
Market capitalisation EUR thousand (31 December)	4,403,112	2,780,058	1,513,334	1,248,374	781,115
EXCHANGE RATES	**2007**	**2006**	**2005**	**2004**	**2003**
USD (average)	1.370	1.255	1.243	1.242	1.129
USD (31 December)	1.472	1.317	1.183	1.360	1.250

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

ID Card of the Krka Group

Data on the controlling company

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

Registered office:	Šmarješka cesta 6, 8501 Novo mesto, Slovenia
Telephone:	+ 386 7 331 21 11
Fax:	+ 386 7 332 15 37
E-mail:	info@krka.biz
Website:	www.krka.si
Basic activity:	Production of pharmaceutical preparations
Activity code:	21.200
Year established:	1954
Registration entry:	1/00097/00, Novo mesto District Court
VAT number:	82646716
Company ID number:	5043611
Called-up capital:	EUR 59,126,194.28
Number of shares issued:	35,426,120 ordinary no-par value shares

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

The company Terme Krka, d. o. o., Novo mesto combines the business units of the health resorts (spas) and hotels Terme Dolenjske Toplice, Terme Šmarješke Toplice, Hoteli Otočec and the Hotel Krka in Novo mesto, and is also the majority owner of Terme Krka Strunjan, d. o. o. and Golf Grad Otočec, d. o. o.

Abbreviated company names are used in the text below.

Organisational chart of the Krka Group

Slovenia

- KRKA, d. d., Novo mesto, Slovenia
- TERME KRKA, d. o. o., Novo mesto, Slovenia

Central Europe

- KRKA-POLSKA, Sp. z o. o., Warsaw, Poland
- KRKA Magyarország Kft., Budapest, Hungary
- KRKA ČR, s. r. o., Prague, Czech Republic*
- KRKA Slovensko, s. r. o., Bratislava, Slovakia*

East Europe

- OOO KRKA-RUS, Istra, Russian Federation
- OOO KRKA FARMA, Sergiev Posad, Russian Federation

West Europe and Overseas Markets

- TAD Pharma GmbH Cuxhaven, Germany
- Krka Sverige AB, Stockholm, Sweden
- KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland
- KRKA FARMACÊUTICA, LDA, Estoril, Portugal
- KRKA USA, LLC, Delaware, USA

South-East Europe

- KRKA-FARMA, d. o. o., Zagreb, Croatia
- KRKA-FARMA, d. o. o., Novi Sad, Serbia
- KRKA-FARMA DOOEL, Skopje, Macedonia

Krka, d. d., Novo mesto
Other production
Other subsidiaries
Health and tourism

The chart includes active companies.
* Active from 1 January 2008.

Significant events and awards in 2007

January
- The Krka Company registered the subsidiary KRKA, FARMACÊUTICA, LDA, Estoril, Portugal.

February
- Research carried out by a Russian market research centre, Farmekspert, and the review Farmacevtski Vestnik, ranked Krka's Enap® (enalapril) in second place in the most popular prescription pharmaceuticals category on the Russian pharmaceutical market in 2006.

March
- The Krka Company paid the founding capital for the subsidiary KRKA USA, LLC, Delaware, United States.
- The CEO and President of the Krka Management Board, Jože Colarič, received an award from Slovenia's Chamber of Commerce and Industry for outstanding achievements in business and enterprise in 2006.

April
- Enap® won a 2006 "Platinum Ounce" award in the best prescription pharmaceutical category in the Russian Federation.

May
- At the 19th Forum of Excellence and Craftsmanship organised by the Dolenjska and Bela Krajina Association of Economists Krka received an award for employing the highest number of people with a further education qualification in 2005 and 2006 in the regions of Dolenjska and Bela Krajina.

June
- The Sinteza 4 plant for the production of pharmaceutical ingredients was opened. Krka has invested over EUR 80 million in the plant, which provides total process management, from raw materials to finished products.
- Krka organised its traditional Krka Awards, at which the CEO and President of the Management Board, Jože Colarič, presented awards to employees celebrating long-service anniversaries, employees and managers of the year, and for the best initiatives of the year.
- Krka received recognition from the Slovenian Federation of Disabled Workers for its effort and success in the exercise of disabled people's rights.

July
- The 12th Annual General Meeting took place, at which shareholders passed a resolution to introduce no-par value shares at a 1:10 ratio.

September
- Krka received a gold award for innovative solutions for its formulation of a perindopril-erbumin preparation (Prenessa® tablets).

October
- Krka acquired the ISO/IEC 27001 certificate for its information security system.
- Krka won the IR Magazine's first prize in the category for best investor relations in Slovenia, for the fourth time.
- The 37th Krka Prizes for Young Researchers were granted.

November
- The Krka Company signed a contract with the PHW business group to buy the company TAD Pharma GmbH and acquire 100% ownership of the company.
- At the seventh management training conference in Bled, Krka received the TOP 10 award for the third time. The awards have been made to companies since 2002 by Planet GV – Sofos, Management Training Institute, for systemic investment in employee education and training.
- Krka received three Superbrand titles – for the corporate brand Krka and for the brands Septolete® and Sun Mix®.
- Krka's 2006 Annual Report received the first prize in the competition for the best annual report of the year, organised by the Slovenian business daily, Finance. As well as gaining the top prize it also gathered awards for the best financial report and best business analysis and business plans.
- At the Kariera 07 fair, Krka was voted the employer with the best reputation in Slovenia. This recognition is the result of professional research into reputation or brand name power from a wider circle of employers on the Slovenian labour market, which was carried out by the company Moje Delo.
- The Slovenian Chamber of Engineers (IZS) awarded Krka an innovation prize for its Sinteza 4 project.

December
- Krka received the highest national award for quality – the Business Excellence Award of the Republic of Slovenia (PRSPO) for 2007.
- The Ljubljana Stock Exchange granted Krka its Portal 2007 award recognising it as the most transparent public limited company (d.d.) in Slovenia.
- According to the Company Reputations 2007 research prepared by the agency Kline & Partner, the Slovenian business community considered Krka as the best reputed company.
- Krka opened its new injection production plant. This EUR 15.5 million investment increased injection production by 30%.

Events after the accounting period

The subsidiaries KRKA ČR, s. r. o. in the Czech Republic and KRKA Slovensko, s. r. o. in Slovakia, both 100%-owned by Krka, started operations in January 2008. The Slovakian company is new, while the company in the Czech Republic was previously dormant.

At the start of the year work began to merge KRKA Aussenhandels GmbH, Munich and KRKA PHARMA GMBH, Frankfurt with TAD Pharma. The companies will be deleted from the court register of companies, and TAD Pharma will take over all their assets, capital, rights and obligations.

On 1 February 2008 Ljubljana District Court issued a temporary injunction against Krka, prohibiting manufacturing and marketing the product Zolrix® or any other product containing the active ingredient olanzapine in Slovenia. The court has granted the motion by the company Eli Lilly Company Limited, Hampshire, UK, for the temporary injunction prohibiting manufacturing and marketing, until the court decides if Krka had infringed Eli Lilly's patent.

On 10 March 2008 we also received a lawsuit filed by Eli Lilly at the Ljubljana District Court, which claimed that Krka by manufacturing and selling the product Zolrix® allegedly infringe Eli Lilly's patent. We are confident that we have sound arguments that can prove that Krka is not infringing this patent, so we expect the court to reject the lawsuit. In 2007 sales of Zolrix® in Slovenia were less than EUR 100,000.

The Higher Court in Ljubljana rejected an appeal by Merck Frosst Canada Limited against a resolution of the Ljubljana District Court of 17 October 2007 rejecting a motion Merck Frosst had filed for a temporary injunction prohibiting Krka, d. d., Novo mesto and Salus, d.d., Ljubljana manufacturing, selling, offering for sale, marketing and importing the pharmaceutical product Monkasta® or any other product containing the active ingredient montelukast. Salus, d. d., Ljubljana markets the Monkasta® product manufactured by Krka, d. d., Novo mesto.

Statement by the President of the Management Board

Dear shareholders, business partners and employees,

It is with great satisfaction that I can report on another successful business year with good business results achieved and several important long-term decisions being made. Our past successful business performance and laid foundation for the future growth had a positive impact on the shareholders' wealth growth, as the Krka share price increased by over a half in 2007.

We are well aware that realising our development plans depends primarily on our sales results. The high rate of growth in the past few years has continued into 2007. The Krka Group sales increased by 17% reaching EUR 781 million. Our operating profit was up 22%, while net profit increased by 19% to EUR 133 million.

The highest growth in 2007 was achieved in Region West Europe and Overseas Markets. With growth of almost 60%, this region now represents over one fifth of total Krka Group sales. Our highest sales in western Europe were made in the UK, Germany and the Nordic countries, and we see the region as offering major opportunities for the future. In Region Central Europe sales increased by 19%, and Poland remains our largest market there. Moderate growth in Poland was more than made up for by high growth in Hungary, Slovakia and the Czech Republic. Twenty-percent growth was recorded in Region South-East Europe. I would like to draw particular attention to Croatia, where we are third placed in terms of sales value, right behind two domestic producers, while we achieved the highest growth in our region in Romania and Serbia, thanks to the expansion of our promotion and sales network. In Region East Europe sales were up one percent, reaching EUR 183 million. Despite problems with the financing of the supplementary medicine supply programme, the Russian Federation remains Krka's largest single market. Sales increased by 17% in Ukraine, Krka's second-largest market in the region. Krka also retained the highest market share for pharmaceutical companies on the Slovenian market, despite a slight fall in sales.

Krka has a modern sales programme, which is reflected in the large number of new products it contains. The proportion of products coming from the vertical business model is increasing. Prescription pharmaceuticals are the most important, and the fastest growing sales segment, with growth of 18% meaning their sales were worth EUR 631 million. The Krka product range also includes self-medication products, cosmetics, and animal health products. The Krka Group has over 400 employees engaged in research and development, working to modernise the Group's product range. In 2007 there were over 100 development projects underway. Last year 8% of sales revenues were allocated to R&D. Another point of note in the Krka Group's sales results, is the double-digit growth in health resort and tourist services, a segment we see as a supplementary area that makes us even more effective in fulfilling the Krka mission: "Living a Healthy Life."

Krka invests heavily in expanding and modernising capacity, with EUR 113 million allocated to that end in total. One of our most important acquisitions has been the Sinteza 4 plant, where using the latest technological processes we produce active pharmaceutical ingredients for Krka most important products and thus offer total process management, from raw materials to the final product. The plant's innovative technological concept facilitates a rapid response to changes on the market, while the project planning included a major focus on protecting the environment and employees.

Our takeover of the German company TAD Pharma was one of the major events in 2007. We are convinced that this was a sound business move for both companies. The takeover, the first in Krka's corporate history represents supplementation of the so far existing organic growth strategy, and Krka's direct entry onto the largest pharmaceutical market in Europe.

In 2007 we increased the assets of our investors by over EUR 1.5 billion and with a market capitalisation of over EUR 4 billion Krka remains the largest company listed on the Ljubljana Stock Exchange. We were the first public limited company in Slovenia to carry out a share split, which has made Krka shares available to a wider range of investors.

In the business environment, where changes are the only constant, human capital has become the main source of competitive advantage. Last year Krka was voted the employer with the best reputation in Slovenia, and is often the first choice for job seekers in Slovenia. Our doors are always open to those with the right knowledge and desire to work. I am very pleased that over the past year we have taken on over one thousand new employees. We are also planning a high level of recruitment in 2008, particularly in marketing and R&D.

I believe that Krka's success is the result of good corporate governance, offering high-quality products, and the professional work of our employees. Our focus on pharmaceutical and chemical activities and sales orientation remain key guidelines for future company development. The company management is committed to achieving high, double-digit growth in the future. The Krka Group's revised development strategy for 2008 to 2012 has identified the mechanisms to achieve this objective. In 2008 the Krka Group is planning for sales worth EUR 950 million, which means growth of 22%, while the net profit should increase by 20% to EUR 160 million.

I am very satisfied that our strategy of remaining an independent, vertically integrated company, consolidating our position as one of the leading European and global generics producers, has been clearly vindicated. Last year was far more than just a year of realising plans. At Krka we have a vision and a plan of where we want to arrive, and as employees we place great trust in our company, because we know that our growth has been planned on the basis of healthy foundations. This is confirmed by the numerous awards and prizes gained, which we see as a stamp of approval for the development mapped out by past generations at Krka, as well as an additional incentive to continue boldly selecting new challenges for Krka's current generation.

Krka will continue to strengthen its image as a large and mature, but also a creative and enterprising public limited company. I would like to thank Krka's shareholders and business partners for the trust they have placed in us, and to thank my co-workers and the members of the Supervisory Board for supporting the Krka Group's development strategy, and invite them to continue in the quest for business success.

Jože Colarič

President of the Management Board and Chief Executive

2007 Report of the Supervisory Board

Dear shareholders,

The composition of the Supervisory Board was the same as the previous year for the first four meetings of 2007. The shareholder representatives were Mateja Božič, MSc, Gregor Gomišček, PhD, Marko Kranjec, PhD, Anton Rous, Draško Veselinovič, PhD, and Alojz Zupančič; the employee representatives were: Sonja Kermc, Tomaž Sever, MSc, and Mateja Vrečer, PhD. Membership was reduced to eight for the final two meetings, after Marko Kranjec, PhD, resigned following his appointment as Governor of the Bank of Slovenia, which is incompatible with membership of a company supervisory board.

The Supervisory Board met six times in 2007. It focused on the realisation of business objectives, and keeping informed of current events at Krka. During 2007, members of the Supervisory Board continued with the agreed practice of keeping as up-to-date as possible about the individual areas of Krka Group operations. This led to a detailed investigation into two areas – research and development, and quality management. In the area of finance, Brane Kastelec, Director of Finance, made a very detailed presentation to the Audit Committee at its request. A presentation was planned of an analysis of results from a survey of the Krka Group's organisation climate, but the extensive agenda at the final meeting of 2007 led to it being postponed until the first meeting of 2008. Below is a detailed description of the matters the Supervisory Board addressed in detail during 2007.

- It discussed the 2006 Annual Report of the Krka Group and Krka Company and assessed the operations of the Krka Group and Krka Company and the work of the Management Board.
- It adopted the 2006 Annual Report of the Krka Company and Group, the report on the work of the Supervisory Board in 2006, and the Statement of Compliance with the Corporate Governance Code issued jointly by the Krka Management and Supervisory Boards.
- It supported the Management Board's proposal to the company's Annual Meeting on the use of the accumulated profit, and issued its approval (discharge of liability) for the Management and Supervisory Boards. It also approved amendments to the Articles of Association, including bringing them into compliance with the amended Companies Act, adding the basic objectives of company operations, the share split dividing the company's share capital into ordinary no-par value shares, with each nominal share being replaced by ten no-par value shares, and

extending the term-in-office of management and supervisory board members by one year.

- It proposed that the Annual Meeting reappoint KPMG Slovenija, podjetje za revidiranje, d. o. o., Ljubljana as the company auditor for the 2007 financial year.
- In line with a resolution by the Slovenian Government, it proposed that the Annual Meeting adopt a new resolution on attendance fees and remuneration of supervisory board members.
- At the final meeting of 2007, the Supervisory Board was presented the Krka Group business strategy for 2008-2012, an update to the 2006-2010 strategy adopted two years ago, extended for two years.
- At the same meeting, it discussed the 2008 business plan for the Krka Group and Krka Company, which included the planned sales figures, planned scale of capital expenditure, R&D investment, recruitment, and the planned financial performance indicators.
- Every quarter it discussed the interim reports on Krka Company and Group operations, and monitored their compliance with existing business and development plans, assessing the Group's operations and the work of the Management Board on each occasion.
- At the final meeting of 2007 the members of the Supervisory Board were informed of the Management Board's intention to acquire the company TAD Pharma GmbH from Cuxhaven, Germany, which it supported.
- As every year, the Supervisory Board twice deliberated data (for 2006 and the first half of 2007) on benchmarking of Krka operations with those of a select group of other pharmaceutical companies.
- In accordance with the Rules on Treasury Shares it also studied information on the acquisition and disposal of treasury shares each quarter.
- As each year, it also studied the state of legal claims brought against the Krka Company and the Krka Group by foreign companies in 2007.
- At the July meeting, the Board was informed of Marko Kranjec's letter of resignation from the Supervisory Board, following his appointment as Governor of the Bank of Slovenia by the National Assembly. Since Kranjec was also the Deputy President of the Supervisory Board, Mateja Božič, MSc, was appointed Deputy President.
- The President of the Supervisory Board signed a contract with Janez Poljanec and Aleš Rotar on 1 August 2007 for work on the Management Board until 31 December 2009, in line with a Supervisory Board resolution from 2006 on their reappointment.
- As Danica Novak Malnar's term-in-office as the worker director was coming to an end at the end of 2007, at the proposal of the Works Council and with the President of the Management Board's consent, the Supervisory Board reappointed her as worker director.
- In line with the Rules on Management Board Remuneration, the Supervisory Board decided on bonus for the Management Board for work in 2006 and the first half of 2007, based on the operating results of the Krka Company and Group.
- It amended a number of quantitative performance indicators in the Rules on the Management Board Remuneration, which were taken into account in calculations. Qualitative performance indicators were included to take account of social responsibility (attitude to the environment, etc.), company reputation, public relations (with employees and external public) and investor relations, with the Management Board's report used to assess performance under these criteria.
- At the Supervisory Board's request, Aleš Rotar, Management Board member and Director of Research and Development, who also has responsibility for the Quality Management Division within the Management Board, presented the Krka Group's research and development at one meeting and the quality management at another.
- During 2007, members of the Supervisory Board inspected production at Krka's Beta plant, as well as reviewing the Wellness Centre at Terme Šmarješke Toplice, and attending the opening and tour of the new Sinteza 4 plant.

The work of the Supervisory Board committees

The Audit Committee met three times in 2007, chaired by Draško Veselinovič, PhD. Certified auditors from KPMG Slovenija participated in all three meetings.

The Committee discussed the report on agreed procedures for management of the Krka Company's short term financial investments, which were prepared by KPMG, in line with an Audit Committee resolution. It agreed with the certified auditor's findings that Krka was managing its financial investments appropriately. The financial investment portfolio is regulated by special rules adopted by Krka to ensure investment diversification and low risk. Financial investment management procedures comply with the Rules, and their valuation is in compliance with the IFRS. In line with an Audit Committee resolution, the certified KPMG auditor also prepared a report entitled Potential Tax Optimisation, which was also presented at one of the Committee's meetings.

The Audit Committee had no comments or amendments to the 2006 Annual Report of the Krka Company and Group. It proposed that Supervisory Board approve the Annual Report, and the 2006 Auditor's Report, the Supervisory Board's report, and the proposal to the General Meeting to issue an approval (discharge of liability) for the Management and Supervisory Boards.

It also proposed that the Supervisory Board propose that the General Meeting should reappoint the KPMG as auditor for the 2007 business year.

In 2007 it did not decide to order a special report on any field of operations from the external auditor KPMG.

In relation to work with the Internal Audit Department it discussed the annual report on the Internal Audit Department's work for 2006 and a very detailed report on the IAS's work between January and June 2007. It also gave its consent to the internal audit work plan for 2008.

In accordance with a resolution by the Human Resource Committee, the Audit Committee was involved in preparing amendments to the Rules on Management Board Remuneration. Members of the Committee primarily proposed amendments to the quantitative performance indicators to be used in measuring the Management Board's performance.

The Human Resource Committee met three times during 2007, led by Alojz Zupančič.

At the first meeting in 2007 the Committee offered guidelines on preparation of amendments to the Rules on Management Board Remuneration, and at its final meeting of the year it also prepared a draft of the Rules for the Supervisory Board.

Based on the performance measures, the Committee proposed to the Supervisory Board a bonus for Management Board for 2006 and the first half of 2007 results.

Based on resolutions by the Slovenian Government, it drafted a new proposal for attendance fees and remuneration for Supervisory Board members.

Due to Marko Kranjec's resignation as a member of the Supervisory Board and Deputy President of the Supervisory Board, the Committee proposed that the Supervisory Board appoint Mateja Božič, MSc, to the position.

Work of the Management Board and Supervisory Board

Excellent cooperation in 2007 meant that members of the Supervisory Board were able to reach the competent decisions in line with legal authorisations. Members of the Supervisory Board and Committees always received material for meetings in due time, allowing them to thoroughly prepare for the sessions. All members of the Management Board participated in all meetings of the Supervisory Board. In general, Management Board members, most often the President, prepared additional introductory explanations for each agenda item, which they then expanded on with reports on ongoing trends in the development and marketing of pharmaceutical products and raw materials, and responded to questions from Supervisory Board members.

The Supervisory Board evaluated the work of the Management Board on each occasion that it discussed the operating results for a period, with a particular focus on the twice-yearly meetings that include setting their bonus, based on the Management Board Remuneration Rules. Operating results were also better than planned, so at the half-year point the Supervisory Board already passed a resolution to take the exceptional operating results from the first half of 2007 into account in setting the 2007 bonus, and increase it as permitted by the Rules.

Since there were no problems or difficulties in relations between the Management Board and Supervisory Board, the Supervisory Board found there was no reason for members of the Management Board not to participate in any of the Supervisory Board meetings or discussion of any specific agenda item. The same applied to meetings of the Supervisory Board committees, which are usually only attended by the President of the Management Board and the board member Zvezdana Bajc, who is responsible for finance and IT.

The Supervisory Board found that the professionalism and diversity of its membership, comprising shareholder and employee representatives, had again contributed to the good work of the Supervisory

Board and its committees. The Supervisory Board has four members holding doctorates (two in natural sciences, two in economics and finance), two with MBAs, and two specialists with university level education. Their range of qualifications includes economics, law and finance, civil engineering, pharmaceutics, physics, chemistry and mechanical engineering. They all have considerable experience within the economy and research and development, as well as a wealth of international experience. Draško Veselinovič, PhD, holds a B-licence for supervisory board membership, while in 2006 all other members acquired the statement of qualification to serve as a supervisory board or board of director members.

The members acted independently, but outwardly functioned as a unanimous group. Critical discussions and the expression of different opinions are encouraged at Supervisory Board meetings, but disagreement and different points of view are always reconciled via constructive dialogue. Supervisory Board members agreed in discussion that the organisation of meetings, the course of work, and relations between board members was very good. These discussions also raised potential improvements to the board's work, which were subsequently introduced. No conflicts of interest arose in relation to the discussion of an item on the agenda or in Supervisory Board decision making.

Approval of the annual report and submission of the proposal for the accumulated profit appropriation

The Supervisory Board examined the 2007 Annual Report of the Krka Company and Krka Group within the legal deadline. It also discussed the auditor's report, in which the auditing company KPMG Slovenija d.o.o. stated that the financial statements that are part of this Annual Report give a true and fair view of the financial position of the Krka Company and the Krka Group, the results of operations, its cash flows and changes in equity and that the business report is in compliance with the financial statements. The Supervisory Board did not make any comments on the auditor's report. After the verification, the Supervisory Board also had no comments regarding the Annual Report and unanimously approved it at its meeting of 2 April 2008. With this, the Annual Report was formally adopted in accordance with Article 282 of the Companies Act and Krka's Articles of Association.

At the same time as approving the Annual Report, the Supervisory Board approved the proposal for the use of the accumulated profit. In 2007 the Company achieved a net profit of EUR 126,520,551, of which EUR 2,500,000 was appropriated to statutory reserves and EUR 43,000,000 to other revenue reserves. The remaining net profit of EUR 81,020,551 and the retained net profit of EUR 37,415,839 comprise the accumulated profit, which stood at EUR 118,436,390 on 31 December 2007. The Management Board and Supervisory Board propose to the General Meeting the following accumulated profit appropriation:

- EUR 30,757,545.00 for dividends (EUR 0.91 gross per share)
- EUR 69,000.00 gross for Supervisory Board's participation in the accumulated profit
- EUR 43,804,922.30 for other revenue reserves, and
- EUR 43,804,922.29 to be carried forward to next year.

In summary, the Supervisory Board assesses that during 2007 it was provided with sufficient reports, information and data, which Management Board members were able to additionally clarify as required at individual Supervisory Board meetings. This means that the Supervisory Board can monitor and supervise the company's operations and the work of the Management Board as the year proceeds. Cooperation between the Supervisory Board and Management Board was optimal, direct communication between the presidents of the two Boards also took place between individual meetings of the Supervisory Board. The annual report provides an overall picture of the Group and the Company's operations, and was deliberated in detail by the Supervisory Board and approved unanimously. The Supervisory Board assessed the work of the Management Board and the Supervisory Board as very successful. The excellent performance in 2007 is further confirmed by the operating result and numerous prestigious awards Krka has acquired over the past year.

The Supervisory Board approved this report unanimously at its meeting of 2 April 2008.

Gregor Gomišček, PhD
President of the Supervisory Board


Having breadth opens up the paths that lead to new discoveries.

Business report

We want to be first, so we always have to be one step ahead of the rest. From breadth comes understanding, opening a range of opportunities from which to choose.
The right attitude, knowledge, commitment and innovation always lead us to our goal.

Corporate Governance

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

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

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

General Meeting

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

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

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

The Twelfth General Meeting of the Krka Company was held on 5 July 2007, and shareholders:
- discussed information on the Annual Report and the Supervisory Board's Report for 2006
- decided on the use of the accumulated profit and the dividend pay out
- appointed the auditor for 2007
- defined the conversion of share capital into euros
- adopted the proposed amendments to the articles of association, and
- decided on the introduction of no-par value shares (and a 1:10 share split).

The resolutions adopted by the 12th Annual General Meeting were published in the Delo newspaper, on the SEOnet electronic information system, and the Krka website *(www.krka.si/en/finance/info/skupscine/).*

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

The 2008 Annual General Meeting (13th AGM) is scheduled for 3 July 2008. The announcement convening the General Meeting with the proposed resolutions and location of the meeting will be published on the Ljubljana Stock Exchange's SEOnet information system and in the Delo newspaper, and the entire text of the proposed resolutions, conditions for participation and material will be available on the Company's website.

Supervisory Board

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

The **main role** of the Supervisory Board is to supervise Company operations and the management of those operations. The Supervisory Board also selects and appoints the members of the Management Board.

The **composition** of the Supervisory Board is defined by the Company's Articles of association. The Supervisory Board members were elected for a four-year term-in-office.

In line with amendments to the Articles of association, which the Company adopted at the 2007 General Meeting, the term-in-office of Supervisory Board members lasts for five years, and members can be re-elected.

The **salaries, reimbursement and other benefits** for Supervisory Board members are not directly dependent on the Company's performance and are set out in the financial report, in Note 32, entitled Transactions with Related Parties. Krka has not introduced a remuneration system for Supervisory Board members that includes share options.

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

The conduct of Supervisory Board members in the case of **conflicts of interest** is defined in the amended Rules of Procedure for the Supervisory Board, which is available on the company website. Members of the Supervisory Board primarily take into account the Company objectives in their operations, and must subordinate any personal interests or interests of any third parties to those objectives. Each Supervisory Board member must notify the Supervisory Board of membership in the supervisory board of any other company.

The composition and function of the Supervisory Board and its committees in 2007 are presented in the Report of the Supervisory Board.

Shareholder representatives

Gregor Gomišček, PhD, 51 years
President of the Supervisory Board
Gregor Gomišček completed his natural science studies at the University of Ljubljana, and attained a

doctorate from the Vienna University of Technology. He completed the Business Process Management programme at the IEDC Bled School of Management. He worked at the Institute of Medicinal Physics at Vienna University for almost 10 years, and is now employed at the Institute of Biophysics at the Faculty of Medicine in Ljubljana as a researcher and assistant professor. He also lectures at the Faculty of Social Sciences on technological policy in the United States.

Marko Kranjec, PhD, 68 years
Deputy President of the Supervisory Board

Marko Kranjec gained a degree and doctorate from the Faculty of Economics of the University of Ljubljana. He has worked as a macro-economist at the OECD in Paris, and at the World Bank in Washington DC. Between 1990 and 1991 he was the Minister of Finance in the Slovenian Government, and from 1991 to 1997 he was Vice-Governor and Member of the Governing Board of the Bank of Slovenia. Until 2002 he was the Slovenian Ambassador to the European Union in Brussels. Since 2002 he has been professor of public finance at the University of Ljubljana's Faculty of Administration, and since 2007 has been an external collaborator with the Institute of Economic Research in Ljubljana. Following his appointment as Governor of the Bank of Slovenia, he resigned from his position as Deputy President of the Supervisory Board in mid-2007.

Mateja Božič, MSc, 41 years
Deputy President of the Supervisory Board

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

Draško Veselinovič, PhD, 49 years
President of the Supervisory Board's Audit Committee

Draško Veselinovič attained his doctorate at the Faculty of Economics in Ljubljana. He finished several specialisation studies abroad on global finance, international marketing and international banking. From 1989 to 2004 he was the founding president and CEO of the Ljubljana Stock Exchange. He is now the President of the Management Board of the Deželna Banka Slovenije, d. d., Ljubljana, associate professor of international finance and capital markets at the Faculty of Economics in Ljubljana, and in charge of several postgraduate programmes at institutions including the Faculty of Economics and Business in Maribor, IEDC Bled, and Vienna University and others. He is a member – and representative of all new EU member states – of the European Payments Council (EPC) in European Banking Federation (EBF).

Anton Rous, 68 years

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

Alojz Zupančič, 69 years
President of the Supervisory Board's Human Resource Committee

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

Employee representatives

Sonja Kermc, 56 years

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

Mateja Vrečer, PhD, 41 years

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

Tomaž Sever, MSc, 40 years

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

Management Board

On photo from left: Aleš Rotar, PhD, Danica Novak Malnar, Jože Colarič, Zvezdana Bajc, Janez Poljanec.

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

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

The Management Board **comprises** five members:

- the President of the Management Board
- three members, and
- the worker director.

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

The **term-in-office** for members of the Management Board is five years, with the possibility of re-appointment. When the current terms-in-office of Management Board members expire, the next mandate will be for six years, in line with the amended articles of association.

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

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

- board of directors
- development committee
- quality committee
- investment committee
- human resource committee
- information technology committee
- sales committee
- economics and finance committee, and
- corporate identity committee.

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

The **payment, reimbursement and other benefits** for management board members are defined in contracts drawn up between the Supervisory Board and individual Management Board members. The Rules on Management Board Remuneration, adopted by the Supervisory Board, define the bonus to individual members. Krka has not introduced a remuneration system for Management Board members that includes share options. All salaries, reimbursements and other benefits paid to Management Board members in 2007 are presented in the financial report, in the notes entitled Transactions with Related Persons.

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

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

Members of the Management Board

Jože Colarič, 52 years
President of the Management Board and Chief Executive
Jože Colarič graduated from the Faculty of Economics in Ljubljana. He has worked for Krka since 1982, and began work in the Financial Sector. In 1989 he took charge of the Exports Service within the Import-Export sector. In 1993 he was named as the deputy to the Chief Executive for the area of marketing and finance, and in September of the same year started work as the Director of Marketing and Sales. In 1997 he was appointed as a Member of the Management Board. The following year the company's Supervisory Board appointed him as Deputy President of the Board, and in 2002 acknowledged him as future President of the Management Board, placing him in charge of the proposal for the new Management Board team. At its meeting of 12 July 2004, the Supervisory Board appointed him as President of the Management Board and CEO, with a five-year term-in-office starting on 1 January 2005.

Janez Poljanec, 61 years
Member of the Management Board and Director of Product Supply
Janez Poljanec is a graduate from the Faculty of Natural Services and Technology and has worked for Krka since 1974. In 1979 he was made Director of the Overseas Division within the Import-Export Sector, and later became director of the entire sector. From 1985 to 1989, he worked for Krka through Generalexport in Combick, Frankfurt, and in 1990, he again took over management of the Import-Export Sector. In 1993 he became director of the Procurement and Logistics Sector, and four years later the Supervisory Board appointed him to the Management Board. He began his second term-in-office as a Management Board member on 31 July 2002, and was reappointed for the period 31 July 2007 to 31 December 2009. Since 2002 he has been Director of Product Supply.

Aleš Rotar, PhD, 48 years
Member of the Management Board and Director of Research and Development
Aleš Rotar attained his doctorate from the Faculty of Natural Science and Technology in Ljubljana, and completed the international MBA at the IEDC centre in Brdo. He started his work in Krka in 1984 in the Stability Department. In 1991 he was made head of the Division for Pharmaceutical Technology, and two years later became Head of Pharmaceutical Development in the Research and Development Sector. In 1998, he became the Deputy Director of R&D, and in 1999 was made Director. He became a member of the Management Board in 2001, and began his second term-in-office on 31 July 2002. He was reappointed for the period 31 July 2007 to 31 December 2009. He has been Director of Research and Development since 2002.

Zvezdana Bajc, 55 years
Member of the Management Board and Director of Economics and Information Processing
Zvezdana Bajc is a graduate of the Faculty of Economics in Ljubljana and has worked for Krka since 1977. Her career began in the Economics Division, and in 1979 she moved to the Investment Services. In 1986 she took over as director of the Economic Planning Division. Since 1999 she has been the Director of Economics and Information Processing. Her term-in-of-

fice as Management Board member started on 1 April 2005, and she remains director of Economics and Information Processing. Her term-in-office expires on 31 December 2009.

Danica Novak Malnar, 51 years
Member of the Management Board – Worker Director and Head of Pharmaceutical Production

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

Governance of the Krka Group

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

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

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

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

Internal auditing

Internal Audit carries out its mission within the Krka Group on the basis of the medium-term work plan for 2006 to 2009. Eight regular internal audits were carried out in line with the 2007 annual work programme. The work plans and reports on the work of Internal Audit are adopted and approved by the Management Board and the Supervisory Board's Audit Committee.

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

Internal audits were carried out in the fields of pharmaceutical production, sales, information technology, and health and safety at work. The internal auditors were able to give assurance that the internal controls for these processes were in place and functioning effectively, and supported risk management. Two subsidiaries and a number of representative offices abroad were also subject to internal audits.

In some areas the internal audits found there were still possibilities for improving processes. Internal auditors set out 176 recommendations in that regard, and later checked if they had been implemented.

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

Internal Audit is also preparing for an independent external assessment, in order to acquire an opinion on the compliance of its work with Internal Audit Standards.

External auditing

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

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

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

Corporate Governance Code Compliance Statement

The Management Board and Supervisory Board of Krka, tovarna zdravil, d. d., Novo mesto hereby state that in 2007 individual members of the Management and Supervisory Boards, and the Management and Supervisory Boards as bodies of a public limited company have acted in compliance with the principles of corporate governance and have worked to ensure their implementation within the company.

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

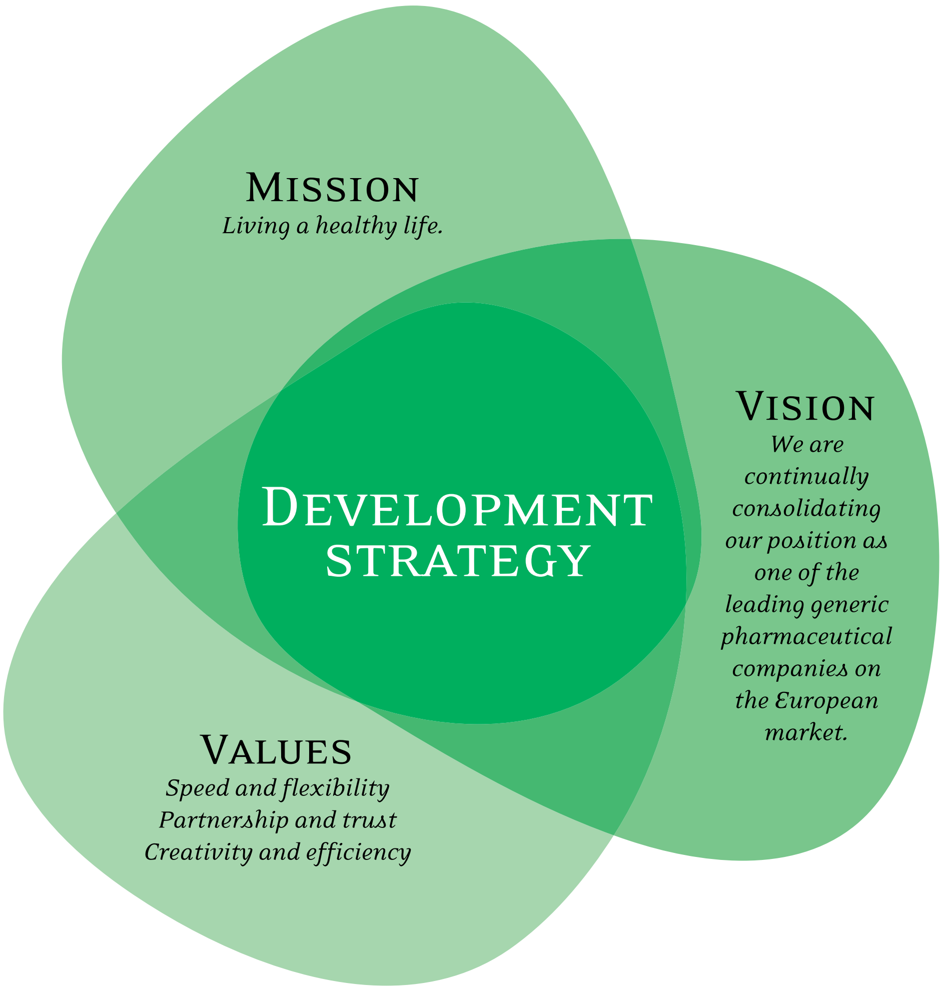
The exception is the provision 1.2.6. Organised Collection of Proxies. The Company operates and publishes information as transparently as possible via public media and its own website, and the special issue of the Utrip review, which small shareholders receive before each general meeting, which encourages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

Jože Colarič
President of the Management Board

Gregor Gomišček, PhD
President of the Supervisory Board

Novo mesto, 2 April 2008

The Krka Group development strategy



Key strategic objectives – to 2012

- Achieving average annual growth in sales value of over 10%.
- Maintaining the proportion of new products in overall sales above at least 40%.
- Strengthening the competitive advantage of the product portfolio via vertical integration and launching select products as the first generic on selected key markets.
- Improving performance indicators.
- Making effective use of assets and improving product cost-effectiveness.
- Increasing innovation.
- Maintaining independence.

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

Key strategies – to 2012

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

Krka Group's business objectives for 2008

- Anticipated growth in product and service sales of EUR 950 million (22% growth).
- The most important sales region will be Region Central Europe, with highest growth anticipated in Region Western Europe and Overseas Markets; the Russian Federation will remain the single most important market.
- The proportion of sales on markets outside Slovenia is anticipated at 89%.
- Prescription pharmaceuticals – with anticipated growth of 23% - will remain the most important product group (82% of overall sales).
- New prescription pharmaceutical products will be marketed in key indication groups.
- The planned net profit is EUR 160 million.
- At the end of 2006 the Group will have 7700 employees, almost 46% of them abroad.
- Investments planned at EUR 160 million will primarily be used to increase and modernise R&D and production capacity and infrastructure.

Macroeconomic environment forecast for 2008

Macroeconomic conditions affect business performance on individual markets and long-term government health policies. The macroeconomic conditions forecast for 2008 on Krka's key markets plus Romania, Ukraine and the Czech Republic – three countries where the volume of sales are close to those achieved on the key markets – are set out below. It is our opinion that the macroeconomic conditions in these countries will make a positive contribution to achieving the Krka Group's business objectives.

Macroeconomic environment forecasts in 2008

Country	Pharmaceutical markets growth forecast (%)	Forecast value of pharmaceutical market	X-rate (currency/EUR)
Slovenia	5	EUR 470 million	Eurozone
Croatia	6	EUR 690 million	7.30
Russian Federation	15–20	USD 10,500—11,000 million	34.85
Poland	5–6	EUR 4,200 million	3.55
Western Europe	5	EUR 150,000 million**	Eurozone
Romania	20	EUR 1,750 million	3.60
Ukraine	12	EUR 1,000 million	5.05*
Czech Republic	5–6	EUR 1,500 million	27.00

Sources: European Commission, Institute for Economic Research and Policy Consulting, Raiffeisen, International Centre for Policy Studies, Report Buyer.

* X.-rate to US dollar, to which the Ukraine grivna is linked.

** Forecast value for entire pharmaceutical market in 2008 for 11 countries in Western Europe (Austria, Belgium, France, Germany, Ireland, Italy, Netherlands, Portugal, Spain, Switzerland and the UK) taking forecast growth into account.

Slovenia

After record growth in 2007, economic activity is expected to calm in the coming year, particularly due to the fall in investment in Slovenia, the cooling of global financial markets and the slowdown in economic growth in the European Union. Domestic consumption will remain high due to higher available consumer income and wage growth. Inflationary pressures will calm, mainly due to the restrictive monetary policy of the European Central Bank, lower lending activity due to a slowdown in investment, and lower aggregate demand. Slightly lower growth in imports and exports is expected in 2008, where the rate of imports will depend in part on the import of investment goods for business and public investment.

The pharmaceutical market is expected to grow by 5%, with its value expected to reach EUR 470 million.

Croatia

Rapid economic growth is expected to continue, and will be primarily tied to household spending and business investment activity. Business optimism is expected to continue in the field of corporate investment, buoyed by a favourable economic climate and a supportive environment. Public spending in the 2008 post-election year is expected to calm somewhat, with the actions of the central bank expected to calm domestic spending. Real wages are expected to remain behind the growth in productivity, which means businesses' cost effectiveness is expected to improve. The country's foreign trade balance remains one of its major macroeconomic challenges given the relatively high external borrowing. A moderate increase in inflationary pressure is expected, which will probably be mitigated by the Government's restrictive fiscal policy.

The pharmaceutical market is expect to grow at 6%, which will see its value reach EUR 690 million.

Russian Federation

The Russian Federation remains a key market for the Krka Group and offers significant economic potential. After the liberalisation of capital flows, an upturn in investment activity was detectable, which had an extremely favourable impact on the country's economic growth. The Russian Federation is expected to have one of the highest rates of economic growth in the world over the coming year. High oil prices have had a positive impact on the value of Russian exports and contributed to a large trade surplus. Inflation remains relatively high, and is not expected to fall in the short term, also due to increases in public sector wages. Reducing inflation remains one of the key medium-term challenges for the Russian economy. Strengthening the rouble, which has so far proved to be an effective instrument for mitigating inflation, will continue over the coming year, and will also have a positive effect on business investment activity.

With growth of 15 to 20% anticipated, the value of the pharmaceuticals market in the Russian Federation is estimated at USD 10.5 to USD 11 billion.

Poland

Having joined the European Union, Poland has rapidly achieved enviable results, and the favourable economic conditions are expected to continue. The European Commission has commended Poland's sound economic foundation, formed particularly by domestic consumption, business investment and favourable conditions on the labour market. Due to the beneficial tax regime, high real wage growth, and high demand for labour, domestic spending is expected to continue to generate economic growth. Given the high wage growth and the consequent inflationary pressures, one can expect the central bank to continue applying a tight monetary policy to maintain price stability. Inflation should remain at an enviably low level, with the planned monetary policy contributing to the continued strengthening of the zloty.

Growth in the pharmaceutical market is estimated between 5 and 6%, with its value standing at around EUR 4.2 billion.

Western Europe

The problems on the global financial markets, particularly the subprime loan market, problems in the real estate market and the appreciation of the euro, which disincentivises exports, all point to a slowdown in economic growth. In the western EU member states, high energy prices and other factors mean inflationary pressure will continue, leading to a more restrictive monetary policy, which will further decelerate economic activity and investments. Nevertheless, the key macroeconomic aggregates such as consumption and investment are expected to be favourable in 2008, though their growth could slow down.

Central bank measures, particularly major assistance to commercial banks, can be expected to mitigate problems on the financial markets, which will have a positive impact on the economic situation in the western EU member states.

The pharmaceutical market is expected to grow at 5%, which will see its value reach EUR 150 billion.

Romania

Romania's entry to the European Union and the major inflows of foreign investments mean expectations regarding economic growth remain optimistic, while the need for structural reforms within the economy remains, and there has been a noticeable deterioration in the country's foreign trade balance. One major challenge is budget spending, and particularly its underlying structure. Following legal amendments adopted in June 2007, pensions will increase significantly in the next two years, and growth in public sector wages is also anticipated. The structure of budget spending is changing with current spending benefiting at the expense of state investment. These factors can all be expected to contribute to an increase in the government deficit and inflationary pressures, which will only be exacerbated by higher prices for food and energy.

The value of the Romanian pharmaceutical market is estimated at around EUR 1.75 billion, with growth of 20% expected.

Ukraine

Conditions in Ukraine were once more very unpredictable in 2007, but that did not ultimately have a negative impact on the economy. A gradual slowdown in economic growth is expected, particularly given reduced domestic demand, and higher prices for imported gas. In mid-2008 Ukraine is expected to join the World Trade Organisation (WTO), which in the long term will have a positive impact on the country's trade balance, though the trade deficit will remain in the short term. Changes in the tax code are not anticipated, but an increase is expected in pension expenditure, social transfers and the minimum wage, which will lead to inflationary pressure. High inflation remains one of the main medium-term economic policy challenges.

With growth forecast at around 12%, the pharmaceutical market value is estimated at EUR 1 billion.

Czech Republic

After expansion in 2007, economic growth is expected to calm, which is partially the consequence of a more restrictive fiscal policy, and partially due to reduced investment activity, which had already fallen slightly behind expectations in 2007. The restrictive budgetary policy will be at least partially compensated by growing domestic demand, underlined particularly by wage growth and borrowing. Growth in exports is expected, particularly in industrial products, which will have a positive impact on the country's foreign trade balance. Inflation increased towards the end of 2007, so a tighter monetary policy is expected in future. The central bank wants to maintain the annual inflation rate within a band between 2 to 4%.

The value of the Czech pharmaceuticals market is estimated at around EUR 1.5 billion, with growth between 5 and 6%.

Risk management

The rapid growth of the Krka Group's operations and its significant international presence bring with them a degree of exposure to various forms of risk, which are divided into operational and financial risk. The Krka Group manages all forms of manageable risk through appropriate mechanisms, with a number of organisational units bearing responsibility for risk management.

Operational risk management is decentralised, and is part of the responsibilities and powers built into individual organisational units and companies within the Krka Group. Actions and results relating to operational risk are monitored regularly via various committees (development committee, sales committee, quality committee, investment committee, human resource committee, economics and finance committee, and the information technology committee).

The Finance Division monitors and manages financial risk on a centralised basis.

The company management approves appropriate actions and mechanisms to manage risk, and also receives reports on the effectiveness of approved actions. All risk is dealt with systematically, with appropriate quantitative methods applied to financial risk in order to study exposure and potential loss volumes. The careful attention Krka pays to risk management enabled it to effectively manage the forms of risk mentioned above during 2007, and to minimise their negative impact on operations.

Operational risk

Risk area	Description of risk	Risk management method	Exposure
Intellectual property	Risks relating to the intellectual property rights of third parties.	Consistent respect for intellectual property of others, monitoring patent processes, forming provisions.	Moderate
Regulatory procedures	Risk of potential changes in legislation or their interpretation.	Consultation with regulatory authorities in product development process.	Moderate
Development process	Risk that developed product will not have appropriate properties or will not be appropriate in terms of the patent situation.	Vertically integrated business model.	Moderate
Reliability of suppliers and contractual partners	Possibility of irregular or unsatisfactory supplies or uncompetitive prices.	Performing risk analysis of individual suppliers and adopting appropriate measures in case of inappropriate business relations with a supplier.	Moderate
Availability of production capacity	Unplanned shutdowns, interruptions, or production errors.	Regular preventive maintenance and measurements.	Low
Environmental protection	Risk of accidents occurring with a negative impact on the environment.	Preventive tests and prescribed internal measures for emergencies.	Low
Information sources	Risk of disruption in business processes due to disruption in information sources.	Independent security checks and planned preventive measures to rectify disruptions.	Moderate
Workforce	Risk of loss of key staff, lack of professionally qualified staff.	Systematic work with key staff, remuneration system, staff development, continual education, measuring of organisational culture and climate.	Moderate
Health and safety at work	Risk of injuries or accidents in the workplace.	Testing technological procedures, computer-supported risk assessment system.	Moderate
Asset protection	Risk of assets being stolen or removed.	Preparing security plan.	Moderate

Insurance companies offer cover for three groups of risk: risk of damage to property, risk of claims for damages and civil lawsuits, and risk of financial losses due to business interruption.

Financial risk

Risk area	Description of risk	Risk management method	Exposure
Foreign exchange risk	Risk of losses due to unfavourable exchange rate movements.	Monitoring currency markets, hedging with appropriate financial instruments.	Moderate
Interest rate risk	Risk relating to changing financing and borrowing conditions.	Monitoring currency markets, hedging with appropriate financial instruments.	Low
Credit risk	Risk of customers defaulting on payment.	Calculating credit ratings and restricting maximum exposure to customers.	Moderate
Liquidity risk	Risk of lack of liquid assets to settle current financial or operating liabilities.	Agreed credit lines and planning cash requirements.	Low
Risk of damage to property	Risk of damage to property due to natural disasters and other accidents.	Systematic threat assessment, implementation of measures in line with fire prevention studies, and arrangement of appropriate insurance.	Moderate
Risk of claims for damages and civil lawsuits	Risks of claims by third parties due to loss events caused accidentally by company's activities, property or placing products on the market.	Civil and product liability insurance.	Moderate
Risk of financial losses due to business interruption	Interruption of production due to damage to property.	Insurance of labour costs, amortisation and depreciation, other business costs and operating profit, and implementation of technical and organisational measures to reduce impact of business interruption.	Low

Operational risk

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

Research and Development

Managing risk in the field of research and development is particularly important, given the nature of the pharmaceutical industry.

- **Intellectual property.** Current situation analysis is used for every product to check exposure to risk of lawsuits relating to violations and potential lawsuits arising from alleged violations of the intellectual property of third parties. On the other hand, we protect our own solutions with patents as early as possible in the R&D phase, and use appropriate mechanisms to participate in patent-granting processes from the competent authorities. We also protect our own brands as a major element of industrial property.

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

- **Scientific risk.** Research and development work is based on new discoveries. Risks can occur in the field of intellectual property, if the patent situation changes during development processes. On the other hand there are also technological and technical risks, when one of the key properties a product requires cannot be obtained. Risks relating to the properties of products can be reduced by introducing new development processes and methods and with our own and acquired knowledge in the research and development field. We introduce processes that can reduce risk by predicting final product properties, which must be high-quality, safe and effective, in the early development phases. An important factor in improving management of these risks is the vertically integrated development and production model, which is used to control the entire production process from raw materials to the final product.

Reliability of suppliers and contractual partners

Krka sources its input raw materials from a number of suppliers, using a system that ensures secure and competitive supplies. In 2005 Krka started performing risk analyses of contractual partners, suppliers, and pharmaceutical ingredient producers. The results of individual risk analyses are used to define priority assessments, which Quality Management personnel use in partner companies. Based on the findings of these assessments, agreements are reached with partners on measures to be taken, while in unusual cases a decision may be made to change supplier or partner.

Availability of production capacity

High-quality preventive maintenance of strategic equipment and the energy supply system remains the main method of ensuring the reliability and quality of production capacity. Using the SAP PM (Plant Maintenance) information system has borne fruit, making the planning, implementation and supervision of preventive maintenance simpler and more transparent. It also provides a large, up-to-date database for detecting potential critical points, which supports effective and timely decision-making and action, as well cost management. We regularly analyse the results of efficiency and availability measurements for critical equipment taken directly from production lines, and look for long-term methods of improving performance. Risk is further reduced by means of the comprehensive system of continual training and updating of knowledge, not only for technical personnel, but also for production operators, who apply their new knowledge of production line set-up to product changeovers, making a major contribution to improving the efficiency and availability of machinery. Internal risks relating to energy sources have been reduced by modernising energy supply systems and installing reliable devices offering flexible capacity that is continually adapted to expansions in production capacity.

Environmental protection

Some accidents can have a negative impact on the environment, so it is important to take effective action and reduce the risk of accidents. Krka's internal procedure – Recognising Accidents – identifies and evaluates all potential accidents, and the relevant responses should they occur. Preventive measures reduce the likelihood of such accidents occurring. Training and drills are used to ensure any accident that does occur will have a minimal impact on the environment. Two accidents occurred in 2007 (spillage of minor quantities of hazardous substances). Effective action, taken in accordance with the internal instructions, meant there was no harmful environment impact in either case.

Information resources

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

Workforce

A lack of the right personnel is an increasing problem on the labour market. Krka therefore systematically plans and implements educating and training for its employees in order to achieve national vocational qualifications. The issue of key staff is particularly sensitive, since they are a vital factor in company competitiveness, depending on their quality. Krka therefore also systematically plans and monitors their training and development, building up their responsibilities in the workplace as well as offering new duties and positions. Together with other incentives, we engender greater company loyalty, and reduce the possibility of them leaving. Risks relating to the lack of key staff, which is exacerbated by a demographic decline, are managed by increasing the amount of grants offered to university students. This ensures the recruitment of the new specialist staff members Krka needs to meet its planned strategic, developmental and sales plans.

Health and safety at work

Using an internal methodology and in accordance with the Safety Declaration, we assess the probability of specific events occurring and the seriousness of such events. In addition to assessing risk in the workplace, the risk from individual technological procedures is also assessed. We check every technological procedure annually, in line with Health and Safety at Work Assessment of Technological Procedures.

Asset protection

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

Financial risk

Foreign exchange risk

The Krka Group's wide international orientation exposes it to risks relating to foreign exchange movements.

The main foreign exchange risk for the Krka Group comes from changes in the US dollar exchange rate, while the currencies used in the countries in which Krka has its key foreign companies have also been identified as very important. These include the Polish zloty, the Russian rouble, the Croatian kuna and the Macedonian denar.

In 2007 Krka actively managed its US dollar risk. Hedging was not used in 2007 to manage foreign exchange risk from other currencies.

A significant element of foreign exchange risk management is the difference in inflows over outflows in a specific foreign currency, referred to as an open currency position. As the table below indicates, Krka has recorded a surplus of US dollar inflows over outflows over the year. The Krka Group's open position in US dollars gradually increased during 2007, as the inflows in this currency grew faster than outflows.

Overview of the controlling company's foreign exchange inflows, outflows and open currency positions

USD million	2007	2006	2005	2004
Inflows	321	249	200	197
Outflows	141	107	118	100
Open position	179	142	82	97

Part of the planned open position in US dollars for specific periods has been hedged using financial derivatives, in accordance with the foreign exchange risk management policy, while part remains unhedged. Simple financial derivatives were used for hedging, such as forward contracts and currency options.

In 2007 the US dollar lost 10.5% of its value against the euro. The falling value of the US dollar, led to Krka Group recording foreign exchange losses from payments and the revaluation of US dollar-denominated assets. Derivatives were used to generate positive financial effects, but these were not sufficient to completely neutralise the foreign exchange losses.

Interest rate risk

At the end of 2007, Krka had five long-term loans either linked to the 6-month LIBOR for the US dollar borrowings or the 6-month EURIBOR for the euro borrowings. The interest rate risk for the loans linked to the 6-month LIBOR has been hedged in full.

In November 2007 we raised two new long-term loans linked to the 6-month EURIBOR. The interest rate risk was not hedged before the end of 2007, since the trend for the European Central Bank's key interest rate to increase came to an end. At the end of 2007 therefore only 20% of the principal of the long-term loans linked to the 6-month EURIBOR were hedged.

Credit risk

The credit control process involves obtaining credit ratings for customers to which the controlling company makes annual product sales of EUR 100,000 or over, and regular, dynamic monitoring of customer payment discipline.

The effects of credit control are positive, as it leads to:

- reductions in the total value of outstanding receivables
- an improved maturity structure for outstanding and overall receivables
- a better ratio of average trade receivables to sales value.

By the end of 2007 a total of 359 of the controlling company and subsidiaries' customers had been included in the credit control system. Since 2006 the credit control system has been extended to include the customers of our subsidiaries in Poland, Croatia, Serbia, the Russian Federation, and Macedonia. At the beginning of 2007 the customers of Krka Sverige AB were also brought into the system.

Credit control is dealt with centrally for the entire Krka Group by the Risk Management Department and is organised for customers of subsidiaries and the controlling company according to standard procedures and rules.

Receivables write-offs had no material impact on our financial position in 2007.

Liquidity risk

Managing liquidity risk involves studying whether the Group can settle its current operating liabilities, and whether its financing liabilities can be settled using the cash flows it generates.

Liquidity needs are met using weekly, monthly and longer-term cash flow planning, with potential cash deficits that cannot be covered from current operations, being covered by agreed short-term credit lines from banks, while any cash surpluses are placed into liquid short-term financial investments. In the past year, we optimised balance monitoring of cash and cash equivalents in subsidiaries and upgraded the liquidity planning system, in order to improve short-term and long-term liquidity.

Below is a summary of liquidity ratios (current, quick and acid test ratios), and a number of ratios that indicate the performance of current asset and liability management.

The ratios are comparable with those for other companies in the industry. The Krka Group's working capital ratio is falling, which indicates an improvement in the management of current assets and liabilities.

Liquidity ratios for the Krka Group and a comparison with selected averages

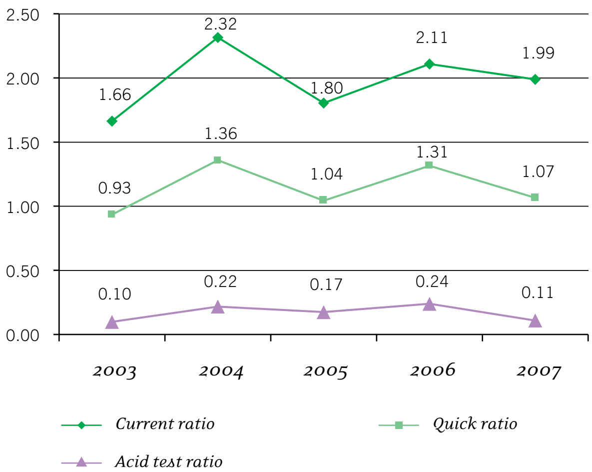
Liquidity ratios	2007	2006	2005	2004	2003*	Average for pharmaceutical companies**	Krka's 5-year average
Current ratio	1.99	2.11	1.80	2.32	1.66	2.49	1.98
Quick ratio	1.07	1.31	1.04	1.36	0.93	1.57	1.14
Acid test ratio	0.11	0.24	0.17	0.22	0.10	0.38	0.17
Receivables turnover ratio	4.34	4.34	4.02	4.74	3.72	3.76	4.34
Working capital ratio (%)	29.67	29.70	27.80	26.57	43.35	32.35	31.39

Current ratio = current assets / current liabilities
Quick ratio = (current assets – inventories) / current liabilities
Acid test ratio = (financial investments + cash and cash equivalents) / current liabilities
Receivables turnover ratio = net sales revenues / accounts receivable and other receivables
Working capital = (current assets – cash and cash equivalents) – (current liabilities –short-term borrowings)
* Slovenian Accounting Standards
** Own calculations based on Reuters data for selected comparable companies (Teva, Stada, Zentiva, Egis)

In addition to assessing the settlement of current liabilities, we also study whether the Group can service its loans and settle other financing liabilities using generated cash flows. The 'net debt/EBITDA' ratio disclosed in the chapter Business Operations Analysis (Ratios) indicates that the Group can pay its net debt in total in less than one year. This ratio value indicates a very low level of risk for the Group.

The diagram presents changes in the liquidity ratios, which move relative to each other. This indicates the stability of balance-sheet categories that affect liquidity.

Movement in liquidity ratios for the Krka Group



Property, business interruption and liability insurance

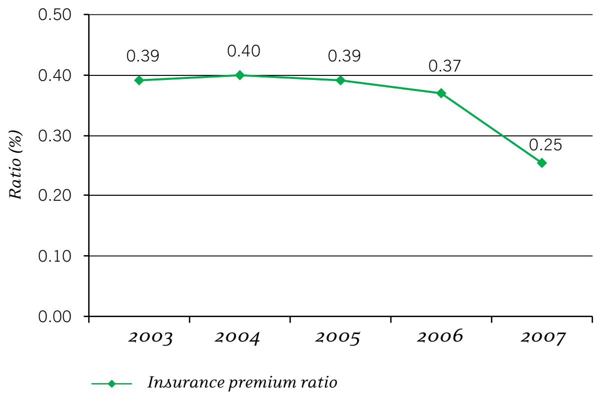
The aims of the Krka Group's insurance are to provide compensation for damage to property, and loss of earnings due to business interruption, and to protect the Group in case of third party claims due to bodily injury or material damage. The procedures for taking out our insurance and handling claims are internally standardised for the entire Group.

The ratio between the sum insured and the deductible is subject to careful scrutiny on an annual basis, and has a significant effect on the insurance premium. Minor damage is covered by own funds, while larger and catastrophic damage is covered by policy proceeds or compensation from insurance companies. In 2007 the Krka Group cancelled its machinery breakdown insurance based on research into exposure to damage and breakdown of production and transport equipment, machine installations and electronic equipment, and an analysis of loss events over several years, transferring payment of damages to its account.

Equipment, inventory and investment insurance is based on the current value, and buildings at acquisition price, which means that compensation is not reduced by depreciation due to use. The sum insured by business interruption insurance includes the labour costs, depreciation and other business expenses, and operating profit for a period of one year.

In 2007 the industrial complex in Novo mesto underwent an insurance inspection by a reinsurance company, intended to determine the maximum probable damage to property and to check the factors affecting the risk of business interruption within the Group. The inspection's findings were positive, particularly regarding the organisation of risk management, fire safety and anti-explosive measures, and measures to loss of sales and earnings due to business interruption, so the insurance premium did not increase in real terms, although the sum insured and hence the maximum probable damage increased.

Ratio of insurance premium to sales revenues



The Group is aware of its responsibility for accidental material damage caused by its activity, property or placing products on the market, and adapts its insurance cover accordingly. This is intended to ensure independent payment of damages to third parties, while it requires contractual partners, particularly those involved in construction and installation work, investment projects and transport, to insure their liability for damage caused to companies and employees in the Krka Group.

Investor information

Shareholder return

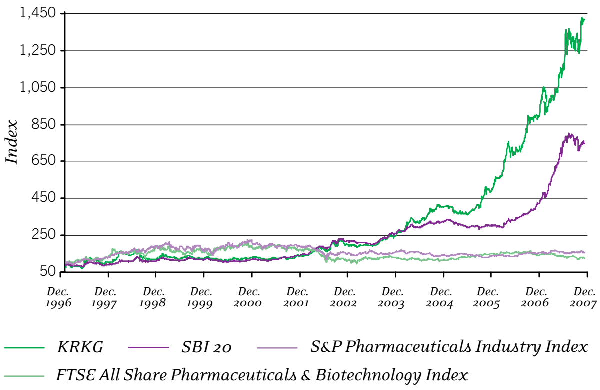
KRKA SHARE PRICE

EUR	2007	2006	2005	2004	2003
Year high	126.58	79.14	44.87	36.46	22.31
Year low	79.23	42.74	31.69	21.70	16.39
On 31 December	124.29	78.48	42.72	35.24	22.05
Annual growth (%)	58	84	21	60	23

The number of shares following the 1:10 share split is used for all periods. The EURSIT exchange rate on the 31 December of each year is used for conversion to EUR for the period 2003-2006.

In 2007, the Krka share price increased by 58%, while the Slovenian Stock Exchange Index (SBI 20) grew 74% over the same period.

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



Source: Reuters

From the first listing of Krka shares on the stock exchange in 1997 to the end of 2007, the growth in the Krka share price has significantly exceeded growth on all major global indices, and specifically the S&P Pharmaceuticals Industry Index and the FTSE All Share Pharmaceuticals & Biotechnology Index. In 2007 the Krka share price underperformed the Slovenian Stock Exchange Index (SBI 20), which recorded record returns in 2007.

Dividend policy

Krka pursues a policy of moderate increase in dividends. The dividends are paid once per year, within 60 days of the Annual General Meeting being held, during which shareholders reach a decision on the dividend proposed for the past business year.

DIVIDENDS

	2007	2006	2005	2004	2003
Earnings per share[1] in EUR	3.92	3.30	2.88	1.93	1.32
Gross dividend per share[2] in EUR	0.80	0.69	0.58	0.50	0.44
Dividend pay out[3] (%)	24	24	30	39	32
Dividend yield[4] (%)	0.6	0.9	1.4	1.4	2

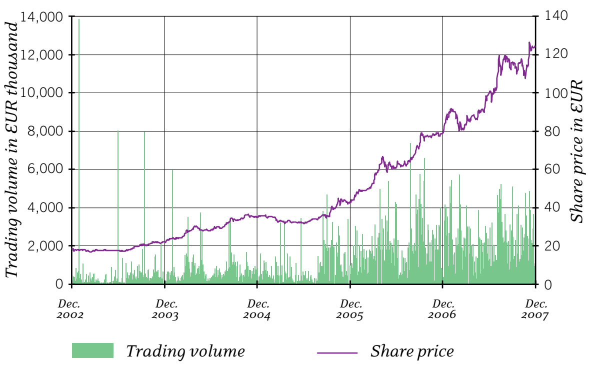
[1] Net profit of Krka Group majority shareholders / average number of shares issued in the period, excluding own shares
[2] Dividend paid for previous period / average number of shares issued in the period
[3] Gross dividend per share / earnings per share from previous period
[4] Gross dividend per share / share price on 31 December of the year
The number of shares following the 1:10 share split is used for all periods. The EURSIT exchange rate on 31 December of each year is used for conversion to EUR for period 2003-2006.

Share trading and shareholding

Krka shares are listed on the Ljubljana Stock Exchange's Prime Market, which includes companies that are outstanding in terms of liquidity, size and transparency of operations. Their trading code is KRKG and they have been traded on the Ljubljana Stock Exchange since 1997, and all shares are the same class (ordinary, freely transferable). Each share, except treasury shares, represents one vote at the general meeting, and every shareholder has the right to participate and vote at the general meeting, regardless of the number of shares held. Krka shares can be freely traded through brokerage firms and banks that are members of the Ljubljana Stock Exchange.

On 3 September 2007 Krka carried out a share split – at the ratio of 1:10 – each share was split into ten shares. The split increased the number of shares issued tenfold, up to 35,426,120. The purpose of the split was to increase liquidity and make the shares available to a wider range of investors. Krka was the first public limited company in Slovenia to carry out a share split. Positive effects of the share split could already be detected by the end of the year. Share turnover increased, while the number of shareholders increased following the split – i.e. in the final four months of 2007 – by 9%, or by over 5000 shareholders. At the end of 2007, Krka had 61,585 shareholders (2006: 54,555).

TRADING IN KRKA SHARES



In 2007 Krka shares again had the highest liquidity of any security on the Ljubljana Stock Exchange, which was enhanced by the share split. Turnover in Krka shares in 2007 was worth EUR 509 million in 2007, an increase of 24% compared to 2006. The average daily turnover in Krka shares in 2007 totalled EUR 2.07 million in 2007, again an increase of 24% on 2006.

SHAREHOLDER STRUCTURE ON 31 DECEMBER (%)

10 LARGEST SHAREHOLDERS ON 31 DECEMBER 2007

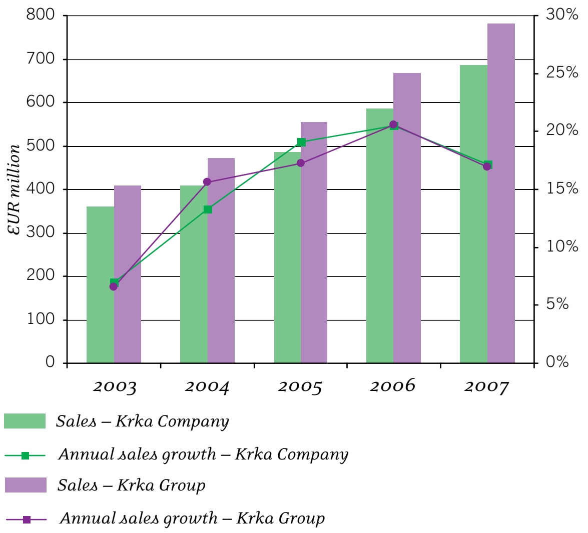
	Shareholder	Number of shares	Share (%)
1	SLOVENSKA ODŠKODNINSKA DRUŽBA, D. D.	5,312,070	14.99
2	KAPITALSKA DRUŽBA, D. D.	3,493,030	9.86
3	NEW WORLD FUND INC	914,000	2.58
4	NFD 1 DELNIŠKI INVESTICIJSKI SKLAD D. D.	896,942	2.53
5	BANK AUSTRIA CREDITANSTALT AG	543,009	1.53
6	LUKA KOPER	451,590	1.27
7	ZAVAROVALNICA TRIGLAV, D. D.	388,300	1.10
8	DELNIŠKI VZAJEMNI SKLAD TRIGLAV STEBER I	386,568	1.09
9	MARIBORSKE LEKARNE	300,000	0.85
10	ERSTE BANK AG	276,076	0.78
	TOTAL	**12,961,585**	**36.59**

Business operations analysis

All financial data since 2004 are presented in accordance with the International Financial Reporting Standards (IFRS), while the Slovenian Accounting Standards (SAS) were used in 2003. The analysis includes data for the Krka Group and the Krka Company, while the commentary relates primarily to the Krka Group.

Sales

SALES AND SALES GROWTH FOR THE KRKA GROUP AND THE KRKA COMPANY



Krka Group's main strategic objective defined in the 2008-2012 development strategy remains focused on the average annual overall sales growth of over 10%. The graph illustrates the stable growth achieved. The average annual sales growth over the past five years has been 17%.

In 2007 the Group sold products and services worth EUR 780.9 million, achieving a growth of 17% and an increase of EUR 113.0 million on 2006. The biggest contribution to growth came from prescription pharmaceuticals among the product groups, and from Region Western Europe and Overseas Markets among the regions.

A more detailed analysis of the sales results achieved for individual markets and product groups is given in the section Marketing and Sales.

SALES PER EMPLOYEE FOR THE KRKA GROUP

The average sales growth per employee over the past five years was 7%, which is lower than the growth in overall sales. This is largely due to intense recruitment activities abroad, in both representative offices and in subsidiaries. In 2007 the number of employees grew by 38% outside Slovenia, and by 6% in Slovenia (more details in the section Employees).

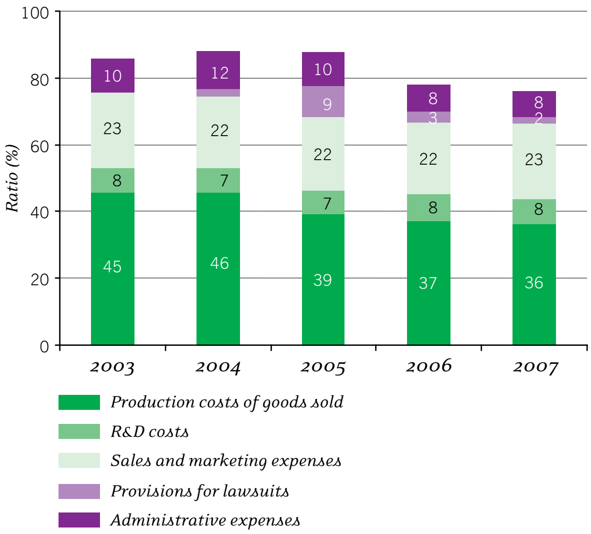
Given that the marketing and sales network is organised across the representative offices and subsidiaries abroad, the sales per employee figure is only given for the Group.

Operating expenses

The Krka Group incurred operating expenses of EUR 602.2 million, an increase of 16% compared to the previous year. Expenses grew by one percentage point less than sales.

The Krka Group's operating expenses include EUR 282.8 million for production costs of goods sold, EUR 198.1 million for sales and marketing costs (including EUR 14.1 million for new provisions for lawsuits), EUR 59.1 million for R&D costs, and EUR 62.2 million for administrative expenses. The ratio of operating expenses to sales has fallen over a five-year period from 86% to 77% in 2007, as indicated in the graph.

STRUCTURE OF OPERATING EXPENSES



The production costs of goods sold, which increased by 14% compared to 2006, are the largest expense item, representing 47% of overall operating expenses. Their ratio to sales has fallen by 9 percentage points over a five-year period to 36% in 2007.

Sales and marketing costs (excluding provisions) represented 23% of sales. In 2007 they increased by 27%, primarily due to the expansion of the Krka sales network. If one takes into account provisions of EUR 14.1 million formed by the controlling company then sales and marketing costs increased by 19%.

The ratios of R&D costs to sales and administrative expenses to sales both stayed at 8%. Both grew at a lower rate than sales. Overall R&D costs are recognised as expenses, since they are not capitalised.

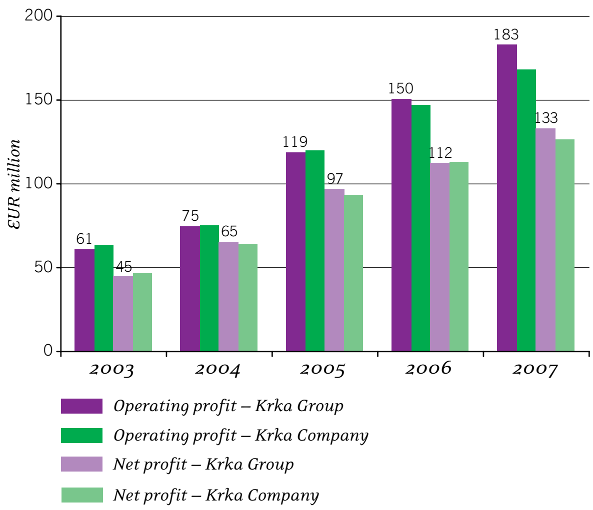
Financing income and expenses

Despite systematic management of foreign exchange and interest rate risk within the Krka Company and the Krka Group, the financing result deteriorated in 2007. This is primarily due to the greater exchange losses generated by the Krka Group due to the falling value of the US dollar (see Risk Management).

	Krka Group					Krka Company				
EUR thousand	2007	2006	2005	2004	2003	2007	2006	2005	2004	2003
Financial income	17,355	15,500	16,652	14,789	13,757	16,360	14,779	13,704	12,697	16,351
Financial expenses	-25,354	-17,239	-12,450	-13,329	-22,762	-20,245	-14,494	-15,589	-12,789	-25,542
Net financial result	**-7,999**	**-1,739**	**4,202**	**1,460**	**-9,005**	**-3,885**	**285**	**-1,885**	**-92**	**-9,191**

Operating results

OPERATING PROFIT AND NET PROFIT



The Group's operating profit of EUR 182.9 million was 22% higher than in 2006. The profit before tax increased by EUR 26.2 million or 18%, reaching EUR 174.9 million. The income tax expense increased by 15%, totalling EUR 42.1 million, of which EUR 44.4 million was levied tax and EUR 2.3 million deferred tax. The effective tax rate for the Group was 24.1%, which was somewhat lower than last year.

The Krka Group's net profit was EUR 132.9 million, an increase on 2006 of 19% or EUR 20.8 million.

Assets

	Krka Group					Krka Company				
EUR thousand	2007	Prop. in %	2006	Prop. in %	Index 07/06	2007	Prop. in %	2006	Prop. in %	Index 07/06
Non-current assets	749,707	66.9	574,846	65.4	130	712,263	67.4	561,034	65.7	127
– property, plant and equipment	572,244	51.0	506,929	57.6	113	422,891	40.0	377,442	44.2	112
– intangible assets	129,854	11.6	23,500	2.7	553	24,466	2.3	22,400	2.6	109
– financial investments	14,512	1.3	12,324	1.4	118	235,887	22.3	133,366	15.6	177
– other	33,097	3.0	32,093	3.7	103	29,019	2.8	27,826	3.3	104
Current assets	371,711	33.1	304,282	34.6	122	344,995	32.6	293,252	34.3	118
– inventories	171,647	15.3	115,925	13.2	148	127,276	12.0	99,480	11.7	128
– receivables	179,834	16.0	153,891	17.5	117	188,872	17.9	157,484	18.4	120
– other	20,230	1.8	34,466	3.9	59	28,847	2.7	36,288	4.2	79
Total assets	1,121,418	100.0	879,128	100.0	128	1,057,258	100.0	854,286	100.0	124

The Krka Group's assets were worth EUR 1,121.4 million on 31 December 2007, an increase of 28% or EUR 242.3 million from the start of the year. The biggest contribution to this growth of non-current assets came from intangible assets, the value of which increased by EUR 106.4 million, and from property, plant and equipment, which increased in value by EUR 65.3 million. The largest increase among current assets was in inventories, which grew by EUR 55.7 million. The ratio of current to non-current assets changed slightly compared to the start of 2007, with the proportion of non-current assets increasing by 1.5 percentage points to 67%.

The acquisition of TAD Pharma contributed most to the increase in assets and the change in the structure of total assets.

The most important item among non-current assets – which had a total value of EUR 749.7 million – was property, plant and equipment, worth EUR 572.2 million, an increase of 13% due largely to new investments. However, as a proportion of total assets they decreased from 58% in 2006 to 51%. The value of intangible assets increased by 453% to EUR 129.9 million, and represents almost 12% of total assets. The high increase in the value of intangible assets largely came from increased investment in the goodwill and trademark of TAD Pharma (for more details refer to Notes to the Krka Group's Consolidated Financial Statements).

The proportion of current assets in total assets fell slightly to 33.1%. Current assets increased by 22% compared to the start of the year, reaching EUR 371.7 million. The main contribution to this growth came from inventories, which increased by 48% to EUR 171.6 million. Receivables were up 17% to EUR 179.8 million. Among the other current assets, the investments item, including derivatives, was down by EUR 20.0 million, largely due to sale of securities held for trading. Most of the current investments were sold to finance the acquisition of the company TAD Pharma.

Equity and liabilities

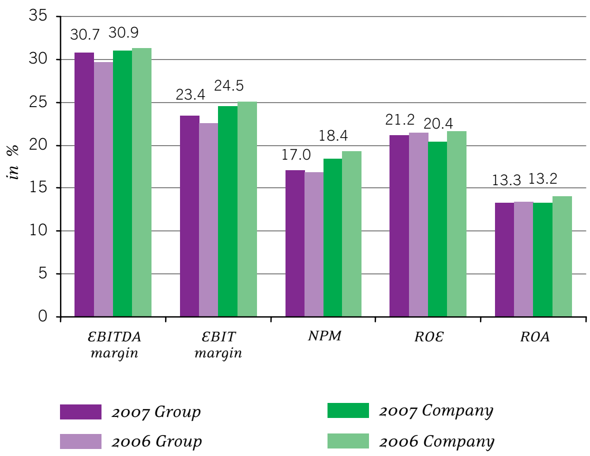
	Krka Group					Krka Company				
EUR thousand	2007	Prop. in %	2006	Prop. in %	Index 07/06	2007	Prop. in %	2006	Prop. in %	Index 07/06
Equity	680,913	60.7	570,905	64.9	119	672,010	63.6	569,918	66.7	118
Non-current liabilities	253,773	22.6	163,941	18.7	155	219,426	20.7	150,351	17.6	146
Current liabilities	186,732	16.7	144,282	16.4	129	165,822	15.7	134,017	15.7	124
Total equity and liabilities	**1,121,418**	**100.0**	**879,128**	**100.0**	**128**	**1,057,258**	**100.0**	**854,286**	**100.0**	**124**

The highest growth in the Group's non-current liability structure – an increase of EUR 52.6 million – was for borrowings, which totalled EUR 87.2 million or 8% of total assets. Long-term provisions were up by EUR 21.1 million, largely due to newly formed provisions for lawsuits, termination pays and retirement benefits.

In the Group's current liability structure, operating liabilities increased by 29% or EUR 17.6 million compared to the start of the year, while borrowings were up EUR 13.8 million or 28%, which was largely due to borrowings by the controlling company. Other current liabilities increased by 53% or EUR 14.5 million, while income tax liabilities fell by EUR 3.4 million.

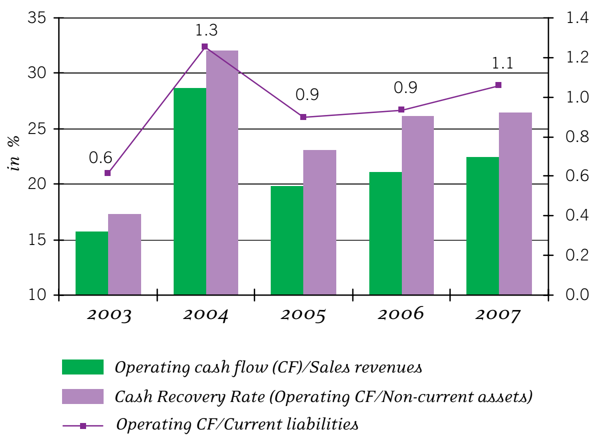
Performance ratios

Profitability ratios



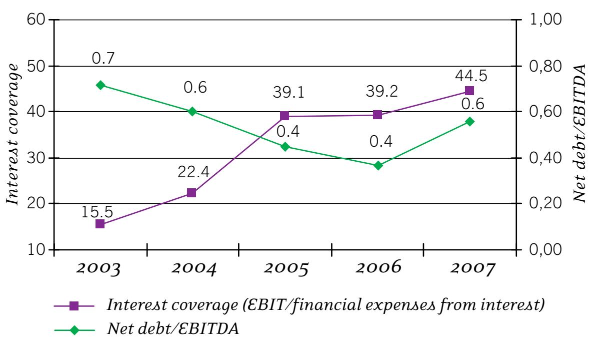
In 2006 the performance ratios were in compliance with the strategic guidelines and annual objectives. Compared to 2006 the Group achieved a higher return on sales. The return on equity and return on assets ratios remained at 2006 levels.

Cash flow ratios



The ratio of operating cash flow (i.e. net cash from operating activities) to sales revenues was well above average in 2004 compared to the other years, primarily due to sales from inventories, and lower ongoing operating costs. For the same reason the cash recovery rate (operating cash flow/non-current assets ratio and the operating cash flow/current liabilities ratio were higher in 2004 as well.

Liquidity ratios



The interest coverage figure indicates a positive trend. There was a significant increase in 2005, and the trend has continued over the past two years. The 2007 operating profit covered interest liabilities for over 44 years. An indicator value of 13 used to be sufficient in the United States for smaller, riskier companies to earn the top credit rating (AAA), while for larger, stable companies that figure is 9. In 2007, the credit rating – calculated using the net debt/EBIDTA ratio – increased slightly compared to 2006, due to the higher cash flow and reduced debt. The ratio stood at 0.6, which still well exceeds the bank requirements (1.5).

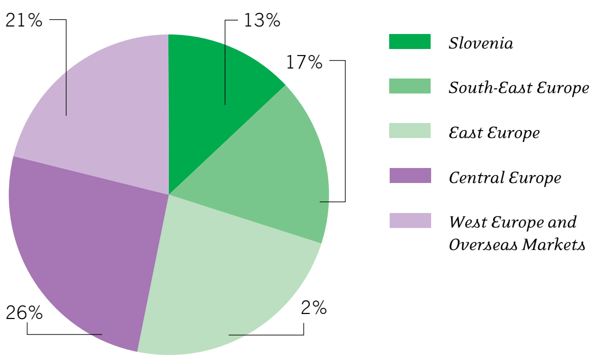
Operating figures 2003–2007

	Krka Group					Krka Company				
EUR thousand	2007	2006	2005	2004	2003	2007	2006	2005	2004	2003
Sales	780,918	667,955	554,137	472,660	408,757	686,729	586,102	486,570	408,677	360,758
EBIT	182,933	150,495	119,057	74,872	61,008	168,083	146,965	120,217	75,150	63,487
EBIT margin	23.4%	22.5%	21.5%	15.8%	14.9%	24.5%	25.1%	24.7%	18.4%	17.5%
EBITDA	239,880	198,199	164,849	118,039	101,474	212,467	183,158	155,190	107,408	96,117
EBITA margin	30.7%	29.7%	29.7%	25.0%	24.8%	30.9%	31.3%	31.9%	26.3%	26.6%
Net profit	132,853	112,086	97,335	65,324	44,627	126,521	113,027	93,746	63,858	46,569
Net profit margin	17.0%	16.8%	17.6%	13.8%	10.9%	18.4%	19.3%	19.3%	15.6%	12.9%
Assets	1,121,418	879,128	788,265	649,010	618,318	1,057,258	854,286	760,723	631,168	609,688
ROA	13.3%	13.4%	13.5%	10.5%	7.7%	13.2%	14.0%	13.5%	10.4%	8.1%
Equity	680,913	570,905	479,585	405,125	403,998	672,010	569,918	477,726	405,173	407,723
ROE	21.2%	21.3%	22.0%	17.4%	11.4%	20.4%	21.6%	21.2%	16.8%	11.9%

Marketing and sales

In 2007 the Krka Group achieved highest growth in Regions Western Europe and Overseas Markets, Central Europe and South-East Europe.

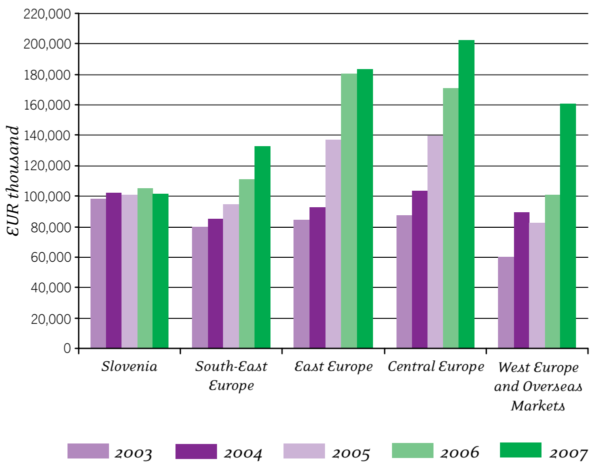
Krka Group sales by region in 2007



Krka Group and Krka Company sales by region

	Krka Group			Krka Company		
EUR thousand	2007	2006	Index 2007/2006	2007	2006	Index 2007/2006
Slovenia	101,648	104,579	97	69,160	75,326	92
South-East Europe	132,929	110,966	120	120,257	97,540	123
East Europe	182,974	180,685	101	174,172	177,370	98
Central Europe	202,407	170,761	119	171,149	136,145	126
West Europe and Overseas Markets	160,960	100,964	159	151,991	99,721	152
Total	780,918	667,955	117	686,729	586,102	117

Krka Group sales by region



Slovenia

Group sales in Slovenia underwent a 3% drop compared to the previous year, and were worth EUR 101.6 million. Prescription pharmaceuticals represented the largest proportion of sales. The reduction in their price was largely due to the Rules on the Prices of Medical Products coming into effect, and contributed most to the overall negative growth sales in the region. Terme Krka grew 10%, and generated sales of health resort and tourist services worth EUR 30.8 million.

Krka Group market position in Slovenia

Top-ranked pharmaceutical company, with a market share of almost 15%.

Our products are market leaders:

- in the proton pump inhibitor group with a market share of over 40%
- in the statin group with a market share of over 40%
- in the ACE inhibitor group with a market share of over 30%
- in the angiotensin II receptor antagonist group with a market share of over 30%
- in the oral antiseptic group with a market share of around 30%.

Three Krka products are in the top 10 best-selling pharmaceutical products on the market.

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

Krka's leading products, and the most important, on the Slovenian market by sales were Ultop®, Atoris®, Vasilip®, Enap® and Lorista®. There was an increase in our market share in the group of products for treatment of the central nervous system and the urinary tract that we started marketing in 2006 and 2007. Competition among generics intensified and there was a growth in the number of products. We are adapting to changing circumstances by introducing new products in varied forms and concentrations.

South-East Europe

On the markets of Region South-East Europe, Krka Group sold products worth EUR 132.9 million, which is almost 20% higher than the preceding year. The highest growth in sales in the region was again achieved in Serbia and Romania, followed by Bulgaria and Kosovo. Sales growth was recorded in all product groups.

In **Croatia**, the largest individual market in the region with almost one third of all sales, and one of Krka's key markets, the Krka Group achieved sales of EUR 45.0 million. We continue to be the leading foreign pharmaceutical company, just behind the two largest domestic pharmaceutical producers. Sales growth was achieved for Atoris®, Laaven® and Laaven® HL, Asentra® and Coryol®. The product range at the Jastrebarsko production plant was expanded to include Enap® and Atoris®.

Krka Group market position in Croatia

Krka is the leading foreign generic pharmaceutical company.

Krka is the third-ranked pharmaceutical company overall.

Our products are market leaders:

- in the statin group with a market share of almost 30%
- in the antimicrobial group – fluoroquinolones with a market share of around 70%.

Our products are among the market leaders:

- in the proton pump inhibitor group with a market share of around 20%
- in the benzodiazepine group with a market share of around 25%.

In **Romania**, the second most important market in the region by sales, the Krka Group product sales were worth EUR 37.7 million. Since Krka's sales growth was higher than the sales growth for the overall market, our market share increased to 3%. The growth in sales came from newer products, primarily Rawel® SR, Ultop®, Vasilip®, Tenox® and Coryol®. We also increased sales of two products that already held leading market shares – Bilobil® and Ciprinol®.

The high sales growth in **Serbia** and **Bulgaria** was achieved thanks to the successful introduction of new prescription pharmaceuticals. In Serbia we became the leading generic producer.

Krka Group market position in Romania

Krka is the second-ranked foreign generic pharmaceutical company.

Krka has the leading product, with a market share of over 40%:

- in the group of pharmaceuticals to treat dementia, and
- in the opioid group.

Our products are among the market leaders:

- in the monocomponent ACE inhibitor group
- in the antimicrobial group – fluoroquinolones
- In the macrolide and pyranoside antibiotics.

East Europe

The Krka Group recorded growth of 1% on its markets in Region East Europe compared to last year, recording sales worth EUR 183 million. Sales were down in the Russian Federation compared to 2006, but increased on all other markets in the region.

The Krka Group achieved product sales worth EUR 122 million in the **Russian Federation**, the largest market in the region, which represents a fall of slightly over 6% compared to 2006. Expressed in US dollars sales grew by 7%. The largest contribution to sales – EUR 88.1 million – came from pharmaceutical products, although the largest fall was recorded for this group due to the restrictions in the reimbursement programme. A high level of growth was achieved in all other areas: sales of self medication products were up 24%, animal products were up 29%, and cosmetics 12%. Sales of pharmaceutical products on the open market, i.e. outside the state reimbursement system, generated growth of 40%. The best-selling products in the Russian Federation were Enap®, Vasilip®, Macropen®, Nolicin®, Cordipin®, Pikovit®, Duovit®, Septolete®, Fromilid® and Bilobil®. We also started the successful production of Zyllt®, the new medicine for treatment of cardiovascular disease.

Krka Group market position in the Russian Federation

Krka is the fifth-ranked foreign generic pharmaceutical company.

Our products are market leaders:

- in the statin group with a market share of almost 30%
- in the group of fixed-dose combinations of ACE inhibitors and diuretics, with a market share of over 50%
- in the group of non-mineral multivitamins for paediatric use, with a market share of over 60%.

We have two products among the market leaders in the macrolide antibiotic group, with a market share of over 10%.

Ukraine is the second largest market in the region, but entered a period of economic stagnation in the third quarter of 2007. Despite the challenging conditions, particularly for self-medication products, our coordinated promotional and commercial activities achieved sales growth of almost 17%, reaching EUR 36.6 million. The best selling products were Enap®, Herbion®, Macropen® and Naklofen®.

Krka Group market position in Ukraine

Krka is the second-ranked foreign generic pharmaceutical company.

Our products are market leaders:

- in the statin group, with a market share of over 20%
- in the group of fixed-dose combinations of ACE inhibitors and diuretics, with a market share of over 30%
- in the macrolide and pyranoside antibiotic group, with a market share of over 20%
- in the cough suppressant in combination with expectorant group, with a market share of over 20%.

All remaining markets in Region East Europe (**Belarus**, **Moldova**, **Azerbaijan**, **Armenia**, **Georgia**, **Kazakhstan**, **Uzbekistan** and the **central Asian states**), recorded growth in 2007, with Uzbekistan achieving the highest growth, at 75%.

Central Europe

The Krka Group achieved sales worth EUR 202.4 million on the markets of Region Central Europe, almost 19% higher than in 2007. Sales of pharmaceutical products – which represent 92% of total sales – grew by almost 20%, sales of self-medication products were up almost 8% and animal health products by almost 7%.

In **Poland**, the largest market in the region with 47% of all sales, and one of Krka's key markets, Krka achieved sales of EUR 95.8 million. The most important products in terms of sales were Zalasta®, the best selling product, followed by Atoris®, Lanzul®, Lorista® and Vasilip®. We were able to generate growth in sales of self-medication products, primarily through successful sales of products under the Septolete® umbrella brand. The largest contribution to animal health product sales came from Floron® and Enroxil®.

Krka Group market position in Poland

Krka is the third-ranked generic pharmaceutical company.

Our products are market leaders:

- in the group of anti-inflammatory products for the bowel, with a market share of over 40%
- in the monocomponent angiotensin II receptor antagonist group with a market share of over 20%
- in the SSRI antidepressant group, with a market share of over 10%.

Our products are among the market leaders:

- in the antimicrobial group – fluoroquinolones with a market share of around 30%
- in the statin group, with a market share of over 15%
- in atypical antipsychotic group, with a market share of around 20%
- in the group of pharmaceuticals to treat dementia, with a market share of over 15%.

In the **Czech Republic**, our second largest market in the region, the Krka Group achieved product sales worth EUR 38 million, meaning growth of almost 25%. The best selling medicines were Atoris®, Lorista®, Enap®, Ampril® and Lanzul®, which together contributed over half of overall sales on the market. One self-medication product worthy of particular mention is Septolete®, sales of which were very successful and up one quarter on the 2006 figures, representing almost a half of all self-medication product sales.

Krka Group market position in the Czech Republic

Krka is the second-ranked foreign generic pharmaceutical company.

Our products are among the market leaders:

- in the monocomponent angiotensin II antagonist group with a market share of over 25% and in the group of fixed-dose combinations of angiotensin II receptor antagonists and diuretics
- in the group of fixed-dose combinations of ACE inhibitors and diuretics, with a market share of over 20%
- in the statin group, with a market share of over 15%.

High sales growth and high market shares were achieved in most of the other markets in the region. Mention should be made of **Hungary** with high growth of 77% and **Slovakia**, where growth was 51%.

West Europe and Overseas Markets

At EUR 161 million, product sales exceeded the 2006 figures by over 59%. Region West Europe is one of Krka's key markets, and sales of generic prescription medicines represent the bulk of sales in the region. Most generic medicines were sold via partners whose sales networks give them a presence in every western European country.

The most important markets in the region are Germany, the United Kingdom, the Nordic countries, Portugal where Krka started selling its own products via its own marketing work, and Italy. The Region recorded its highest growth in sales compared to the previous year in southern EU member states, Africa and on the Arabian Peninsula. In 2008 we are planning for the highest increase in sales to take place in the northern European Union member states. We achieved high-volume market shares on the markets of western Europe for individual generic products, primarily the sale of the generics lansoprazole, enalapril and carvedilol. The new products introduced to this market were the generics olanzapine, venlafaxine and pantoprazole, and the generics enrofloxacin and florfenicol in the animal health product group.

Krka Group market position on western European markets

Krka is the leading supplier of generic lansoprazole, carvedilol, enrofloxacin and florfenicol.

Krka is among the leading suppliers of the generic amlodipine, enalapril, simvastatin, mirtazapine and olanzapine.

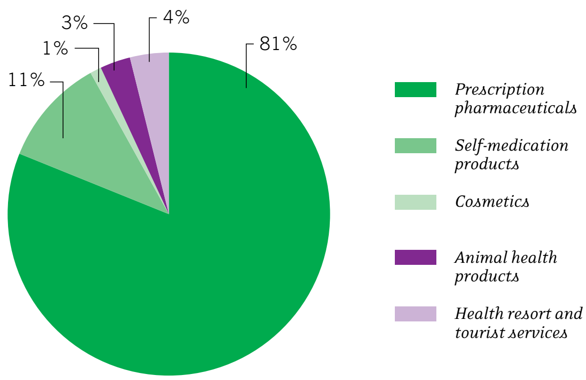
In the Nordic countries and Portugal, Krka sells prescription pharmaceuticals under its own brand.

Krka acquired the German pharmaceutical company TAD Pharma, which will also strengthen our position on the German market.

Product and service groups

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

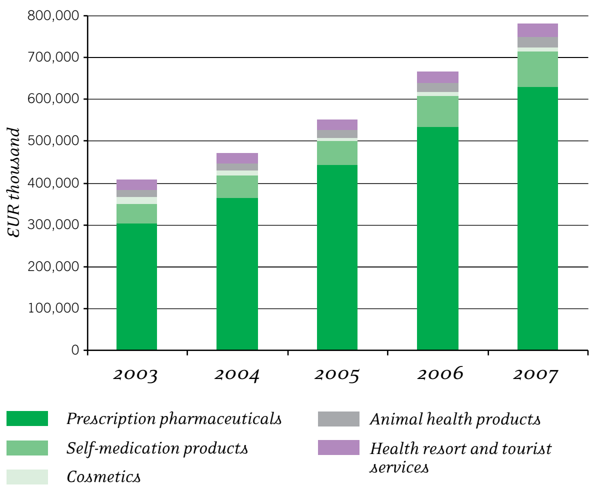
Krka Group sales by product and service group in 2007



Krka Group and Krka Company sales by product and service group

	Krka Group			Krka Company		
EUR thousand	2007	2006	2007/2006 Index	2007	2006	2007/2006 Index
Human health products	724,544	616,483	118	661,295	563,221	117
– prescription pharmaceuticals	630,783	535,945	118	569,718	482,673	118
– self-medication products	83,616	70,963	118	81,656	71,284	115
– cosmetics	10,145	9,575	106	9,921	9,264	107
Animal health products	24,622	22,837	108	24,283	22,213	109
Health resort and tourist services	30,814	27,967	110	—	—	—
Other	938	668	140	1,151	668	172
Total	780,918	667,955	117	686,729	586,102	117

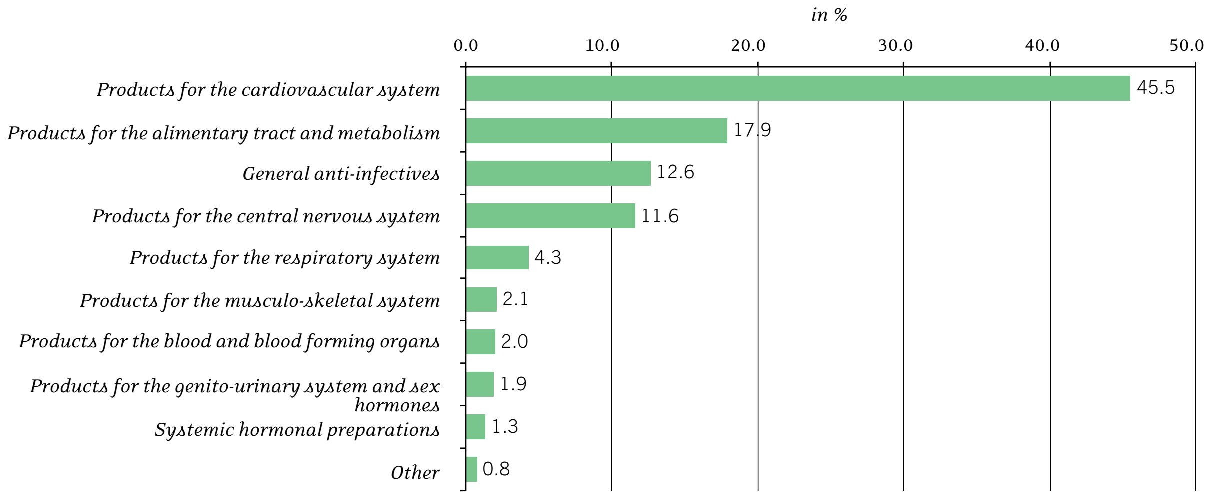
Krka Group sales by product and service group



Krka produces a large number of human health products. The leading products were again those for treating cardiovascular diseases, while the highest increase of any product type as a proportion of overall sales compared to 2006 was in medicines for the treatment of the central nervous system (up 1.5 percentage points).

Compared to sales five years ago, the largest increase has been in the proportion of medicines for the treatment of cardiovascular diseases (up over 3 percentage points) and medicines for treatment of diseases of the central nervous system (up over 5 percentage points), while the proportion of products for the treatment of infections decreased (by over 3 percentage points).

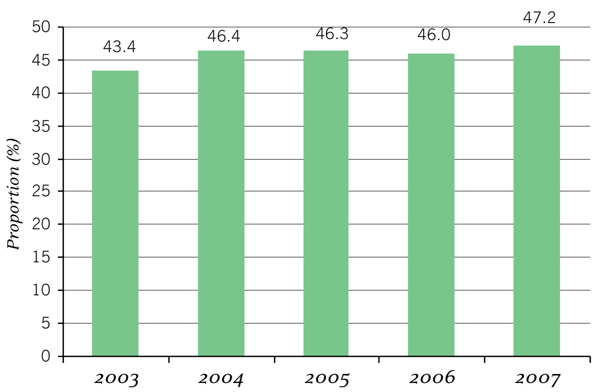
KRKA GROUP PRESCRIPTION PHARMACEUTICAL AND SELF-MEDICATION PRODUCT SALES IN 2007 BY INDICATION GROUP



New products

The range of new products sold and marketed in the past five years is making a major contribution to sales volume and to sales growth. New products, such as Zalasta® (olanzapine), Prenessa® (perindopril), Zyllt® (clopidogrel) and Mirzaten® (mirtazapine), are already among the leading products. In 2007 Krka started marketing a number of products in key therapeutic groups with new active ingredients, while expanding the existing product range with new strengths, new packaging and new pharmaceutical forms.

PROPORTION OF NEW PRODUCTS* IN KRKA GROUP SALES



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

NEW PRODUCTS FOR 2007

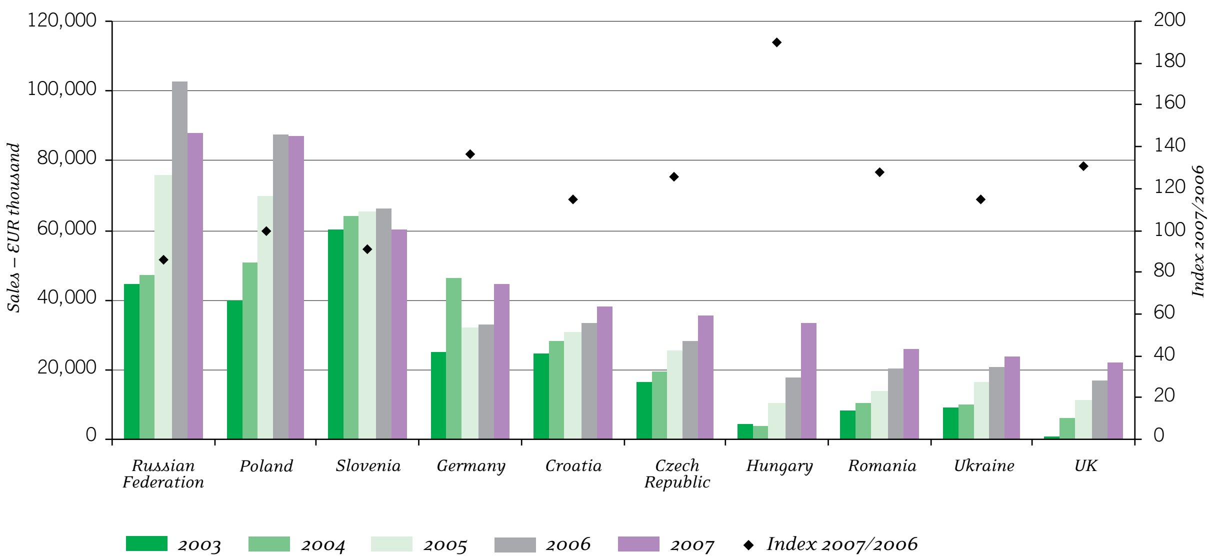
Prescription pharmaceuticals	
For treatment of cardiovascular diseases	Co-Prenessa® (perindopril and indapamide); also marketed as Prenewel®
For treatment of diseases of the alimentary tract and metabolism	Nolpaza® (pantoprazole)
For treatment of diseases of the central nervous system	Mirzaten® Q-Tab® (mirtazapine) in orodispersible tablet form; also marketed as Mirzaten® OroTab®
Self-medication products	
Vitamins for adults	Duovit® Charm and Duovit® Osteo
Cosmetic products	
For care of mature skin	Vitaskin® Pharma Age Formula line
For care of sensitive skin	Vitaskin® Pharma Reactive Skin line
Animal health products	
Biocides	Ecocid® S

Prescription pharmaceuticals

The Krka Group achieved prescription pharmaceutical sales worth EUR 630.8 million in 2006, achieving growth of 18% on the previous year. Over 80% of prescription pharmaceuticals were sold under its own trademarks, with the remainder were sold under the corporate brand or via partners in western Europe.

On the 10 largest markets, the highest increases in sales were in Hungary, Germany, Ukraine, the UK, Romania and the Czech Republic. Sales in Poland remained at the 2006 level, while sales revenues fell in Slovenia due to price reductions on the market, and temporarily in the Russian Federation too, due to changes in the reimbursement of medical products by state institutions there. The highest increases on other markets came in the Arabian Peninsula, Uzbekistan, Azerbaijan, Armenia, Serbia and Slovakia.

PRESCRIPTION PHARMACEUTICALS SALES ON THE 10 LARGEST MARKETS



Medicines for the treatment of cardiovascular diseases

Statins. Statins are currently the most commonly-used medicines for the reduction of high cholesterol and other blood lipids. Krka's statin product range comprises **Atoris®** (atorvastatin), **Vasilip®** (simvastatin) and **Holetar®** (lovastatin). Over 1.5 million patients are treated with these products everyday. Krka maintained its position as the leading statin producer on the markets of central, eastern and south-eastern Europe in 2007. Atoris® became the best-selling statin on these markets, while Vasilip® remained the best selling generic simvastatin. Atoris® is the leading atorvastatin in Slovenia, Croatia and Hungary, and is right behind the market leader in numerous other countries. Vasilip® is the leading simvastatin in Slovenia, the Russian Federation, Ukraine, Kazakhstan, Belarus and Moldova, and Krka is one of the leading suppliers of simvastatin tablets on the markets of western Europe as well. In 2007 Krka celebrated the tenth anniversary of its statin range and the fifth anniversary of Atoris®. An international symposium was organised to mark the occasion, with over 400 participants in attendance from more than 10 European and Asian countries. Results from several tens of Krka's own clinical trials were presented at the symposium.

ACE inhibitors. Krka offers the widest range of medicines for treatment of high blood pressure. One of the leading groups of medicines in this category are those that affect the renin-angiotensin-aldosterone system (RAAS), which includes ACE inhibitors and sartans. In 2007 Krka maintained its position as the leading generic producer of these medicines on the markets of central, eastern and south-eastern Europe.

The leading Krka product from this group by sales is still **Enap®** (enalapril maleate) together with the fixed-dose combinations **Enap® H**, **Enap®-HL** and **Enap®-HL 20** (combination of enalapril and hydrochlorothiazide). The medical profession's confidence in Enap® was confirmed in 2007 by their award of the "Platinum Ounce" prize in the Russian Federation, a prize for product of the year in Kazakhstan in the category of medicines for treatment of high blood pressure, and the fact that every day over 4 million patients were treated with tablets containing Krka's enalapril maleate. Enap® retained its position as the leading enalapril in Slovenia, the Russian Federation, Croatia, the Czech Republic and a considerable number of other markets.

Prenessa® (perindopril) is the latest ACE inhibitor, and the only generic perindopril available on our traditional markets. It is establishing itself very well, and achieving high market shares. In 2007 we expanded the range of products to include Prenessa® 8 mg and **Co-Prenessa®/Prenewel®** – a fixed-dose combination of perindopril and indapamide.

Krka's wide range of ACE inhibitors includes the world's most frequently prescribed ACE inhibitor, ramipril. Krka markets it under the names **Ampril®** and **Amprilan®**. In 2007 Krka supplied this prescription pharmaceutical to the Russian Federation, Ukraine and some markets in south-eastern Europe; the product range was expanded on individual markets to include **Ampril® HL** and **Ampril® HD** – fixed-dose combinations of ramipril and hydrochlorothiazide. In the Czech Republic and Slovenia these two products are the leading generic ramipril and leading generic fixed-dose combination of ramipril and hydrochlorothiazide respectively.

Sartans. Sartans are the world's largest, latest and fastest growing group of pharmaceutical products for the treatment of high blood pressure. Krka is one of the leading sartan producers on the markets of central, eastern and south-eastern Europe with a market share of over 10%. Its product range includes losartan and the newer valsartan, which is also the most-frequently prescribed sartan in the world. **Lorista®** (losartan), which Krka has offered for many years, is the leading sartan in Bulgaria (40% market share), Lithuania (60%), Poland (25%) and Slovenia (almost 30%), while the more recent product **Valsacor®** (valsartan) is achieving its first sales results in Slovenia now.

Other medicines. Our range of medicines for the treatment of high blood pressure have been well supplemented by Tenox® (amlodipine) and Coryol® (carvedilol). **Coryol®** (carvedilol) is a beta-blocker with additional effects on alpha receptors and is an established brand on traditional markets. In western Europe Krka's carvedilol became the leading generic carvedilol in 2007. **Tenox®** (amlodipine) is a calcium channel blocker, which has been selling successfully for several years. Western Europe is another important market, where Krka's amlodipine has been a leading generic amlodipine for a number of years.

Rawel® SR (indapamide) in tablet form with prolonged release is one of the most modern diuretics on the market, and Krka is achieving large market shares with it in Slovakia (over 60%), Slovenia (almost 30%) and Lithuania (over 20%), and a share of over 10% on most other markets. In 2007 Krka continued to introduce Rawel® SR to new markets.

Platelet aggregation inhibitors. Zyllt® (clopidogrel) is a modern thrombocyte aggregation inhibitor that prevents the aggregation of platelets and the formation of blood clots, and is returning good sales growth and high market shares. It is marketed in Croatia, Poland, the Russian Federation, Ukraine, Bosnia and Herzegovina, Macedonia and Serbia.

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

Proton pump inhibitors. Proton pump inhibitors are used to treat diseases of the upper alimentary tract, such as heartburn and ulcers of the stomach or duodenum. Krka produces three medicines from this group – Ultop® (omeprazole), Lanzul® (lansoprazole) and Nolpaza® (pantoprazole), making it one of the producers with the widest range of such medicines. **Ultop®** is one of the best known and most popular medicines in Slovenia. Despite a market presence of almost 20 years and numerous newer medicines in this group, it remains the leading proton pump inhibitor, and has been one of the leading pharmaceutical products overall in Slovenia, which confirms it as a high-quality and very effective medicine. Over the ten years that **Lanzul®** has been on the market, it has been used to treat over 15 million people in over 20 countries. To mark its tenth anniversary, Krka prepared a large international symposium in Poland attended by over 200 doctors from central and south-east Europe. In addition to the good market shares achieved with this product on its traditional markets, this Krka lansoprazole is also the leading generic lansoprazole on western European markets. In 2007 Krka placed a new proton pump inhibitor on the market, called **Nolpaza®** (pantoprazole).

Medicines for the treatment of infections

Fromilid® (clarithromycin) remains the leading generic clarithromycin on numerous markets, and has been used to treat over 10 million people over its decade on the market. **Fromilid® uno** (a prolonged-release form of clarithromycin) is the only generic prolonged-release clarithromycin on many markets. It is effective and safe, making it a vital antibiotic for the treatment of respiratory infections, and it is also effective in eradicating the bacterium Helicobacter pylori. Krka has expanded its range of macrolide antibiotics with the addition of **Azibiot®** (azithromycin) and **Macropen®** (midecamycin).

Krka has marketed **Ciprinol®** (ciprofloxacin) and **Nolicin®** (norfloxacin) from the fluoroquinolone group for over 15 years, and they are the leading ciprofloxacin and norfloxacin on numerous markets.

Medicines for the treatment of central nervous system diseases

Antipsychotics. Krka's range includes the leading global antipsychotics, olanzapine and risperidone. **Zalasta®** (olanzapine) is one of the leading prescription pharmaceuticals in Poland, with a market share of almost 25% among the olanzapines. At the end of 2007 Krka started marketing its olanzapine in Germany, where it is now one of the leading generic suppliers of this medicine. Zalasta® is also available as an orodispersible tablet, the first generic olanzapine in this form on all of Krka's markets. **Torendo®/Rorendo®** (risperidone) is Krka's second medicine in the antipsychotic group. Krka was the first to offer this generic in orodispersible form as well, producing the tablets called **Torendo® Q-Tab®/Rorendo® OroTab®**, which eases administration and improves patient compliance. Krka started to market Torendo®/Rorendo® on most markets in 2007.

Antidepressants. Krka's product range includes three modern antidepressants. **Alventa®** (venlafaxine) arrived on the markets of central Europe in 2007, and already has a 15% market share. In 2007 **Asentra®** (sertraline) became the leading generic sertraline on Krka's traditional markets, with a total market share of over 25%. On individual markets it is achieving market shares ranging from 20% to 60%. In 2007 **Mirzaten®** (mirtazapine) became the leading generic mirtazapine on Krka's traditional markets, where it too has a total market share of over 25%. The range of products has been expanded to include mirtazapine in orodispersible tablet form, **Mirzaten® Q-Tab®**.

Other medicines. **Yasnal®** (donepezil) represents Krka's presence in the field of medicines for treatment of Alzheimer's disease. Five years since its launch, it is the leading generic donepezil on Krka's traditional markets, and has a market share of over 90% in Slovenia, Lithuania and Slovakia.

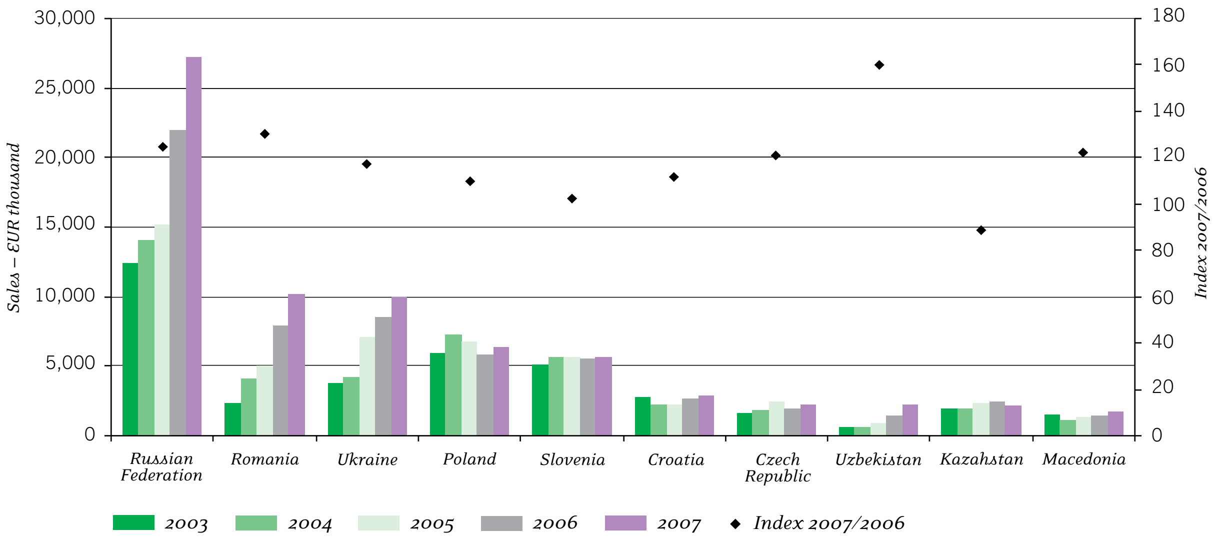
Medicines for the urinary tract

In recent years Krka has strengthened its position as the supplier of medicines for the treatment of benign prostatic hyperplasia. The well-established **Kamiren**® (doxazosin) has been joined on the market by **Kamiren® XL** (a prolonged-release doxazosin). **Tanyz**® (tamsulosin) is already available on 15 markets, mainly in the countries of central and south-eastern Europe. The use of **Finpros®/Finster**® (finasteride) has been expanded to many central European markets.

Self-medication products

The Krka Group generated self-medication product sales worth EUR 83.6 million in 2007, a growth of 18% on the previous year. The largest increases in sales on its top-10 markets came in the Russian Federation, Uzbekistan, Romania, Macedonia, and the Czech Republic, while the largest increases on Krka's other markets were achieved in Bulgaria, Armenia, Georgia, Moldova, Slovakia and Belarus.

SELF-MEDICATION PRODUCT SALES ON THE 10 LARGEST MARKETS



Marketing and sales activities focused on the key brands – Septolete®, Bilobil®, Duovit®, Pikovit® and Herbion®.

The umbrella brand **Septolete**® was expanded with a number of new fruit flavours that are being successfully sold on a number of key markets: the Russian Federation, Poland, Ukraine, Croatia and Romania. The new flavours of Septolete® already represent one fifth of sales of the umbrella brand, and are the driving force for growth. Overall Septolete® sales kept it in third place in the oral antiseptic category on Krka's traditional markets. The packaging was updated for all Septolete® products in Slovenia and the Czech Republic. In Slovenia Septolete® achieved Superbrand award, while in Kazakhstan it won a product of the year award for throat infection products.

Bilobil® (ginkgo biloba extract) is the second ranked product containing ginkgo on Krka's traditional markets. It has a high market share in the Russian Federation, Ukraine, Poland and Romania, ranging from 20% to 50%, while in Slovenia Krka is the only supplier of this kind of product. In Poland it won two awards: the Polish consumers' gold award for the best product in the memory and concentration product category, and memory and concentration product of the year, as voted by Polish pharmacists.

The **Duovit**® brand combines mineral-vitamin products that satisfy daily requirements for vitamin and mineral intake. Some years ago, Krka started to expand its traditional range of products to include vitamin and mineral products that help improve utilisation of the body's potential. In 2007 Krka started marketing two new products: **Duovit® Charm** for feminine beauty, and **Duovit® Osteo** to prevent osteoporosis. A modern packaging design was introduced for existing products.

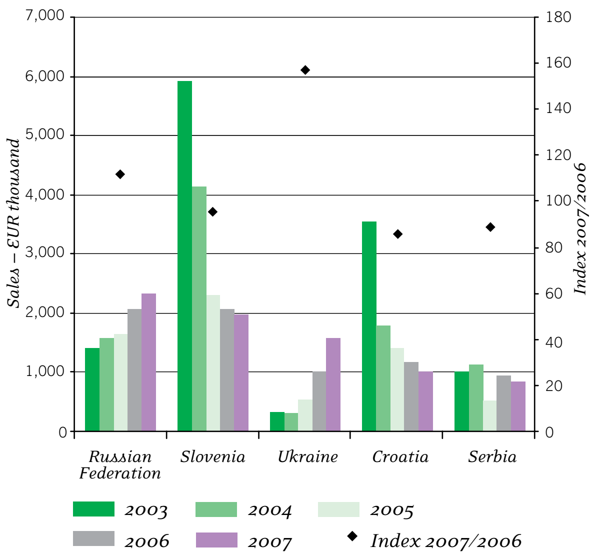
Pikovit® is the umbrella brand for a group of vitamin and mineral products for children that is marketed on over 30 markets. Confidence in these products is supported by recommendations from professional groups and associations in numerous countries, the Polish consumers' Gold Otis award, and a product of the year prize for vitamin and mineral products in Kazakhstan, which was also consumer-selected.

The **Herbion®** brand, a range of herbal medicines, includes two important and well-selling cough syrups.

Cosmetic products

The Krka Group achieved sales of cosmetics worth EUR 10.1 million, growth of 6% on the previous year. On the top-5 markets, sales increased significantly in Ukraine, and were also up in the Russian Federation. In Slovenia, Croatia and Serbia sales continued to fall, which is the consequence of a planned reorganisation of the product range and sales channels.

COSMETICS SALES ON 5 LARGEST MARKETS



Marketing and sales activities focused on two key brands – Vitaskin® Pharma and Fitoval®.

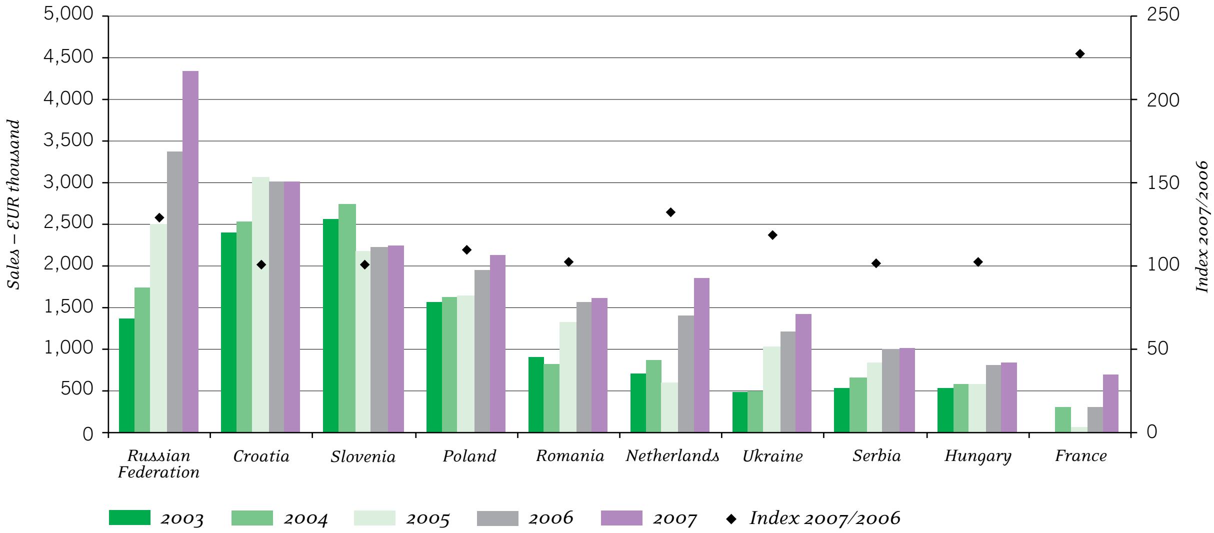
In 2007 Krka started to market products under the new **Vitaskin® Pharma** brand on its key markets. This product range is only available from pharmacies. The brand is designed to eliminate a number of skin problems via a range of integrated care products. This is Krka's first venture into the field of dermocosmetics supplemented by nutritional cosmetics (care from within). In the first phase two lines were offered: Vitaskin® Pharma **Age Formula** caring for mature skin, where the aging process leads to changes such as wrinkles and pigment spots, and the Vitaskin® Pharma **Reactive Skin** line for sensitive, irritable skin prone to flushing.

The **Fitoval®** brand offers an integrated approach to the most frequent hair and scalp problems. The different products complement each other, and have offered optimal solutions to our customers for several years. The highest sales on Krka's major markets have been achieved in Ukraine, while all activities have been significantly increased in the Russian Federation, where the product range has been widened to include capsules.

Animal health products

The Krka Group achieved sales of animal health products totalling EUR 24.6 million, or growth of 8% on the previous year. Among the top-10 markets, sales increased most in France, the Netherlands, the Russian Federation and Ukraine.

ANIMAL HEALTH PRODUCT SALES ON 10 LARGEST MARKETS



The most important animal health products are antimicrobial medicines. **Enroxil**® (enrofloxacin) is the leading product and is achieving good sales growth. It is one of the leading quinolones on all Krka's traditional markets. **Floron**® (florfenicol) is Krka's second-highest-selling animal health product. It is the market-leading florfenicol on the markets of central and south-eastern Europe, and Krka started marketing it on eastern Europe markets in 2007.

Krka's own biocide, **Ecocid**® S, is a modern disinfectant, which meets the needs of all users wanting an efficient, environmentally friendly and high-quality product. Its balanced formula makes it one of the world's leading disinfectants, and its efficacy has been attested by the latest methods for evaluating disinfectant effectiveness, which meet EU standards.

Health resort and tourist services

Sales of health resort and tourist services reached EUR 30.8 million in 2007, which is 10% higher than in 2006.

The Terme Krka Group's facilities realised a total of 347,332 overnight stays, which represents 2% growth on the preceding year. Foreign guests recorded 116,911 overnight stays, which is 34% of the total. The highest numbers of foreign guests came from Italy, Austria and the Russian Federation.

The average occupancy for accommodation capacity was 70%, while the average occupancy of health resort capacity was 82%. Close attention is being paid to developing and expanding programmes to maintain and improve health, as well as programmes for relaxation and improving quality of life, while further investments are also being made in health and rehabilitation programmes and equipment. Krka's market share of health resort care within the public health service increased in 2007, reaching 35.8% of the overall programme realised in the Slovenia in this field. Terme Krka's major achievements in 2007 include increasing revenues and overnight stays, especially by foreign guests, and acquiring co-financing for investment work from the European Union, under the European Regional Development Fund. Terme Krka employees achieved high rankings in professional competitions in Slovenia and abroad, and Golf Grad Otočec won the 2007 award for Slovenian golf course of the year.

Research and development

Research and development today play a key role in consolidating and developing Krka's competitive position as one of the leading generic pharmaceutical producers in Europe. The basic objectives of Krka's research and development policy are to develop technologies for the production of active pharmaceutical ingredients and pharmaceutical dosage forms, and to perform all the testing and research required to gain marketing authorisations for prescription pharmaceuticals, self-medication products, animal health products and cosmetics.

Krka's research and development achievements in 2007 are crowned by numerous marketing authorisations granted. The regulatory strategy based on new approaches and procedures is key to the development of a new product and achieving the objective of being the first generic to reach the market. Krka was the first generics company in the European Union to undertake and successfully conclude the most complex marketing authorisation procedure, the centralised procedure (CP), which provided a marketing authorisation across the entire European Union for the product Zalasta® (olanzapine) in classic and orodispersible tablet form.

In 2007 Krka continued its successful management of the complex marketing authorisation procedures, such as decentralised procedures (DCPs). Seven DCPs were concluded and marketing authorisations were granted for the major markets of the European Union. Krka broadened use of CADREAC marketing authorisation procedures (Collaboration Agreement between Drug Regulatory Authorities in EU Associated Countries), which resulted in the marketing authorisations granted for seven products in 13 different pharmaceutical forms.

Skilful management of the regulatory procedures in 2007 led to the successful acquisition of 424 marketing authorisations in 1325 different forms. Krka obtained marketing authorisations for 72 products in 307 different pharmaceutical forms in the countries of western Europe on behalf of Krka, d. d., Novo mesto and the Krka Group. The first marketing authorisation was achieved for 10 new products in 22 pharmaceutical forms.

Number of new marketing authorisations for the Krka Group by region

	Slovenia		South-East Europe		East Europe		Central Europe	
	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms
2007	11	39	104	223	108	181	86	311
2006	23	36	114	234	97	152	84	210
2005	10	34	84	141	76	111	102	266
2004	16	22	220	355	66	89	63	110
2003	6	11	44	67	59	87	32	45

Increasing R&D capacity

Krka's research and development is founded on the successful integration of research, technological and engineering knowledge of the active pharmaceutical ingredients and knowledge of pharmaceutical form development.

In 2007 Krka expanded and modernised its research and development premises and equipment for the synthesis, isolation and physical processing of pharmaceutical ingredients in laboratories and the pilot plant. The development team is also being expanded at a high rate, ensuring the group retains the technological and engineering knowledge and experience to make an essential contribution to the faster and more efficient development of synthesis procedures and their optimisation.

Developing advanced delivery systems

The objective of Krka's research and development work is to develop **innovative generic medicines**, i.e. generic medicines with added value, which give products a key advantage for years after market entry. Krka's Prenessa® (perindopril) tablets with their innovative pharmaceutical form are an example of its research and development team's ability to develop a high-quality product that achieves successful sales, while it also achieved a gold award from the Slovenian Chamber of Commerce and Industry in 2007. Krka has paid particular attention to developing **advanced delivery systems for active pharmaceutical ingredients within the range of solid dosage pharmaceutical forms**. **Glyclada®** (gliclazide) prolonged-release tablets were the first Krka product for the treatment of diabetes from the sulfonylurea group, with its marketing authorisation obtained at the end of the year on most EU markets. The release of the tablet's active substance is adapted to the required changes in blood sugar levels. Starting the day with one prolonged-release **Glyclada®** (gliclazide) tablet ensures control of blood sugar levels over the full 24-hour period. In 2007 Krka added **orodispersible tablets** to its antipsychotic product range, in order to improve compliance in the most demanding patient groups, e.g. patients with psychosis and other behavioural disorders that require lifelong treatment. The already established antipsychotics **Torendo® Q-Tab®** and **Mirzaten® Q-Tab®** have been joined by orodispersible **Zalasta®** (olanzapine) tablets in four strengths, which were authorised on all European Union markets by means of a CP. Krka has used its pellet production technology for several years for products such as the proton pump inhibitor **Lanzul®** (lansoprazole) in capsule form. It has also been used to produce prolonged-release **Alventa®** (venlafaxine) capsules, for which marketing authorisation has been granted on most European markets. The capsules are filled with pellets that provide the prolonged release of venlafaxine and enables administration to take place once a day.

The result of creative and innovative approaches, and above all research and development teamwork again led to registration documentation being submitted for 13 new products in various pharmaceutical forms and strengths.

Protecting our know-how and intellectual property

Krka protects the results of its work in key areas with patent applications. In 2007 Krka submitted patent applications for 21 new products, and 15 international patent applications on the basis of prioritised applications from 2006. Krka respects the intellectual property of others and protects its own property.

The company markets its products under its own trademarked brands, which enhances the added value of Krka products. In 2007 Krka registered 57 trademarks in Slovenia and two abroad, and submitted 46 applications for international registration.

Prescription pharmaceuticals

Krka expanded its group of pharmaceuticals for the treatment of the central nervous system with the new atypical antipsychotic **Kventiax®** (quetiapine) in film-coated tablet form. Marketing authorisation was granted for the medicine in five pharmaceutical forms on most EU markets. Marketing authorisation was granted for orodispersible tablets, and for **Zalasta®** (olanzapine) tablets. The market authorisation of prolonged-release **Helex® SR** (alprazolam) tablets in the Czech Republic offers new treatment opportunities for patients with anxiety disorders. In 2007 Krka successfully concluded the marketing authorisation procedure for film-coated **Yasnal®** (donepezil) tablets for the treatment of Alzheimer's disease, on several western European markets. The gastro-resistant tablets, **Nolpaza®** (pantoprazole), are Krka's latest medicine from the proton pump inhibitor group. The marketing authorisation procedures on most western European markets confirm Krka's position as a leading producer of medicines for treatment of peptic ulcers and gastroesophageal reflux.

A marketing authorisation was also obtained in the Russian Federation for the established brand **Lorista®** (losartan) in film-coated tablet form. Krka is successfully obtaining marketing authorisations for a fixed combination of **perindopril** and **indapamide** and keeping up-to-date with the very latest European guidelines for the management of arterial hypertension. In the Czech Republic, the range of products for the treatment of cardiovascular diseases was supplemented by the new ACE inhibitor **Cazaprol®** (cilazapril) in film-coated tablet form and in four strengths.

NUMBER OF MARKETING AUTHORISATIONS FOR PRESCRIPTION PHARMACEUTICALS BY REGION

	Slovenia		South-East Europe		East Europe		Central Europe	
	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms
2007	8	36	68	176	65	127	79	304
2006	13	26	82	189	61	104	57	175
2005	8	30	60	110	55	84	87	243
2004	8	14	136	271	23	40	48	94
2003	4	9	19	27	43	66	17	26

Self-medication products

Krka obtained marketing authorisations in the Russian Federation for **Spazmonet®** and **Spazmonet® forte** (drotaverine), which are used to relieve digestion problems. The products Duovit® Vision and Duovit® Energy were added to the range of dietary supplements. **Duovit® Vision** capsules contain lutein and are intended to maintain healthy vision for people exposed to strong light and radiation. The film-coated **Duovit® Energy** tablets with vitamins and minerals and ginseng root extract are a tonic recommended in cases of stress, mental tension, physical strain, work and sport.

NUMBER OF MARKETING AUTHORISATIONS FOR SELF-MEDICATION PRODUCTS BY REGION

	Slovenia		South-East Europe		East Europe		Central Europe	
	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms
2007	2	2	32	43	34	39	4	4
2006	8	8	30	42	35	45	22	31
2005	2	4	24	31	15	19	15	23
2004	6	6	67	67	37	43	10	10
2003	1	1	12	18	14	17	5	5

Animal health products

The well-received enrofloxacin-based product range, used for the treatment of infections in farm livestock, was expanded in 2007 with a new product, **Enroxil® Max**, in 10%-injection solution form. Krka successfully acquired marketing authorisation for **Ecocid®**, a product used in the field of animal health and human medicine. In 2007 marketing authorisations were granted for it in the Russian Federation and Ukraine, and a number of countries in western and central Europe. Significant research and development results were achieved for florfenicol, a first-line therapy for the treatment of respiratory infections in cattle and pigs.

NUMBER OF NEW MARKETING AUTHORISATIONS FOR ANIMAL HEALTH PRODUCTS BY REGION

	Slovenia		South-East Europe		East Europe		Central Europe	
	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms	No. of products	No. of forms
2007	1	1	3	3	7	8	3	3
2006	2	2	2	3	2	3	4	4
2005	—	—	—	—	6	8	—	—
2004	2	2	17	17	6	6	5	6
2003	1	1	13	22	2	4	10	14

Cosmetic products

In 2007 Krka focused on its strategic brand Vitaskin® Pharma. Marketing authorisations were acquired in Croatia, Bosnia and Herzegovina, Serbia and Ukraine for Vitaskin® Pharma Age Formula capsules. Krka directed its development towards the **Vitaskin® Pharma Pure Expert** products for greasy, problem skin. Test results and the satisfaction of the users participating in the tests have demonstrated the efficacy of these products. Four new products have been developed in the **Sun Mix®** line, in line with new legislative guidelines on sun protection products, and these will partially replace existing products.

Health resort and tourist services

In coming years, Krka will continue to develop and expand its programmes aimed at enhancing well-being, and mental and physical capacity, and overcoming the most common problems of everyday life. This will be supported by relaxation programmes and programmes to maintain a healthy body weight and vitality, and other programmes. Krka will continue to invest in treatment and rehabilitation equipment, in order to retain its leading market share in health resort care within the public health service.

Product supply

The well-balanced integration of purchasing, logistics and production means optimal utilisation of production capacity in the Krka Company and the Krka subsidiaries. This ensures that our customers receive the products they want, when they want them. In 2007 the expansion and optimisation of the supply chain significantly increased production volume. Additional production capacity has been organised at contracted partners in special circumstances or higher market demand.

Purchasing

Globalisation means the purchasing function faces new challenges of identifying, selecting and engaging the most suitable suppliers to ensure quality, punctuality and cost efficiency. In order to achieve these objectives, Krka is continually developing partnerships with existing suppliers and identifying potential new ones. It is creating a system with two to three suppliers for key input materials, which ensures that consistently high standards of quality, safety, reliability and competition can be ensured for all supplies.

A supply reliability system is being developed and consolidated with select suppliers, and a system to monitor and rank suppliers according to a range of key indicators has been introduced. In 2007 Krka started to reduce the testing of input materials from some packaging and auxiliary raw material suppliers that have demonstrated consistent, reliable supply quality over a lengthy requirement period of several years, which makes cooperation more effective in terms of time and costs.

Warehousing and transport

The logistics functions of warehousing and transport include:

- storage of packaging, raw materials, finished products, liquid raw materials, and auxiliary and promotional materials
- weighing and preparation of intermediate goods for production
- preparation of finished products and delivery to customers
- customs and excise operations
- transport using own fleet and transport lease and organisation via contracted partners.

In 2007 Krka acquired new storage and weighing capacity that will enable the required growth and ensure a suitable quality of service.

The finished product warehouse gained 7000 pallet-spaces and three automated high-bay lifting devices, and a new receipt-dispatch centre on the first floor. A higher quality information system was installed in the finished product warehouse, which provides continual information on finished product inventories and their movements.

In 2007 a new central dispensing facility was constructed. Six new weighing rooms were acquired, equipped with completely new technology, which together doubled previous capacity. These new acquisitions enable automatic delivery and weighing of raw materials in line with good manufacturing practice, with raw material input via dedusting chambers.

The renovation of the raw material warehouse included a computer-managed system for raw material storage and high-bay warehouse control. New raw-material cold storage facilities were acquired, and suitable premises for proscribed drugs and for storage of unsatisfactory materials.

Production

Krka has acquired new product capacity and is updating existing capacity, in line with strategic guidelines on the company's continued organic growth and in line with good practice standards for manufacturing, storage, testing and laboratory, and distribution, as well as with European and international standards and the provisions of other technological and technical regulations.

The chemical and fermentation production of active ingredients and production of finished products are successfully matching the growing proportion of products that are the result of the vertically-integrated business model. Krka has already started to utilise the production capacity of the Sinteza 4 active pharmaceutical ingredient (API) plant, which has doubled existing API production capacity. The Slovenian Chamber of Engineers gave Krka an innovation award for this project.

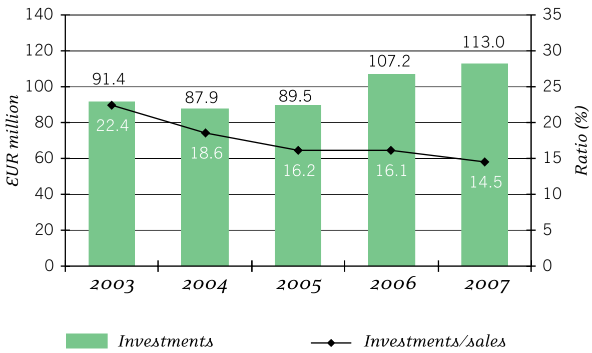
Krka is also keeping up in terms of quality and quantity with the growing production requirements of other products, particularly the technological group of tablets and pellet-capsules. The physical volume realised for all finished products was 20% higher than the previous year, due to the successful commissioning of the Notol III and Pelete IV newly constructed finished product plants, as well as more effective utilisation of existing capacity.

The continual improvement system established to ensure the efficient use of strategic equipment and existing product technology is producing good results: the automatic internal transport system has been optimised and has reduced transport time by 30%.

The computer technologies used for the preparation, implementation, and overview of extensive production documentation for intermediate products and packaging are being upgraded. The electronic technological procedure and electronic batch record report system reduce procedure time, provide regular oversight of individual steps of production, and can be used to take immediate action and create a large database to optimise processes and prepare all the reports required. An electronic production documentation management project, which is gradually being implemented in all production plants for finished products and APIs, is also underway.

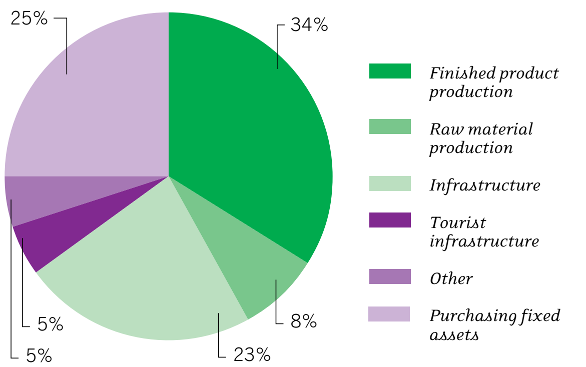
Investments

KRKA GROUP INVESTMENTS 2003–2007



At present Krka is implementing over thirty projects relating primarily to the production of finished products and raw materials and the modernisation of infrastructure to provide high-quality support for the business functions of the entire Group. Most of these projects are taking place in Slovenia, Croatia, the Russian Federation and Poland.

STRUCTURE OF THE KRKA GROUP'S INVESTMENT SPENDING IN 2007



Sinteza 4

In June Krka officially opened its new active pharmaceutical ingredient plant, Sinteza 4. Together with the construction of liquid raw material storage facility, we have invested EUR 80 million in the plant, which is part of our vertically integrated production model, which enables control over the entire process from development and production of active pharmaceutical ingredients to finished products, which are at the very highest global level in terms of quality, efficacy and safety. The plant will ensure production of active pharmaceutical ingredients for the medical products that will form Krka's most promising sales programme over the next five to ten years. It is one of the largest of its kind in Europe, and was constructed in line with the latest technical solutions, GMP and the strictest European standards on health and safety for people and the environment. Careful attention was paid to ensuring personal safety and a high level of environment protection during the planning of Sinteza 4.

The APIs from Sinteza 4, which are incorporated into the finished forms of medicines to reduce blood pressure, cholesterol and for treatment of other diseases are supplied to other production plants. The most important of these products are simvastatin, carvedilol, lansoprazole, atorvastatin, valsartan and venlafaxine. The continuous control of raw materials, the production environment and production processes takes place during every phase of the technological production, ensuring high and repeatable quality for the final active pharmaceutical ingredients. The chemical syntheses controlled within the plant are primarily related to the pharmacological effect of the medical products.

Injection production plant

In December we opened a new section of the injection production plant, in which we have invested EUR 15.5 million, in order to increase injection production capacity by 30%. During the first phase one line for preparing injection liquids, sterile filtration and injection filling was fitted. The line is expected to fill 30 million injections per year. The new line has capacity to fill ampoules of 1 to 10ml. The additional two lines will extend capacity to between 80 and 100 million injections per year once the project is complete.

Notol III

In the third phase of the Notol project we will increase the packaging facility to a size that will allow new packaging lines to be added. There will also be investment in additional capacity for the weighing, granulating and tableting facilities to coordinate the increased packaging capacity with intermediate product production capacity. The six additional packaging lines will increase the Notol plant's existing capacity by 50-60%. An extension to the plant will enable small-batch production and increase coating pan capacity. The project will include the rationalisation of the transport and logistics system. All works on the packaging extension were completed in 2007 and production is already underway. The project will be completed in 2008.

Pelete IV

The construction of the Pelete IV plant will double production capacity. The two new pellet production lines and spatial capacity required for production and R&D work will be located in the new extension to the Sinteza plant, which will make further expansion possible. All trades works were completed in 2007 and the facility was completed. All the main technical equipment has been installed, as well as the suspension preparation system and capsule facility. The project is set for completion in the first half of 2008.

Central dispensing facility and raw material warehouse

In 2007 Krka constructed an extension to the new dispensing facility and support warehouse, and reconstructed the existing raw material warehouse. The investment in the central dispensing facility has modernised the weighing premises and weighing processes, while enlarging the raw material warehouse has provided additional pallet spaces and automated the warehouse.

Terme Krka

The first phase of the restoration work at Otočec castle was concluded in 2007. Additional premises in the healthcare department of Terme Krka Strunjan were added, broadening the supply of healthcare services.

The construction of a new hotel was started at the Terme Dolenjske Toplice resort, an extension to the existing Hotel Kristal. Golf Grad Otočec started preparations for the second phase of golf course construction at Otočec. Both projects will be co-financed by the European Regional Development Fund.

Abroad

The modernisation of laboratories in Poland was completed in 2007. A new packaging line, coating pan and capsule facility were purchased in the Russian Federation, and laboratory was increased. The Krka-Farma Zagreb subsidiary purchased new technical equipment for a granulation line, with start-up and commissioning scheduled for completion by May 2008. These projects will increase the production capacity of Krka companies in Poland, the Russian Federation and Croatia.

Integrated management system

As a generic producer, Krka is responsible for medicines that can take their place alongside the world's leading pharmaceutical companies in terms of quality, safety and efficacy. Quality, in the broadest sense of the word, is created, maintained, and the responsibility of all employees. Krka's systematic approach is intended to ensure it exceeds customer requirements and achieve its set operating objectives.

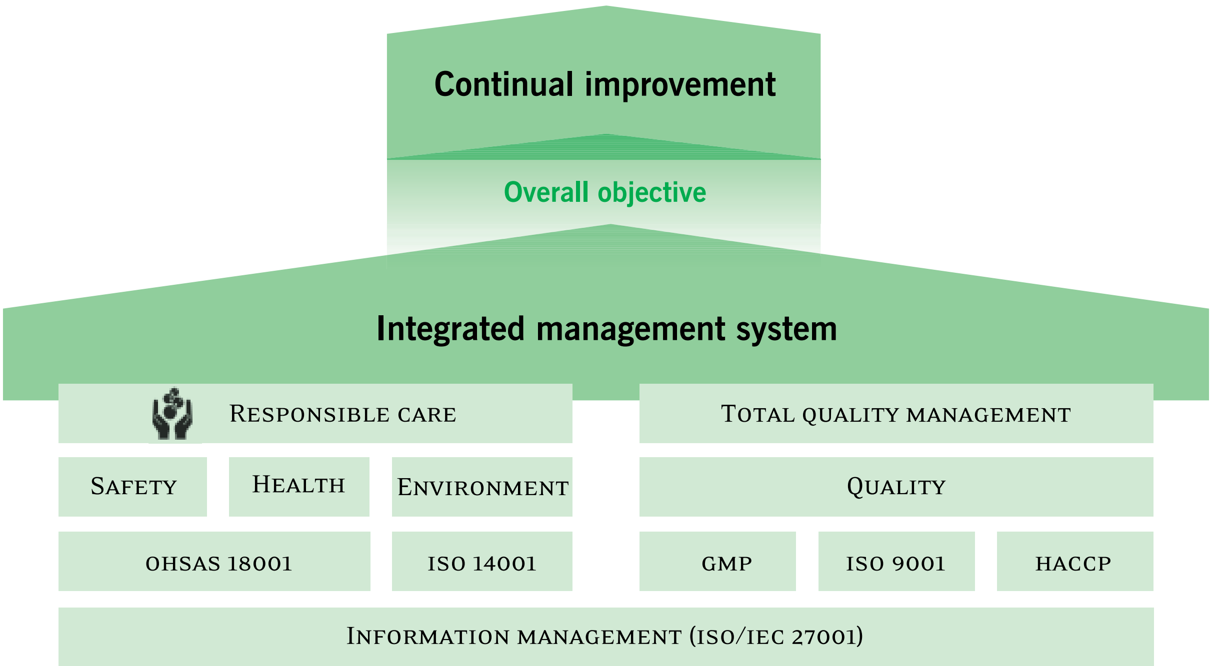
Management system

The integrated management system (IMS) covers various aspects of operations (quality, the environment, health and safety at work, foodstuffs safety, and information security) in a uniform management system, which is intended to achieve the optimal operating objectives. It is described in full in Krka's Quality Manual. The IMS enables the efficient and effective management of individual systems in a standardised manner. The IMS structure is based on the ISO 9001 standard, which has been upgraded and extended by a number of other standards and principles: GMP, HACCP, ISO 9001, ISO 14001, OHSAS 18001, and ISO/IEC 27001.

Most requirements are full integrated, while specific requirements are described in greater detail in the Quality Manual and other management system documentation.

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

INTEGRATED MANAGEMENT SYSTEM



Pharmaceutical quality system

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

- Inspectors from the Agency for Medicinal Products and Medical Devices of the Republic of Slovenia (AMPMD) carried out regular follow-up inspections on the quality management system, warehouses, production plants and quality control laboratories and confirmed our compliance with the EU's GMP requirements, which form the basis for re-issuing the GMP certificate and pharmaceutical manufacturing licence.

- Krka also passed an AMPMD verification procedure for the pilot plant for API production, which means that the production of batches for clinical testing can now start.

- Regular inspections were also carried out by the Veterinary Administration of the Republic of Slovenia. They inspected the safety and quality assurance system for products for animal consumption. Krka was approved as a feed business operator in accordance with Regulation (EC) No 183/2005. The inspectorate also verified the performance of wholesale trade in animal medicines, and found that Krka met the requirements set out by the applicable Medicinal Products Act.

- The compliance of the safety and quality assurance system for foodstuffs and food was subject to regular inspections by the Health Inspectorate of the Republic of Slovenia, which did not find any compliance failures.

- The performance of Krka's IMS was reconfirmed by successfully passing an inspection by SIQ Ljubljana (Slovenian Institute of Quality and Metrology). No compliance failures were found in any of the systems inspected. The 2007 verification was particularly important, since it also certified the information security management system (ISO/IEC 27001). Krka is the first major Slovenian manufacturer to acquire the certificate.

The Krka management system is also subject to internal auditing. The management systems of suppliers and contracted partners are also assessed to ensure their product and process quality management is kept at a high-quality. A new organisational unit has been established in this area, the risk management function has been upgraded and the volume of its operations extended.

Krka's quality assurance systems, primarily the GxPs, are regularly verified by our partners for which Krka develops and produces products.

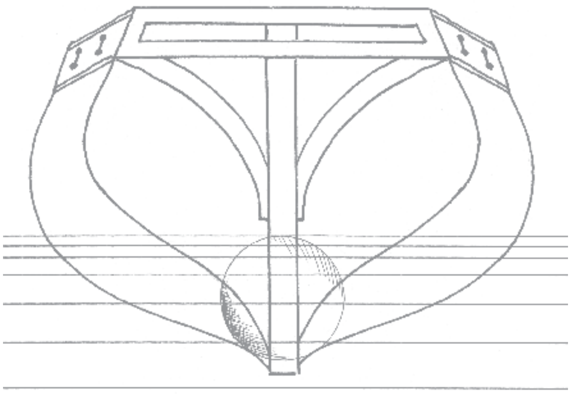
The functioning of the most important processes in terms of the IMS is periodically reviewed by the Quality Committee on the basis of the Quality Manual and in line with the performance criteria. The Quality Committee proposes the strategic guidelines for implementation of Krka's development strategy. Customer satisfaction with our products and services is one of the key objectives of the IMS, as well as of Krka operations and performance. It is measured directly by means of surveys on customer satisfaction and indirectly via customer complaint indicators. Krka regularly monitors indicators in this important field, and in recent years has found that the percentage of justified complaints compared to batches released has been decreasing, which is very much in line with set goals, and indicates the suitability of action taken to improve procedures. The response time in dealing with complaints is vital, so we also meet the set objective of responding to a customer complaint within 14 days. Krka also places special focus on the environment, and occupational health and safety (ISO 14001, OHSAS 18001) as well as open and honest public relations. It regularly informs the public about its systematic and preventive approach, and improvements to the system. The proof that our approach is successful and correct is our right to use the Responsible Care logo, which we attain each year.

Business Excellence Award of the Republic of Slovenia

One of Krka's key objectives is to achieve excellence in every area of operation, so it has introduced self-assessment based on the EFQM model, and also takes part in the public competition for the Business Excellence Award of the Republic of Slovenia (PRSPO). This is the highest national recognition in Slovenia in the field of quality, and covers achievements in the field of quality of operations that are the results of knowledge, innovation and continual improvement. Krka received its 2007 PRSPO award at an official ceremony held on 5 December 2007.

Having depth means having an inexhaustible source from which to draw inspiration.

Sustainable development



The essence is not outwardly evident.
It is found below the surface, in the depths.
That's the source of the inspiration, energy and
strength we need to meet everyday challenges.
Deep within we feel a responsibility to return the fruits
of work to the environment that sustains us.

Sustainable development and social responsibility are two essential elements in a company's performance. Ethical conduct towards the social and natural environment is a precondition for successful long-term development.

Employees

Krka's business performance is based on the commitment and knowledge of its employees. At Krka we are committed to acquiring, motivating and retaining dedicated and capable staff and building an international corporate culture. Krka offers qualified individuals interesting work in an international environment and development and promotion in their business, professional and personal lives regardless of sex, race, colour, age, health condition or disability, religion, political orientation or other belief, trade union membership, national or social origin, family status, property status or sexual orientation.

The success of the systematic, long-term work with employees – senior company management, all managers, specialist services and other partners – has been confirmed by numerous prizes and awards. In 2007 Krka also received an award as the employer with best reputation in Slovenia, and a top-10 award for successful work in the education field.

The growth of operations and expansion of markets has led to a high rate of recruitment. The growth in recruitment in Slovenia is highest in research and development and in marketing, while in the representative offices and subsidiaries abroad there has been a significant increase in employment in market and sales. A total of 2903 employees work in companies and representative offices outside Slovenia, which is 43% of all employees in the Krka Group.

Interest in working for Krka is also fostered by means of study grants. In 2007 Krka granted 22 new study grants, making a total of 70 pharmacy and chemistry students with study grants, with whom it maintains very close contact. They become familiar with the company particularly when participating in traineeships and preparing degree dissertations.

Number of employees in the Krka Company and Group (on 31 December)

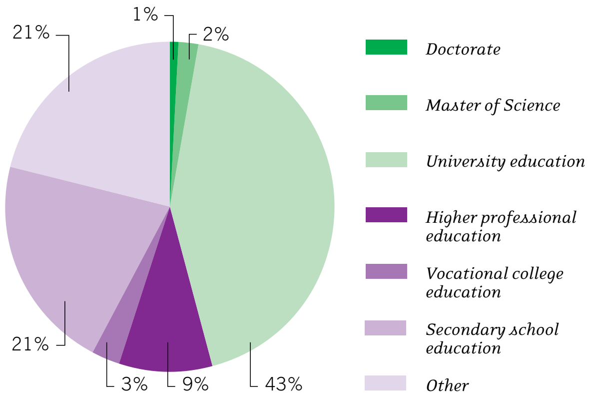
Number of employees (on 31 December)

	2007	2006	2005	2004	2003	2007/2006 Index
Krka Company in Slovenia	3,213	3,016	2,954	2,932	2,973	107
Krka Company representative offices outside Slovenia	1,678	1,256	1,024	716	555	131
Krka Company	**4,891**	**4,272**	**3,978**	**3,648**	**3,528**	**114**
Subsidiaries outside Slovenia	1,240	857	620	539	442	145
Terme Krka	646	630	626	594	552	103
Krka Group	**6,777**	**5,759**	**5,224**	**4,781**	**4,522**	**118**

Educational structure

Intense insuring competitiveness on global markets requires highly qualified specialists in all areas. The proportion of employees with at least a university education is continually increasing and now represents 46% of all employees in the Krka Group. At the end of 2007, the Krka Group had 3117 employees with at least a first degree. This includes 81 people with doctorates and 161 with master's degrees and specialisations.

EDUCATIONAL STRUCTURE IN 2007



Education and training

Investment in knowledge and development for all employees allows Krka employees to be the best in their area of work, and equips them to face the challenges that global competition places before individuals, groups and society as a whole.

Most training is organised in-house by the special training and staff development centre, and most of it is also implemented within the company, in cooperation with Krka's many specialists, who offer a wide range of expertise. Over 40 internal trainers are responsible for ensuring the marketing and sales teams have all the skills and knowledge they need. Krka employees also study at a number of prestigious educational and scientific institutions in Slovenia and abroad.

Krka employees show great interest in continuing their studies and acquiring more advanced qualifications. The company supports them by co-financing school fees and offering study leave. In 2007, 386 Krka employees did part-time courses, 134 of these at postgraduate level for MSc or PhD degrees. Eighty-four acquired a new, higher level qualification. Krka is the only company in Slovenia to implement testing and certification for the national vocational qualifications in pharmacy. By the end of 2007, 244 employees had already acquired the national vocational qualification, 54 of whom during 2007, while another 121 are still in the process of certification.

The key education areas are professional fields, management and leadership, personal development training, foreign languages – primarily English and Russian, modern information technology, and quality assurance.

Every employee in the Krka Group participated in some form of training over four times in 2007. On average they spent 38 hours in training. Investment in education is equivalent to 0.71% of operating revenues.

Measuring the organisational climate

A positive organisational climate fosters committed and creative work and the attainment of ambitious objectives, so Krka regularly evaluates its organisational climate and employee satisfaction. It uses its findings to plan and implement measures to improve internal organisation, interpersonal relations, leadership, the conditions required for employee initiative and development, and a unified understanding of the company's mission, vision and objectives. This is all intended to release the inner potential of employees and ensure that Krka's long-term objectives are realised. In parallel with the growth in the business results, 2007 also saw a significant increase in scores for organisational climate and employee satisfaction. Investments in leadership development, improving information provision, more efficient organisation, education, a more target-oriented culture, and excellence in all fields have borne fruit. Results indicate that employees express loyalty to the company, and are dedicated to their work, and motivated for personal and professional development.

Employee development

Since 1987 Krka has been building an employee development system to ensure the company's continual growth and development. The system is used to identify potential and plan the development and training of individuals and teams to make the company has the right portfolio of candidates trained for all the company's key functions.

The group of key and prospective employees includes over 650 employees, whose development for various levels of management or areas of expertise is planned.

Leadership

Effective leadership is an important part of Krka's corporate culture. Krka improves the quality of its leadership with the Krka international leadership school and the school for operational level leadership. The Krka style of work demands a great deal of teamwork and coordination, and an educational programme for expert and project teams has been developed to make sure our employees can function as successfully as possible in this form of work. This also helps consolidate Krka's multicultural, global identity. The annual appraisal interviews introduced some years ago are now firmly established, and now also include employees with secondary school education. Krka appraisal interviews with key and prospective employees are used to set clear objectives for work and responsibilities and to define expectations relating to an employee's educational and professional development.

Management-employee relations

Two unions are organised within the company, which are representative at the national level in Slovenia: the KNG Krka Novo mesto and the Krka Sindikat. Approximately half of all employees are members of these unions.

The company's Works Council, now serving its third term-in-office, has 15 members. All employees participate in company management via the Council. The President of the Management Board participated in every meeting of the Works Council in 2007, as well as in all 15 worker assemblies. Over 1750 employees participated in the worker assemblies, which were chaired by members of the Works Council. The President of the Management Board informed those who attended the assemblies of the 2006 business results and the plans for 2007, and emphasised the importance of every organisational unit and every employee, and the fact that the company can only be effective if everyone is working together to achieve the common objectives – the development and growth of an independent Krka.

Members of the Works Council are very aware of their duties, and keep their colleagues up-to-date with any information and replies received in response to the questions and initiatives they raise. The Works Council website is used to report their activities, and to publish the minutes of Council meetings and all the questions and initiatives raised at Works Council meetings and worker assemblies. Every Krka employee can pose questions or submit initiatives via the website, and will receive a response from the relevant support services. The Chief Executive has also invited all employees to submit their questions, ideas and proposals directly to him by email.

A new feature of the annual report on the work of the Works Council in 2007 was a review of the senior management's responsibilities for consistent application of the Act on Employee Participation in Management (the ZSDU) within the company. An appendix to the report includes a table of questions that Works Council members used to obtain a detailed analysis of the main areas of implementation of the ZSDU and the overall system for employee participation in company management. The Works Council found that the practical realisation of Krka's employee participation system was free of deficiency or weakness. In some areas it even goes beyond the provisions of the ZSDU, as set down in the Agreement on Employee Participation in Company Management (Participation Agreement).

Employee reward scheme

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

In past years, the Krka Awards system has also undergone considerable development. Since 1999 Marketing and Sales have selected and rewarded the best specialist staff in the field, with the selection later being expanded to include district managers, product managers, internal trainers and heads of marketing. In 2005 Research and Development joined the system by selecting employees of the year in the field of acquiring market authorisations. In 2005 a system was introduced to select and reward employees of the year and managers of the year at the organisational unit level and overall Group level. For decades Krka has been recognising the efforts of its most loyal employees by means of anniversary bonuses and special awards. The anniversary bonuses and Krka Awards at the Group level are presented once a year at the special ceremony known as the Krka Awards Day.

Encouraging inventive work

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

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

The number of proposals increased by 12% compared to 2006, and the number of proposers by 8%. The inventive work system is starting to involve more and more staff from a range of organisational units. In this way employees are encouraged to consider how to improve operations, increase efficiency and reduce costs, and then to take action by putting forward solutions and improvements. In additional to monetary bonuses, proposers also receive special recognition on Krka Awards Day, which is a further stimulus to innovative thinking.

Employee care

Investing in employees is part of Krka's long-term strategy, proof of which is found in the level of benefits and bonuses, which are higher than those set out in the collective agreement for the sector. Types of pay such as overtime, stand-by duty at work or at home, transportation expenses, annual leave bonus, anniversary bonuses, and termination pay all significantly exceed the amounts defined in law or the collective agreement for the sector. To ensure the long-term social security of its employees, in 2001 Krka began paying supplementary pension insurance for anyone who had worked for Krka for over one year, contributing the highest possible sum permitted by law.

A total of 6% of employees are registered as disabled. Preventive measures are taken to ensure they do not suffer further restrictions due to their disabilities. In addition to preventive and curative healthcare for employees with disabilities, Krka ensures that they can continue to work in positions adapted to their occupational abilities. Krka also provides appropriate requalification for employees who can no longer perform their original duties.

Health and interpersonal relations at Krka are supported by organising preventive, recreational and social programmes at a wide range of cultural and sporting events. The Krka Trim Club organises preventive sporting activities in which over 800 employees take part. Krka also has holiday accommodation capacity, where its employees can spend their holidays; discounts and payment by instalment are also offered for holidaying in Krka's and other accommodation. The holiday accommodation is also available to retired Krka staff. Krka also helps its employees resolving housing issues by means of housing loans and the possibility of renting Krka-owned flats.

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

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

Health and safety at work

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

The heads of individual organisation units, personal physicians and occupational health specialists, and the Health and Safety at Work Service are all involved in caring for employee health. Special teams are organised within every organisation unit to resolve social and health problems. Sick leave has fallen significantly since the introduction of the Reciprocal Relations and Sick Leave project was introduced, and was down to 4.7% in 2007. Two important health and safety at work projects in 2007 were entitled Restricting Smoking, and An Alcohol-Free Workplace. Over the past two years smoking has only been permitted in a small number of smoking rooms. Smokers have been offered advice and help on stopping smoking. The project will conclude with a complete ban on smoking across the Krka Group in April 2008. This will be backed up by a range of specialist seminars for employees on healthy lifestyles.

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

The health and safety at work management system is part of the integrated management system and meets the OHSAS 18001 standard. It involves active working groups in charge of health and safety at work for each organisational unit, with each group including an authorised health and safety officer. At the company level, there is a health and safety team that prepare key objectives and programmes that are submitted to the Management Board for approval. The Management Board approved the key objectives and programmes for the following two years at the end of 2006.

FREQUENCY OF WORKPLACE INJURIES (LTAR)

Accident data is monitored continually. The LTAR (Lost Time Accident Rate) indicator in the graph above, which indicates the number of accidents in the workplace requiring three or more days of sick leave per million hours of work, stood at 5.5 in 2007.

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

The Health and Safety at Work Service and Fire Safety Department are involved in fire protection at the technology and building project stage. Professional firefighters are responsible for servicing fire protection equipment, a permanent fire watch, and supervision of fire safety in individual buildings.

There is a 66-strong industrial fire service crew, fully organised and equipped to ensure an adequate response to any emergency. The Fire Safety Department is also included in the fire service crew. The protection and rescue plan, which was updated in 2007, includes scenarios for correct actions in case of explosive fires, spillages of hazardous materials, and earthquakes. Twelve exercises were carried out in 2007, one of which was a major incident drill. The exercise included Krka employees and the Novo mesto Fire and Rescue Centre, as well as Krka's industrial fire crew.

Communications

Communications with investors

We work hard to provide regular, transparent and accurate communications with existing and potential shareholders. Communication content relates to past business performance and the company's strategy and development in the future, all based on the company's disclosure policy.

The main objectives are:
- achieving a fair value for Krka on the market
- easier and favourable access to financing
- creating influential groups of people that support and trust Krka, and
- adequate trading liquidity.

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

Establishing Krka's credibility on Slovenian and international financial markets demands regular visits and presentations of the Krka business story in large financial centres around the world.

Krka publishes its financial calendar on its corporate web pages *www.krka.si.* The calendar contains provisional publication dates for business performance reports and other important investor events.

The business performance reports are available in Slovene and English on the Ljubljana Stock Exchange portal – SEOnet (*http://seonet.ljse.si*). The business reports are also available on Krka's corporate website. A brief summary of the annual report and semi-annual report is also published in Delo newspaper.

For further information, shareholders can contact: Peter Skubic, Head of Capital Markets, Financial Sector, +386 7 331 22 87, +386 7 332 15 23.

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

Communications with customers

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

We actively cooperate within institutional customers in regular working procedures and projects and various common projects. Regular working visits, and inspections from regulatory bodies help us to continually improve processes and approaches and to adapt our work to regulatory requirements and good practice. Krka participates in the creation of the regulatory environment through direct contact with authorities, and via industrial and professional associations. It can respond rapidly to any changes and adapt to specific needs of individual markets.

We are in regular personal contract with both direct and indirect customers, due to our very extensive marketing and sales network, which includes over 2,000 employees. Our networks are among the very strongest on all our key and major markets in central, eastern and south-eastern Europe. Medical representatives who are in regular contact with doctors, pharmacists, pharmacies and health institutions are specially trained in both product knowledge and communication skills. Together they carry out over 2.5 million visits per year. Independent surveys of doctors and pharmacists on a number of markets have found our medical representatives to score highest in terms of knowledge, communications and reliability. Krka ranks as one of the leading generic producers – as a company as a whole and for major individual products – in terms of identity, visibility and importance on all key and major markets.

A survey of general practitioners, cardiologists, and pharmacists on our key markets – Slovenia, Poland, Croatia and the Russian Federation – found that in terms of reputation Krka ranks in the top three pharmaceutical companies in Slovenia and the Russian Federation, and in Croatia and Poland in the top five pharmaceutical companies and in the top three generic pharmaceuticals companies. Our highest position is in Slovenia, where Krka was the leading generics company for every group, and the leading pharmaceutical company overall among doctors and pharmacists. Russian cardiologists also selected Krka as the best generics company. Our cooperation with the health professions mean we rank in the top three generics companies in every market.

Krka prepares a range of material for its indirect customers, providing information on Krka products and current specialist advice from doctors and pharmacists, which ensures the correct use of our products. We also organise specialist gatherings in the form of lectures, symposiums, round table discussions or workshops, and we actively participate in conferences and professional meetings in national, regional, European and global professional associations and organisations. In 2007 we organised a series of national events, and a major international symposium to mark the tenth anniversary of statins in Slovenia, an international symposium on the tenth anniversary of Lanzul® in Poland, and an international symposium for pharmacists to mark Slovenian Pharmacy Day, organised in conjunction with the Slovenian Pharmacy Association. We also cooperated in a number of national and regional specialist meetings, and international gatherings such as the central European meeting on high blood pressure and the prevention of cardiovascular diseases in Poland. In 2007 we organised over 30,000 meetings, in which over 800,000 doctors, pharmacists and veterinaries participated. We constantly monitor customer satisfaction with our professional meetings. The high scores reflect the high level of organisation, and the relevance and practical application of the selected topics.

Krka's activities and projects help doctors and pharmacists offer better treatment to their patients. To that end we publish the booklets Caring for Your Health, which address specific health problems, and Your Doctor has Prescribed You, which offers patients additional information on prescribed medicines and ensures their safer and more effective use. In 2007 we issued a 'cardiovascular disease atlas' intended for general practitioners, to help them explain cardiovascular diseases and their risk factors and potential consequences to their patients.

We only directly address final consumers within the legally permitted framework, which means self-medication products and cosmetics, for which we prepare print material and radio and TV advertising. We also issue a magazine called Caring for Your Health in Slovenia aimed at the general public, which is available in pharmacies and doctors' waiting rooms. There are also already over 13,000 regular subscribers. The magazine is topic-based, with individual issues addressing a specific health problem from different points of view, and providing advice on healthy lifestyles. For some years we have also issued an electronic newspaper E-zdravje (E-Health), which is connected to a public access website (*www.e-zdravje.com*) intended to educate and disseminate knowledge on healthier lifestyles. Krka also promotes healthy lifestyles via campaigns on its markets, including measuring cholesterol and blood pressure, and campaigns relating to mental health. We also give adequate and prompt replies to consumers and patients who contact Krka by telephone or send questions by email relating to our products.

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

Communications with employees

Satisfied and motivated employees are a key factor in the company's success, and also plays a vital role in customer satisfaction. We plan our internal communication strategies very carefully. We ensure positive relations between the management and employees and good all-round reciprocal relations (more in the chapter Employees). Vertical and horizontal internal communications have been established at all levels, which fosters loyalty and creates a pleasant organisational climate. We use a range of communications tools to achieve this.

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

Bilten. The electronic and printed bulletin, Bilten, is issued every week. We use the publication to keep employees informed about current events, inside and outside the company. It is also published in Polish, Russian and Croatian for Krka employees abroad.

Utrip. For over 40 years, we have been publishing the monthly internal magazine Utrip (which means pulse), aimed at all employees, retired Krka employees, study grant holders and major business partners, which makes a significant contribution to sharing and spreading the Krka vision, mission, values, and company policy. It informs employees about major company decisions, achievements in individual areas, and current events within the company and on Krka's markets. It comes with a supplement called Utrip zdravja (Pulse of Health), which addresses health issues, and promotes a healthy way of life. Utrip has also been issued in Polish over the past two years.

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

Information screens. Information screens are used to notify employees about events at Krka such as visits by business partners, meetings of the management board and supervisory board, division meetings, inspections, training and other happenings and cultural events.

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

Communications with the media

At Krka we are constantly working to develop professional relations with representatives of the mass media, which are based on honest and straightforward cooperation and mutual trust, and contribute to maintaining Krka's positive media image.

In 2007 we held meetings with the media on a quarterly basis at conferences for business journalists, as well as meeting them at a range of other formal and informal events. We responded promptly and actively to their questions, and notified them of significant events and business decisions by means of carefully-planned press releases.

In 2007 the media published 57 different press releases prepared by the company. A total of 193 media operators reported on Krka, 145 of which were print media, 39 TV and radio, and nine internet media. The majority of publications was either neutral or favourable.

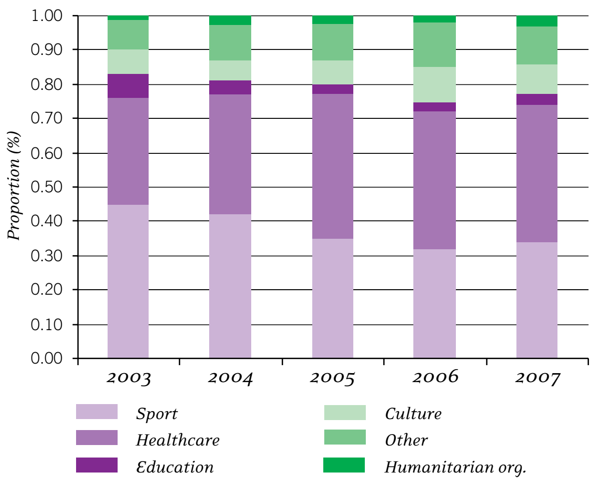
Communications with the community

Living a Healthy Life is the Krka mission, and is much more than a written slogan. We like to continually reintroduce the idea into the everyday life of people alongside whom we live. We have a very broad understanding of a healthy life: from the health that we take care of with our products and services, to the health that is the consequence of a satisfactory life.

We develop and produce top-quality products, and constantly ask ourselves what we can do to improve the quality of life. This is the justification for supporting healthcare and humanitarian projects through sponsorship and grants, and investing in sport, education, science and culture. We also support campaigns to keep the environment clean and other activities to raise the quality of life in the community. In some cases, especially natural catastrophes, we also donate Krka products to those affected.

Last year, the Krka Company allocated EUR 3.7 million to sponsorship and grants, which is 0.5% of total sales revenues. Two-thirds of these funds are allocated to grants, and one-third to sponsorships.

KRKA SPONSORSHIPS AND GRANTS



Most of the funds we put into sponsorship and grants are intended to promote not-for-profit activities. We focus on the environment at the local and national level, and also support individual activities outside Slovenia. We give priority to cooperation on long-term projects, which can contribute to improved lives for as many people as possible.

We develop partnership relations with those we sponsor. In addition to monetary assistance, we also offer organisational support to our partner organisations and cooperation from our employees on specific projects. At the start of 2007 we organised a meeting for recipients of Krka sponsorship – e.g. associations bearing the Krka name – and presented the company and the strategy for expressing our corporate identity.

Healthcare. Every year, Krka allocates funds to health institutions for modernisation and equipment upgrades. In 2007 this included donating 52 devices for round-the-clock measurement of blood pressure to health institutions. We also organised training for medical personnel on how to correctly use the devices and interpret the results. These donations make a major contribution to improving the quality of monitoring and treatment for patients with high blood pressure.

We marked the most recent World Hypertension Day by organising our third successive campaign with the Arterial Hypertension Section of the Slovenian Medical Association to measure the blood pressure of passers-by in ten towns around Slovenia.

Krka is also a co-founder of the Slovenian Heart Association, and has always supported its work. In 2007 Krka was once more the general sponsor of World Heart Day and the traditional concert organised by the society.

Krka also made a substantial donation to Novo mesto's General Hospital for purchase of an ultrasound machine, and to the Clinical Gastroenterology Department at the University Medical Centre in Ljubljana for purchase of a program for computer-supported patient monitoring during tests. We also supported the publication of a book entitled Everyday Diagnostics, which serves as a manual for family doctors.

Humanitarian actions. For a number of years, we have been the major donor to the Novo mesto-based society Sožitje, a charity helping people with mental health problems. We always respond to calls from the Slovenian Red Cross for donations, either in Slovenia or in other countries. In different ways we also help those in need, including donating our products to people affected by natural disasters. In 2007 we decided to donate funds that would have been used for Christmas/New Year greeting cards to assist the needy in Železniki, who were affected by violent storms in September.

Science and education. At Krka we believe in knowledge. Krka has offered study grants to university and high school students (for more see the chapter Employees) every year since 1956, while the Krka Prizes, which have been presented to young researchers for almost 40 years, are also an essential element in Krka's development strategy. Since we consider it important to ensure that the development and direction of the most gifted people should be provided for as early as possible, we encourage young people to engage in creative, research work by means of the Krka Prizes fund; to date there have been 2,189 award winners. The thirty-seventh Krka Prizes were held in 2007, including five awards for special achievements in the field of research work and 32 awards to university and high school students. The Krka Prizes are intended to motivate young researchers, their mentors, and the institutions at which they study and carry out the research. We have been developing connections with future employees or business partners in the research field in this way for decades. The selection and rewarding of work also focuses the work of young researchers, while new methods such as the e-Krka awards open doors to a new generation of school and university students.

In 2007 for the first time we also supported a campaign to select the best female Slovenian scientist. Krka also cooperates with numerous scientific and education institutions in the field of development and education.

Sport. Our commitment to caring for health and quality of life is also expressed in our relations to sport. We primarily sponsor projects and associations that support large-scale participation and work with young people. For many years, we have supported the ski-flying competition at Slovenia's famous ski-jumping centre in Planica, and the Slovenian racing yacht, Maxi Jena, as well as donating considerable funds to a range of sports clubs. For many years we have been providing funds to the following sports clubs: Krka basketball club, Krka men's handball club, Krka women's handball club, Krka men's volleyball club, Krka women's football club, Krka men's football club, the Krka athletic club, and others.

Culture. Krka has supported cultural activities since its establishment. For some years it has sponsored the Krka Wind Orchestra, the Marjan Kozina Music School, the Dolenjska Museum and a number of other cultural institutions. It has also supported the Anton Podbevšek Theatre in Novo mesto since its establishment in 2006. In 2007 Krka was the exclusive sponsor of the Modest Mussorgsky opera Boris Godunov, performed at the Cankarjev Dom Cultural and Congress Centre in Ljubljana by Moscow's famous Bolshoi Theatre company.

Employees and the community. Our employees also represent Krka in public, as members of various professional associations and organisations, and through involvement in voluntary actions. Many of them participate in sector-based organisations, professional consultations, seminars, and congresses or work in a number of not-for-profit organisations.

Krka employees are closely connected to the local community, for example through voluntary work, and each in their own way contributes to the development of the community and improving the quality of life in the local area. Krka's long-term cooperation with the community and its contributions to its development form an important part of its corporate tradition.

Environmental communication

Krka has an open environmental communication policy with the local and wider community, based on dialogue, and exchanging ideas and positions. We are well aware that environmental projects and the sustainable improvement of the environment depend on high-quality relations with all stakeholders. In 2007 we prepared meetings with local residents at which we presented our activities, results and plans in relation to environmental protection. Our open dialogue with local residents included an exchange of opinions and gained important information on their views and our role in protecting the environment. We requested that they continue to communicate with us on environmental matters, in the manner set out in Krka's integrated environmental management system. The information acquired is taken into account in preparing environmental objectives and programmes.

We also cooperate with the leadership and representatives of the local community in the preparation of spatial development plans. We hold regular meetings with our closest neighbour, who is also the local authority's representative on environmental impact. In 2007 we notified the wider public of our activities, progress and plans for environmental protection via the media (Delo, Nedeljski dnevnik, Dolenjski list, Vaš kanal).

Environmental protection

Environmental protection is subject to continual development at Krka and is undergoing systematic changes. The current state of affairs expressed in the integrated management of the field has been reached via many years of actively incorporating environmental protection into every segment of our operations. The short-term and long-term objectives of environmental protection are directed towards promoting sustainable development, maintaining a healthy living environment, and preserving biodiversity. This means that in future we will continue to make responsible use of natural resources, continually reducing emissions, and actively cooperate with the local and wider community on environmental issues.

Improving the environment

Environmental policy has been incorporated in Krka's internal Quality Manual since the introduction of the ISO 14001 standard in 2001. The integrated approach to environmental protection, the realisation of environmental objectives and programmes, and the support of Krka's top management and all its employees will achieve sustainable improvements to the state of the environment. Our systematic environment care has contributed to the continual improvement in the quality of Krka river water over the past 10 years.

The environmental standard and environmental legislation

In 2007 a regulation on emissions into water was issued for the pharmaceutical industry for the first time. All the measured parameters indicated that Krka already had complied with the regulation's requirements before it actually entered into force, since our efforts have long been directed towards the sustainable improvement of the water quality of the Krka river. The sustainable concept of environmental protection set out in the environmental standard is also applied to waste, emissions to air, and noise.

In accordance with the requirements of Integrated Pollution Prevention and Control Directive (IPPC Directive), Krka verified and approved the compliance of its technology with Best Available Techniques (BAT).

Environmental protection training

At Krka we strive through education and information and promoting awareness among employees to ensure that every individual acts towards environmental protection. In 2007 an environmental protection education programme was prepared and introduced, in which employees of production units that have a major impact on the environment were involved in the first phase. Krka is also involved in organising training programmes for new employees. Employee education also takes place via the internal newspaper. In 2007 six extensive articles were published addressing the issue of environmental protection at the global level. All employees have access to up-to-date content (environmental dimensions, environmental objectives and programmes, register of legislation), which is published on the intranet.

We are also involved in wider efforts to achieve a clean and healthy environment and cooperate with various educational institutions. Students and young researchers have produced work under the mentorship of Krka specialists responsible for environmental protection. In 2007 Krka won the first prize for a quality approach to water as part of a campaign called 'The Earth is Only Lent to us by our Children' run by the Slovenian Environmental Agency and the Slovenian Friends of Youth.

Significant achievements in the field of environmental protection in 2007

- Reducing total environmental load on Krka river by 4%
- Reducing quantity of landfill waste by 54%
- Reduced specific electricity use in cooling by 24%
- Reducing noise levels at boundary with nearest residential areas by 5 dB.

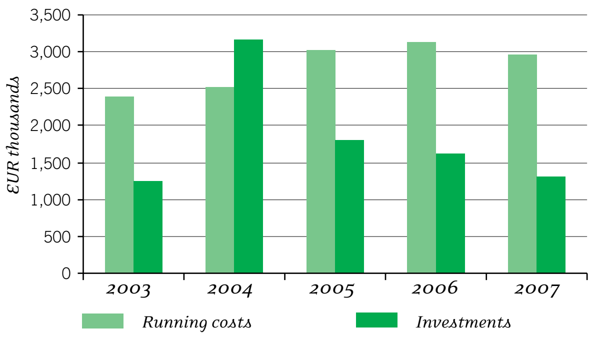
Environmental protection objectives and programmes for 2008

- Reducing quantity of mixed landfill waste by 20%
- Maintaining low pollution levels from the waste water treatment plant, regardless of anticipated production growth
- Reducing emissions to air of volatile organic compounds to below 5% of total consumption of such compounds
- Preparing technological bases for filtering waste water treatment plant outflows
- Training and informing employees on environmental protection topics
- Preparing comprehensive system for targeted monitoring of energy consumption at all production locations in Slovenia.

Environmental protection costs

Over the past five years Krka has invested over EUR 23 million in environment protection (running costs and investments). The value of investments fluctuates from year to year depending on the volume of environmental protection projects. In 2007 the environmental protection running costs came to EUR 2.8 million, while investment was worth EUR 1.3 million.

INVESTMENT IN ENVIRONMENTAL PROTECTION

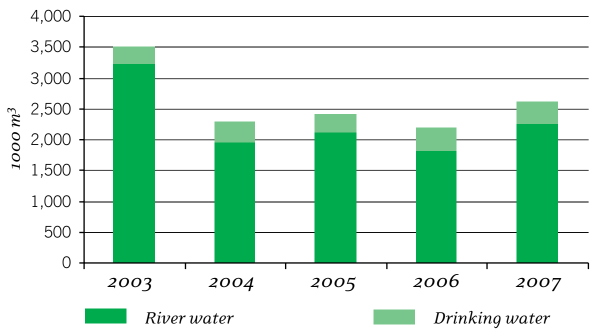


Use of natural resources

Water

Water is a subject of vital importance to Krka, because its operations depend on an uninterrupted water supply.

DRINKING WATER AND RIVER WATER



Most of the river water Krka uses is for cooling, especially its fermentor units, and for secondary cooling via heat exchangers. As cooling water output is only slightly heated, its quality remains unaltered, and in 2005 a project was introduced to capture cooling water in the fermentation process and reuse it. The captured cooling water is used for a range of technical purposes: feeding the hydrant network, preparing boiler water, cooling fermentors. A total of 504,724 m3 less river water was drawn in 2006 and 2007 than if the project had not been implemented. The reason use of river water increased in 2007 was the significant increase in fermentation production. The use of drinking water remained practically unchanged, despite production increasing.

Energy

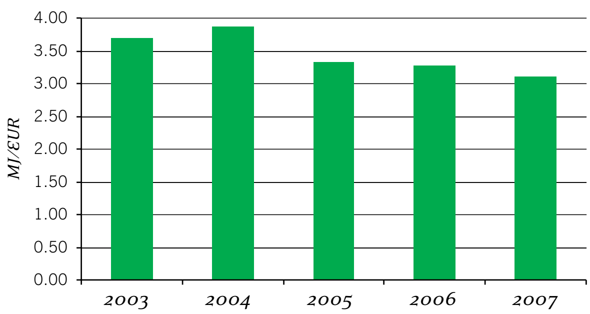
Krka's main sources of energy are:

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

Specific energy consumption

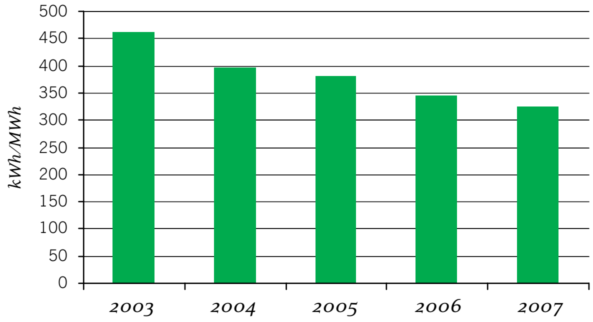
Specific energy consumption is an important indicator for evaluating production efficiency, representing the ratio of energy consumption to production value. Energy consumption has been declining in recent years, due to a range of efficiency measures, such as energy monitoring and targeting of electricity use, utilisation of waste heat, and the installation of energy efficient equipment. Specific energy consumption in 2007 was reduced by 5% compared to 2006.

SPECIFIC ENERGY CONSUMPTION



In 2005 Krka started energy monitoring and targeting system (EMTS) in the central cooling system. Additional measurements of electricity and cooling consumption, which facilitated an adequate evaluation of specific electricity consumption for cooling production. The specific electricity consumption for cooling fell by 24% compared to years before introduction of the EMT system. This represented a saving of 1.01 GWh in 2006 compared to 2005, and of 1.78 GWh in 2007 compared to 2006.

SPECIFIC ELECTRICITY USE FOR COOLING



In 2006 the heating water distribution network was upgraded at the Ločna location. The advantage of the new district heating system lies in the simple use of waste heat, which is a side product of a number of technological processes. Using waste heart led to a 4% reduction in the consumption of natural gas at the Ločna location in 2006, which represents a saving of approximately EUR 130,000 per year.

Emissions

Waste water

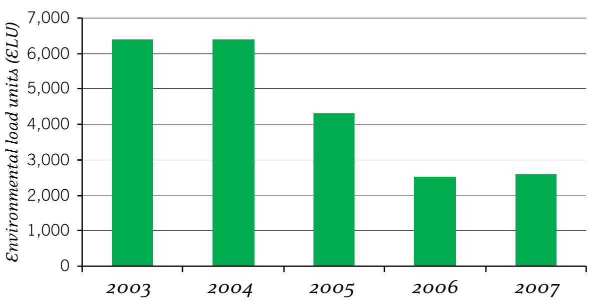
Reducing the pollution levels of waste water remains one of the most important areas of environmental protection. The waste treatment plant at Ločna was upgraded, and in 2005 we introduced new waste-water cleaning technology, which removes nitrogenous substances. Over the past three years the effluent load from the waste treatment plant into the Krka river has been reduced by 57%. The effectiveness of this technology will be further improved in the next two years by installing an ultrafiltration device to improve waste treatment plant effluent.

The waste water from the plants Ljutomer and Bršljin is processed at municipal waste treatment plants. In 2007 the effluent load from these plants remained at the same level as 2006.

The effluent load from the Šentjernej plant into the municipal sewer system increased somewhat, but will be drastically reduced when the municipal waste treatment plant in the municipality of Šentjernej is upgraded.

The total effluent load (in environmental load units – ELU), which includes cleaning waste water from the Ločna location and the Bršljin, Ljutomer and Šentjernej plants, increased by 2.6% in 2007, exclusively due to the increased effluent load from the Šentjernej plant.

Waste water management

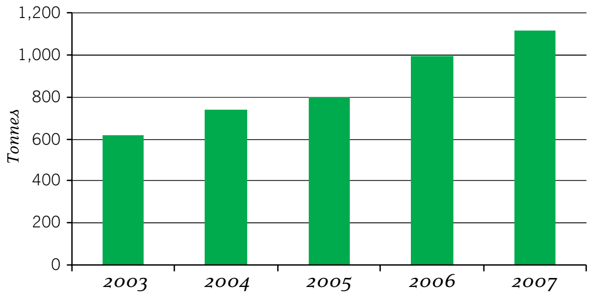


In the coming two years, Krka will be improving the effectiveness of the waste water treatment technology at its own waste treatment plant by upgrading the ultrafiltration technology used for the outflow.

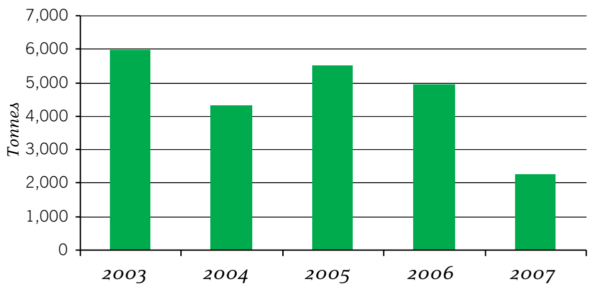
Waste

In 2007 Krka was able to increase the quantity of useful separated waste by 123 tonnes or 12% compared to the previous year, by modernising the waste management equipment and improving the separated waste collection system, which also led to a reduction in the quantity of landfill waste, which was down by 2268 tonnes or 54% and a reduction in the number of trips removing waste to the landfill.

Useful separated waste



Landfilled waste



Noise

Keeping noise down to levels that do not disturb the local population is achieved using modern equipment, which emits less noise, and by installing ventilation devices in confined premises. The overhaul of three noise sources reduced the noise level at the boundary with the nearest residential areas to 43 dB, which is 5 dB less than the legal noise limit.

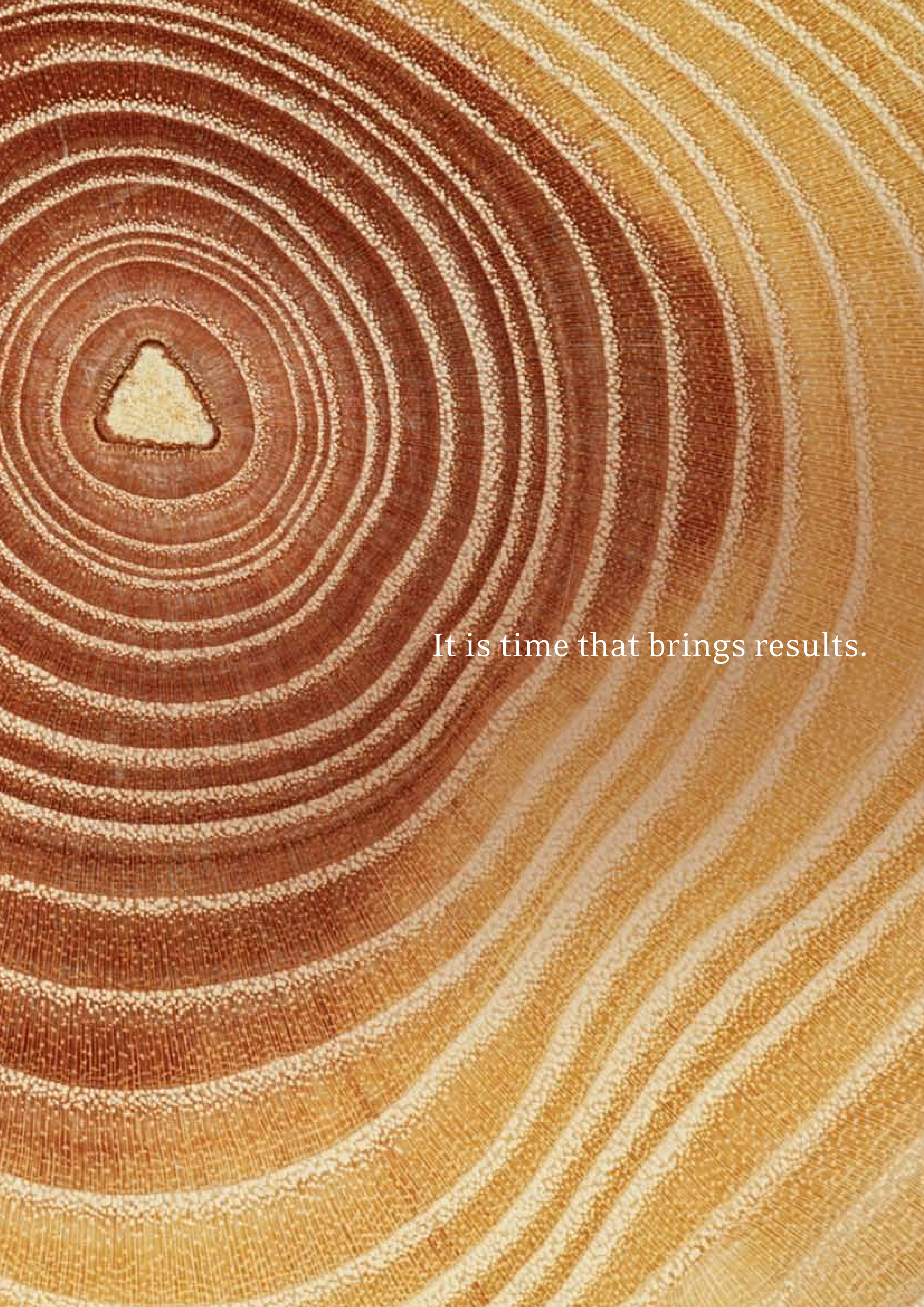
Air emissions

The first measurements of emissions to air from the new plants (Pelete 4, Sinteza 4), which were carried out in 2007, confirmed that the air cleaning system, which uses thermal oxidisation and a volatile organic compound condenser, is extremely efficient. The absolute filtration of all particle emissions has reduced dust emission to below 0.5 mg/m3, which is less than 0.3% of the legally defined limit value. Special care is taken to reduce emissions with an unpleasant odour, which often occur around the waste treatment plant, and the fermentation production facilities. In 2007 we upgraded the air cleaning system for the waste treatment plant and optimised the performance of the fermentation production air filtration system.

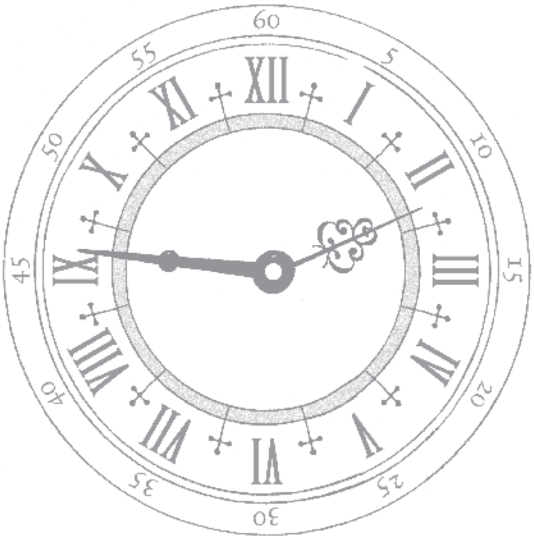
Environmental protection at Krka's foreign subsidiaries

All Krka subsidiaries abroad operate in compliance with local environmental protection legislation. We apply the same standards abroad as in Slovenia when planning and purchasing equipment, so emissions are also managed in the same manner. Emissions that occur in these companies are low, as they are involved in low-load pharmaceutical activities.

The separated waste collection system has been put into practice in all subsidiaries abroad. Hazardous waste is collected separately and sent to appropriate facilities for destruction. Particle emissions are being reduced by installing modern filtration systems that completely eradicate particle emissions.


It is time that brings results.

Financial statements



The dimensions of growth are measured over time.
Time defines how high we grow,
how broadly our branches spread, and
how far our ideas will grow.
We look forward to the future
that inspires us with new challenges.

Contents

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

Introduction to the financial statements

The financial statements consist of two separate sections.

The first section illustrates the financial statements and related notes of the Krka Group (hereinafter also 'Group'), whereas the second section encompasses 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 pursuant to the Slovenian Accounting Standards.

Each section of financial statements was audited by KPMG SLOVENIJA, podjetje za revidiranje, d. o. o. and two separate reports as individual chapters have been prepared accordingly.

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

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

Statement of compliance

The Company's Management Board is responsible for the preparation of the annual report of the Company and the 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 2007.

The Management Board hereby acknowledges that:

- the financial statements of the Company and its subsidiaries were prepared on a going concern basis;
- the selected accounting policies are applied consistently and any changes in accounting policies have been reported;
- the accounting estimates have been prepared in a fair and reasonable manner and are in compliance with the principles of prudence and due diligence;
- the financial statements and the notes thereto 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, 18 February 2008

Consolidated financial statements of the Krka Group

Consolidated balance sheet

EUR thousand	Note	31 Dec 2007	31 Dec 2006
Assets			
Property, plant and equipment	12	572,244	506,929
Intangible assets	13	129,854	23,500
Investments in associates	14	0	2,023
Deferred tax assets	17	32,687	31,840
Long-term loans	15	3,531	3,564
Non-current investments	16	10,981	6,737
Other non-current assets		410	253
Total non-current assets		**749,707**	**574,846**
Inventories	18	171,647	115,925
Trade and other receivables	19	179,834	153,891
Short-term loans	15	1,510	1,095
Current investments, including derivatives	16	2,936	22,972
Cash and cash equivalents	20	15,784	10,399
Total current assets		**371,711**	**304,282**
Total assets		**1,121,418**	**879,128**
Equity			
Share capital	21	59,126	59,132
Own shares	21	-19,489	-19,489
Reserves	21	157,094	151,295
Retained earnings	21	474,146	372,060
Equity holders of the parent		**670,877**	**562,998**
Minority interest	21	10,036	7,907
Total equity		**680,913**	**570,905**
Liabilities			
Long-term borrowings	23	87,183	34,584
Provisions	24	143,641	122,554
Government grants and EU grants	25	3,099	2,778
Deferred tax liabilities	17	19,850	4,025
Total non-current liabilities		**253,773**	**163,941**
Trade payables	26	78,462	60,888
Short-term borrowings	23	62,528	48,769
Income tax liabilities		3,612	7,020
Other current liabilities	27	42,130	27,605
Total current liabilities		**186,732**	**144,282**
Total liabilities		**440,505**	**308,223**
Total equity and liabilities		**1,121,418**	**879,128**

Consolidated income statement

EUR thousand	Note	2007	2006
Sales revenues	5	780,918	667,955
Production cost of goods sold		-282,833	-248,985
Gross profit		**498,085**	**418,970**
Other operating income	7	4,216	3,564
Sales and marketing		-198,051	-165,844
R&D costs		-59,071	-52,650
Administrative expenses		-62,246	-53,545
Result from operating activities		**182,933**	**150,495**
Financial income	10	17,355	15,500
Financial expenses	10	-25,354	-17,239
Net financial income / expenses		**-7,999**	**-1,739**
Profit before tax		**174,934**	**148,756**
Income tax expense	11	-42,081	-36,670
Profit for the period		**132,853**	**112,086**
Attributable to:			
– equity holders of the parent		132,552	111,682
– minority interest		301	404
Earnings per share (in EUR)	**22**	**3.92**	**3.30**
Diluted earnings per share (in EUR)	**22**	**3.92**	**3.30**

Consolidated statements of changes in equity

			Reserves					Retained earnings					
EUR thousand	Called capital	Own shares	Share premium	Legal reserves	Statutory reserves	Fair value reserves	Translation reserves	Other revenue reserves	Net profit for the period	Net profit carried forward	Equity holders of the parent	Minority interest	Total equity
Balance at 1 Jan 2006	59,132	-19,489	120,986	14,990	9,597	2,345	19	225,254	66,719	-7,665	471,888	7,568	479,456
Entry of net profit for the period	0	0	0	0	0	0	0	0	111,682	0	111,682	405	112,087
Formation of statutory reserves	0	0	0	0	2,086	0	0	0	-2,086	0	0	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board	0	0	0	0	0	0	0	20,030	-20,030	0	0	0	0
Transfer of previous period's net profit to retained earnings	0	0	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	0	0	30,512	0	-30,512	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	-23,499	-23,499	-65	-23,564
Translation reserve	0	0	0	0	0	0	135	0	0	0	135	0	135
Changes in the fair value of financial assets available for sale	0	0	0	0	0	1,136	0	0	0	0	1,136	0	1,136
Tax effects of the transition and adjustment to IFRS	0	0	0	0	0	0	0	0	0	1,378	1,378	0	1,378
Refund of default interest that had been overcharged by the tax office	0	0	0	0	0	0	0	0	0	277	277	0	277
Balance at 31 Dec 2006	59,132	-19,489	120,986	14,990	11,683	3,481	154	275,796	89,566	6,698	562,997	7,908	570,905
Balance at 1 Jan 2007	59,132	-19,489	120,986	14,990	11,683	3,481	154	275,796	89,566	6,698	562,997	7,908	570,905
Entry of changes in profits for previous periods	0	0	0	0	0	0	0	0	0	-193	-193	0	-193
Entry of net profit for the period	0	0	0	0	0	0	0	0	132,552	0	132,552	301	132,853
Entry of minority interest	0	0	0	0	0	0	0	0	0	0	0	1,929	1,929
Formation of statutory reserves	0	0	0	0	2,500	0	0	0	-2,500	0	0	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board	0	0	0	0	0	0	0	43,000	-43,000	0	0	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	0	0	-89,566	89,566	0	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	-6	0	6	0	0	0	0	38,149	0	-38,149	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	-27,040	-27,040	-102	-27,142
Translation reserve	0	0	0	0	0	0	-50	0	0	0	-50	0	-50
Changes in the fair value of financial assets available for sale	0	0	0	0	0	3,344	0	0	0	0	3,344	0	3,344
Refund of default interest that had been overcharged by the tax office	0	0	0	0	0	0	0	0	0	-733	-733	0	-733
Balance at 31 Dec 2007	59,126	-19,489	120,992	14,990	14,183	6,825	104	356,945	87,052	30,149	670,877	10,036	680,913

Consolidated cash flow statement

EUR thousand	Note	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		132,853	112,086
Adjustments for:		101,809	85,622
– amortisation / depreciation		56,944	47,704
– foreign exchange gain		-5,078	-1,962
– foreign exchange loss		5,407	4,147
– investment income		-8,201	-9,831
– investment expense		4,594	3,636
– interest expense and other financial expense		4,325	4,980
– income tax		42,081	36,670
– other (change in the minority interest)		1,737	278
Operating profit before changes in net operating current assets and provisions		234,662	197,708
Change in trade receivables		-13,452	-18,880
Change in inventories		-32,117	4,950
Change in operating debts (liabilities)		4,059	2,615
Change in provisions		16,367	23,874
Change in grants received		321	917
Change in other current liabilities		14,459	-5,039
Income taxes paid		-49,096	-65,511
Cash generated from operations		175,203	140,634
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		356	768
Proceeds from sale of current investments		1,263	1,014
Dividends received		216	201
Proceeds from sale of property, plant and equipment		1,212	1,565
Purchase of intangible assets	13	-7,381	-7,298
Purchase of property, plant and equipment	12	-107,742	-100,625
Acquisition of subsidiary net of cash	6	-96,043	0
Given long-term loans	15	-1,590	-1,609
Proceeds from repayment of long-term loans		1,618	1,529
Acquisition of non-current investments		-308	-1,110
Proceeds from sale of non-current investments		44	15
Acquisition of current investments		-21,662	-18,499
Proceeds from sale of current investments and repayment of short-term loans		22,876	10,696
Payments in connection with derivative financial instruments		-63	-586
Proceeds from derivative financial instruments		2,250	2,403
Net cash used in investing activities		-204,954	-111,536
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		-3,868	-4,764
Repayment of long-term borrowings		-14,283	-18,570
Proceeds from long-term borrowings		104,000	0
Repayment of short-term borrowings		-318,566	-148,128
Proceeds from short-term borrowings		295,150	164,029
Dividends paid		-27,075	-23,534
Net cash used in financing activities		35,358	-30,967
Net increase in cash and cash equivalents		5,607	-1,869
Cash and cash equivalents at beginning of period		10,399	12,635
Effect of exchange rate fluctuations on cash held		-222	-367
Net cash and cash equivalents at end of period		15,784	10,399

Notes to the consolidated financial statements

Krka, d. d., Novo mesto is the controlling company in the Krka Group with its registered seat at Šmarješka cesta 6, 8501 Novo mesto, Slovenia. The consolidated financial statements for the year ended 31 December 2007 refer to the Krka Group that comprises the controlling company and its subsidiaries located in Slovenia and abroad.

1. Basis of the preparation of financial statements

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and in compliance with the Companies Act.

The consolidated financial statements were approved by the Management Board on 18 February 2008.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, with the exception of derivative financial instruments, financial instruments at fair value through profit or loss and financial assets available for sale, where the fair value has been taken into account. Methods applied in the measurement of fair value are presented in Note 3.

Functional and reporting currency

The consolidated financial statements are presented in euro, which is the Company's functional currency. All financial information presented in euro has been rounded to the nearest thousand.

The use of estimates and judgements

The preparation of financial statements pursuant to IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

– Note 6 – business combinations,
– Note 24 – measurement of defined benefit obligations,
– Note 24 – provisions for lawsuits and contingent liabilities,
– Note 29 – valuation of financial instrument.

2. Significant accounting policies

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

Group companies apply uniform accounting policies. Accounting policies applied by subsidiaries were changed and adjusted with policies of the Group where necessary.

The comparable data are in accordance with the information referring to the current financial year. Where necessary, they were adjusted so as to comply with the information referring to the current financial year.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the controlling company. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the adequate functional currency of the Group companies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge, or qualifying cash flow hedges, which are recognised directly in equity.

Financial statements of foreign operations

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

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value. With instruments not recognised at fair value through profit or loss, fair value is increased by any directly attributable transaction costs associated with the instrument's purchase or issue. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

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

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value. Changes in fair value are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss. Impairment losses and foreign exchange gains and losses on available-for-sale monetary items are recognised directly in profit or loss.

Investments at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value and in accordance with the Group's investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Receivables and loans

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

Derivative financial instruments

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

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

Economic hedges

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

Share capital

Repurchase of share capital

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

Dividends

Dividends are recognised in Group's financial statements as a liability in the period in which they are declared by the annual meeting.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (see accounting policy 'Impairment'). The cost of property, plant and equipment as at 1 January 2004, the date of transition to IFRS, is determined by reference to its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other directly attributable cost of preparing the asset for its intended use, and (if applicable) costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

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

Subsequent costs

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

Depreciation

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

The estimated useful lives are as follows:
- for buildings 15 to 60 years,
- for plant and equipment 2 to 20 years,
- for furniture 5 years,
- for computer equipment 4 to 6 years,
- for means of transportation 5 to 15 years.

Intangible assets

Goodwill
Goodwill, which occurred with the acquisition of the subsidiary, represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill is measured at cost less accumulated impairment losses.

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 (except for goodwill, trademarks and the customer list) from the date that they are available for use.

The estimated useful lives are as follows:
- for recognised development costs (registration documentation) 10 years,
- for software 2 to 10 years,
- for other intangible assets 10 years.

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. The cost of inventories is based on moving average method. 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, such as: direct labour, direct cost of depreciation, direct cost of services, energy, maintenance and quality management. Inventories of work in progress and finished products are carried at 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 are stated at the lower of cost and net realisable value.

Impairment

Financial assets
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

Non-financial assets

The carrying amounts of the Group's non-financial assets (except for inventories and deferred tax liabilities) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in the previous periods.

Long-term employee benefits

Provisions for termination pay and anniversary bonuses

Pursuant to the local 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 5.85% and represents the return on 10-year corporate bonds with a high credit rating in the euro-zone. The calculation is performed by the use of the projected unit credit method. All actuarial gains and losses are recognised upon accrual in the profit or loss.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions 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 referring to alleged patent infringements. The eligibility of provisions formed in terms of the lawsuit's favourable or unfavourable outcome is assessed on an annual basis. The amounts of provisions are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated potential amount, if the indemnification claim is not yet disclosed.

Sales revenues

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

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

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

Government grants

Other government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

Financial income and expenses

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

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

Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. The amount of deferred tax bases on the expected way of settling the carrying amount of assets and liabilities, using tax rates enacted at the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Earnings per share

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

Segment reporting

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

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

Geographical segments include following: the European Union, South-East Europe and Eastern Europe. Within the structure of business segments, the share of human health products represents more than 90% of the Group's sale in terms of value.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related revenue, loans and borrowings and related expenses, corporate assets and head office expenses, liabilities related to provisions for lawsuits, and income tax assets and liabilities.

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

New standards and interpretations not yet adopted

The list below presents the new standards, amendments to standards and interpretations that are not yet effective for the year ended 31 December 2007, and have thus not been applied in preparing the consolidated financial statements.

IFRS 8 Operating segments

The segment reporting shall introduce the so-called core principal that the Group will have to take into account during the preparation of the 2009 financial statements. Currently the Group presents segment information in respect of its geographical and business segments (refer to Note 5).

IAS 23 Borrowing costs

Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.

IFRIC 11 IFRS 2 Group and Treasury Share Transactions

It requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Group's 2008 financial statements, with retrospective application required. It is not expected to have any impact on the consolidated financial statements.

IFRIC 12 Service Concession Arrangements

It provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Group's 2008 financial statements, is not expected to have any effect on the consolidated financial statements.

IFRIC 13 Customer Loyalty Programmes

It addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

It clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14, which becomes mandatory for the Group's 2008 financial statements, is not expected to have any impact on the consolidated financial statements.

3. Determination of fair values

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

Property, plant and equipment

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

Intangible assets

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

Inventories

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

Investments in equity and debt securities

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

Trade and other receivables

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

Derivatives

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

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

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Cash flow statement

The cash flow statement has been prepared under the indirect method based upon items from the balance sheet as at 31 December 2007 and 31 December 2006, the income statement for the year that ended 31 December 2007, as well as additional data required for the adjustment of inflows and outflows.

4. Financial risk management

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

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

The Group monitors the risks systematically and in connection with financial risks applies also adequate quantitative methods for studying the exposure to and size of possible damage. Since much of attention is given to risk management, the Group successfully decreased the risk's negative impact on operations in the reporting period.

A brief summary of risk management policies is given below; for more details refer to the Management Report.

Credit risk

Group's exposure to credit risk depends upon individual customers and economic situations in respective countries. The Group generates sales revenues in five regions that are quite balanced in terms of the sales share, hence the concentration of credit risk from the geographical point of view is not so much explicit. The respective risk does not concentrate on individual business partner as the number of individual customers is quite high.

The Group's credit control is conducted by the Risk Management Division on a centralised basis. The Group applies uniform procedures and rules for customers of Group companies and the controlling company, whereas new buyers undergo an assessment of their credit rating prior to being offered standard terms of supply and payment.

The results of the credit control are positive and indicate a decrease in the total amount due, an improvement of the ageing structure of total receivables, as well as a favourable relation between the average balance of trade receivables and the value of sales.

We believe that the credit risk is well managed and no significant receivable write-offs due to default have been recorded in 2007.

Liquidity risk

As for the area of liquidity risk, the Group tries to asses whether it will be able to meet its financial obligations as they fall due and whether it will have sufficient liquidity to meet its liabilities when due.

The Group assesses cash flow requirements on a weekly, monthly and quarterly basis, while possible cash deficits that could probably not be covered by current operations are secured in advance by banks based on agreed-upon credit lines; possible cash surplus is allocated to current investments. In order to improve short-term and long-term liquidity, the Group has optimised the monitoring of cash balance and upgraded the liquidity planning system in 2007.

Liquidity ratios (current, quick and acid test ratio) together with ratios showing management of current and non-current assets and liabilities are comparable with the ratios of other sector-related companies. The share of the working capital in Group's sales revenues recorded a decrease indicating a more efficient management of assets and liabilities.

In addition to the issue of settling current liabilities, the Group tries to establish whether it will be able to settle loans and other financial liabilities based on generated cash flows. The value of ratios shows that the Group's exposure to liquidity risk is extremely low.

Currency risk

The Group is exposed to currency risks due to its extensive international operations. The emphasis lies on the US dollar exchange rate, while also other foreign currencies – like the Polish zlot, the Croatian kuna and the Macedonian denar – defined through our companies abroad are deemed significant as well.

In the reporting period the Group actively hedged against the change of US dollar, whereby no hedging was applied as for other foreign currencies.

Part of the planned open position denominated in US dollar was hedged for certain periods by applying financial instruments as required by the foreign currency risk management policy, while the other part was not hedged. The Group used simple derivative financial instruments such as futures contracts and options.

Due to the fall of the US dollar the Krka Group recorded exchange losses in 2007 referring to the revaluation of assets denominated in US dollar. Based on derivative financial instruments, the Group generated exchange gains but not in a sufficient amount to fully neutralise the exchange losses.

Interest rate risk

By the end of the year, all long-term loans with the 6-month LIBOR (denominated in US dollar) were fully hedged against interest rate risk.

However, two long-term loans with a 6-month EURIBOR have not been hedged against the interest rate risk by the end of 2007, as the key interest rate of the European Central Bank no longer fluctuates. By the end of the reporting period, solely one fifth of the principal amount of long-term loans with the 6-month EURIBOR is hedged.

Capital management

The Company's management has decided to maintain a large amount of equity in order to keep the confidence and to secure further development of the Krka Group. The Group defined return on equity as one of the key ratios, namely as a relation between the generated net profit of the majority shareholders and the average value of the majority shareholder's equity. The Group is making efforts to keep the balance between high yields which would be realised through higher indebtedness, and advantages and safety of a strong capital structure.

The Krka Group implements the method of moderately increasing the dividend amount, paid out on an annual basis. The Management Board and the Supervisory Board of the controlling company define the amount of the dividend. Dividends are paid from the controlling company's accumulated profit which is formed pursuant to regulations applicable in Slovenia and allocated pursuant to the resolution adopted by the Annual Meeting.

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

The Krka Group has no specific goals as regards the ownership share held by employees, as well as no programme of share options. There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

5. Geographical and business segments

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

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

Geographical segments

	European Union		South-East Europe		Eastern Europe		Other markets		Eliminations		Unallocated		Total	
EUR thousand	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Sales revenues to non-Group entities	489,086	399,521	86,095	73,926	182,974	180,685	22,763	13,823	0	0	0	0	780,918	667,955
Sales revenues to Group entities	79,648	62,458	52,291	41,946	36,533	28,912	0	0	-168,472	-133,316	0	0	0	0
Total sales revenues	**568,734**	**461,979**	**138,386**	**115,872**	**219,507**	**209,597**	**22,763**	**13,823**	**-168,472**	**-133,316**	**0**	**0**	**780,918**	**667,955**
Segment's results from operations	**150,482**	**96,224**	**27,542**	**29,771**	**13,409**	**41,490**	**1,269**	**457**	**0**	**0**	**0**	**0**	**192,702**	**167,942**
Other operating income											4,216	3,564	4,216	3,564
Unallocated costs											-13,985	-21,011	-13,985	-21,011
Operating profit													**182,933**	**150,495**
Net financial income / expenses											-7,999	-1,739	-7,999	-1,739
Income tax expense											-42,081	-36,670	-42,081	-36,670
Profit for the period													**132,853**	**112,086**
Total assets	715,390	589,708	80,769	71,167	132,113	119,706	11,239	6,455	0	0	181,907	92,092	1,121,418	879,128
Intangible assets	119,439	13,003	3,083	2,926	6,538	7,045	794	526	0	0	0	0	129,854	23,500
Total liabilities	**284,690**	**183,915**	**44,275**	**30,851**	**99,040**	**86,776**	**12,500**	**6,681**	**0**	**0**	**0**	**0**	**440,505**	**308,223**
Capital expenditure	105,769	98,426	4,270	2,970	5,042	2,513	0	0	0	0	0	0	115,081	103,909
Depreciation of property, plant and equipment	27,317	23,865	3,695	2,993	7,747	7,697	401	227	0	0	12,119	8,251	51,279	43,033
Amortisation of intangible assets	3,570	2,595	657	622	1,287	1,352	154	102	0	0	0	0	5,668	4,671
Impairment of intangible assets, property, plant and equipment, and other non-current assets											55	60	55	60

Business segments

	Human health products		Other		Total	
EUR thousand	2007	2006	2007	2006	2007	2006
Sales revenues	724,544	616,483	56,374	51,472	780,918	667,955
Capital expenditure	108,515	100,244	6,566	3,665	115,081	103,909
Assets	1,054,799	827,857	66,619	51,271	1,121,418	879,128

6. Acquisition of subsidiaries

Acquisition of TAD Pharma

On 15 November 2007, Krka, d. d., Novo mesto as the controlling company of the Group completed the acquisition of the German company TAD Pharma. This is Krka's first takeover and contributes not solely to its growth but also consolidates Krka's position within the generic pharmaceutical industry in Western Europe. Krka was present in Germany already through its partners but with the takeover of TAD Pharma Krka is acting independently on the German market considered as the biggest European market of pharmaceutical products.

The company focuses on drugs for heart and cardiovascular diseases, for diseases of the central nervous system and for the urinary tract system. TAD Pharma offers 296 products of which 185 are earmarked for the domestic market and 111 for the foreign market. The company owns product registrations for 115 molecules. All the aforesaid perfectly supplements Krka's broad portfolio of existent products and products in development that came as a result of the vertically integrated business model.

With the respective acquisition Krka became the sole owner of TAD Pharma and accordingly owner of its business activities, equipment and property. The transaction included also 2.5 hectares of additional land that provides Krka the possibility to expand. The purchase price amounted to EUR 97 million.

The schedule below presents the established differences between the carrying amount and the fair value of the assets and liabilities of the taken-over company.

EUR thousand	Note	Preacquisition carrying amount	Adjustments to fair value	Recognised amounts after acquisition
Property, plant and equipment	12	6,729	1,623	8,352
Intangible assets	13	8,514	54,208	62,722
– registration documentation		6,666	9,807	16,473
– local customer list		0	376	376
– registration documentation in acquisition		0	1,998	1,998
– advance payment		1,848	0	1,848
– TAD trademark		0	42,027	42,027
Inventories		18,035	5,569	23,604
Receivables		13,133	0	13,133
Cash and cash equivalents		957	0	957
Loans and borrowings		-17,444	0	-17,444
Trade payables		-14,915	0	-14,915
Provisions		-4,935	215	-4,720
Deferred tax assets and liabilities	17	655	-17,622	-16,967
Net identifiable assets and liabilities together with allocation		**10,729**	**43,993**	**54,722**
Goodwill during takeover	13			42,278
Purchase price				**97,000**
Cash obtained during takeover				-957
Net cash flow				**96,043**

The difference that cannot be attributed neither to individual assets nor to liabilities (obtained through takeover) refers to goodwill recognised at acquisition and amounting to EUR 42,278 thousand. The goodwill of TAD Pharma rests upon its well-developed sales and marketing network, production and development capacities, and an experienced team all of which is considered foundation for expected synergy effects after a takeover.

TAD Pharma recorded as at the balance sheet date contingent liabilities in the amount of EUR 4,033 thousand, of which mostly refers to a bank guarantee for the payment received and to the registration documentation.

Cost of services relating to advisory services in connection with the TAD Pharma takeover were recorded in the total amount of EUR 142 thousand and are fully disclosed within the 2007 consolidated income statement.

The carrying amount of assets and liabilities of TAD Pharma prior to takeover is disclosed according to IFRS. The methods of determining the fair value of assets and liabilities taken over are outlined below.

Property, plant and equipment

Adjustment to fair value relates to land and buildings. The fair value of these assets equals the estimated value which these assets would have in an arm's length transaction wherein the parties each act knowledgeably and without compulsion. The market value of individual land and buildings is based on the market price of similar assets.

Intangible assets

Fair value of intangible assets was determined as follows:

- the fair value of the registration documentation was determined by applying the net present value method. The estimate was made on the basis of a 5-year forecast for each active substance; the discount rate of 9.64% was applied for the calculation;
- the fair value of the domestic customer list was determined by applying the multi-period-excess-earnings method. The estimate was made on the basis of a 5-year forecast; the discount rate of 4.48% was applied for the calculation;
- the TAD trademark was valued by applying the relief-from-royalty method; under this method the valuator must determine what arm's length royalty would likely have been charged had the owner of the trademark had to licence that assets from a third party. The royalty is assessed for each year of the remaining useful lives and is discounted to its present value. The estimate was made on the basis of a 5-year forecast; the calculation basis on the 8.14% discount rate whereas also a 1-percent increase was taken into consideration.

Inventories

Fair value of inventories was established for inventories of finished products and is defined at the expected wholesale value of inventories of finished products less selling expense, interest expense, cost of inventory write-off, and other possible general costs that occur while selling products.

The loss of company TAD Pharma in period after acquisition (15 November 2007) to the end of 2007 which was included in income statement was EUR 576 thousand.

Increasing the share in Golf Grad Otočec

Increase of Terme Krka’s share in Golf Grad Otočec from 49.71% in 2006 to 56.37% at the end of 2007 results from the capital increase amounting to EUR 613 thousand. The value of investment and share in the equity equals the value stated in the resolution adopted by the subsidiary’s General Meeting; the uncalled capital is stated at EUR 416 thousand.

7. Other operating income

EUR thousand	2007	2006
Reversal of non-current provisions, government grants and EU grants	392	365
Reversal of allowances for receivables	490	658
Profit from the sale of property, plant and equipment	787	982
Other operating income	2,547	1,559
Total other operating income	**4,216**	**3,564**

8. Employee benefits cost

EUR thousand	2007	2006
Gross wages and salaries and continued pay	140,187	121,664
Social security contributions and payroll tax	29,164	26,775
Other employee benefits cost	8,880	7,213
Termination pay and anniversary bonuses	3,644	3,762
Total employee benefits cost	**181,875**	**159,414**

Other employee benefits cost in the reporting period include the vacation bonus and travel allowances.

9. Other operating expenses

EUR thousand	2007	2006
Grants, assistance	2,608	2,239
Environmental levies	1,843	1,477
Other charges	5,824	2,244
Loss in the sale of property, plant and equipment	1,564	1,265
Allowance and inventory write-off	7,063	4,124
Impairments and receivable write-offs	1,199	1,242
Other costs	4,713	1,760
Total other operating expenses	**24,814**	**14,351**

In the income statement, other operating expenses were accounted for within 'Administrative expenses'.

10. Financial income and financial expenses

EUR thousand	2007	2006
Exchange differences	10,210	7,234
Interest income	410	733
Change in fair value of investments through profit or loss	1,793	1,656
Gain on the sale of securities	2,064	1,081
Income from derivative financial instruments	2,626	4,595
– inflows	2,369	2,404
– changes in fair value	257	2,191
Dividend income	252	201
Total financial income	**17,355**	**15,500**
Exchange differences	-18,315	-10,888
Interest expense	-4,109	-3,842
Change in fair value of investments through profit or loss	-1,694	-550
Income from derivative financial instruments	-302	-753
– outflows	-63	-586
– changes in fair value	-239	-167
Other financial expenses	-933	-1,206
Total financial expenses	**-25,353**	**-17,239**
Net financial income / expenses	**-7,998**	**-1,739**

11. Income tax expenses

EUR thousand	2007	2006
Income tax	44,366	42,972
Deferred tax	-2,285	-6,302
Total income tax	**42,081**	**36,670**
Profit before tax	174,934	148,756
Income tax calculated using the 23-percent tax rate (25-percent for 2006)	40,235	37,189
Tax exempt expenses	6,175	3,188
Tax incentives	-3,836	-5,987
Revenue decreasing the tax base	-1,231	-120
Revenue increasing the tax base	156	0
Effects of differences in tax rates and other items	582	2,400
Total income tax expenses	**42,081**	**36,670**

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

12. Property, plant and equipment (PPE)

EUR thousand	31 Dec 2007	31 Dec 2006
Property	25,234	22,641
Plant	263,249	251,023
Equipment	203,816	171,532
Investments in property, plant and equipment of foreign operations	4,696	108
PPE under construction	71,277	55,589
Advances for PPE	3,972	6,036
Total property, plant and equipment	**572,244**	**506,929**

The investment in the third phase of the Notol project in the amount of EUR 18,431 thousand which will be used to enlarge the packaging facility to enable the launch of new product lines, represents the major investment in 2007. The project is to be completed in 2008. The company invested EUR 8,999 thousand in the extension of the central weighing facilities and product storage facilities as well as the renovation of the existing raw materials storage facilities and EUR 6,390 thousand in the new section of the injection production plant.

Krka-Rus in the Russian Federation has purchased a new production and laboratory equipment worth EUR 4,055 thousand. Terme Krka Group completed renovation works in Otočec Castle, built an extension to the health centre at Strunjan, and started investment work at Hotel Kristal in Dolenjske Toplice, all totalling to EUR 6,056 thousand.

Movements of property, plant and equipment in 2007

EUR thousand	Property	Plant	Equipment	Investments in PPE of foreign operations	PPE under construction	Advances for PPE	Total
Cost at 1 Jan 2007	22,641	421,950	420,290	131	56,158	6,036	927,206
Increase due to acquisition	1,836	7,504	2,303	0	52	0	11,695
Additions	0	0	0	0	107,562	-1,792	105,770
Capitalisation – transfer from PPE under construction	911	22,945	62,985	4,592	-91,086	-493	-146
Disposals, deficits, surpluses	-158	-1,640	-9,681	0	0	0	-11,479
Transfers among assets, reclassifications	4	-14	211	0	-160	221	262
Cost at 31 Dec 2007	25,234	450,745	476,108	4,723	72,526	3,972	1,033,308
Accumulated depreciation at 1 Jan 2007	0	-170,927	-248,758	-23	-569	0	-420,277
Depreciation	0	-18,559	-32,716	-4	0	0	-51,279
Disposals, deficits, surpluses, other	0	1,873	9,346	0	-680	0	10,539
Transfers among assets, reclassifications	0	117	-164	0	0	0	-47
Accumulated depreciation at 31 Dec 2007	0	-187,496	-272,292	-27	-1,249	0	-461,064
Carrying amount at 1 Jan 2007	22,641	251,023	171,532	108	55,589	6,036	506,929
Carrying amount at 31 Dec 2007	25,234	263,249	203,816	4,696	71,277	3,972	572,244

Movements of property, plant and equipment in 2006

EUR thousand	Property	Plant	Equipment	Investments in PPE of foreign operations	PPE under construction	Advances for PPE	Total
Cost at 1 Jan 2006	21,567	376,202	370,130	131	65,447	4,159	837,638
Additions	0	0	0	0	96,633	3,885	100,518
Capitalisation – transfer from PPE under construction	1,131	47,878	58,921	0	-107,930	0	0
Disposals, deficits, surpluses	-57	-1,942	-8,943	0	0	0	-10,942
Transfers among assets, reclassifications	0	-191	182	0	2,008	-2,008	-9
Cost at 31 Dec 2006	22,641	421,950	420,290	131	56,158	6,036	927,206
Accumulated depreciation at 1 Jan 2006	0	-156,155	-229,989	-19	0	0	-386,163
Depreciation	0	-16,218	-26,811	-4	0	0	-43,033
Disposals, deficits, surpluses, other	0	1,444	8,035	0	-569	0	8,910
Transfers among assets, reclassifications	0	2	7	0	0	0	9
Accumulated depreciation at 31 Dec 2006	0	-170,927	-248,758	-23	-569	0	-420,277
Carrying amount at 1 Jan 2006	21,567	220,047	140,141	112	65,447	4,159	451,475
Carrying amount at 31 Dec 2006	22,641	251,023	171,532	108	55,589	6,036	506,929

Based on the contracts that had been signed in connection with the ongoing investments, the Group accounted for EUR 53,410 thousand of future liabilities resulting from acquisition of property, plant and equipment as at the balance sheet date.

13. Intangible assets (IA)

EUR thousand	31 Dec 2007	31 Dec 2006
Goodwill	42,278	0
R&D costs	2,784	2,847
Concessions, patents, licences, trademarks and similar rights	76,398	16,596
Intangible assets under construction	8,394	4,057
Total intangible assets	129,854	23,500

In 2007, the Group recorded goodwill from the acquisition of TAD Pharma which is included in the consolidated financial statements for the first time.

Concessions, patents, licences, trademarks and similar rights include the TAD trademark worth EUR 42,027 thousand, registration documentation and software.

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

Movements of intangible assets in 2007

EUR thousand	Goodwill	R&D cost	Concessions, patents, licences, trademarks and similar rights	IA under construction	Total
Cost at 1 Jan 2007	0	7,156	26,583	4,057	37,796
Increase due to acquisition	42,278	0	60,327	2,367	104,972
Additions	0	0	30	7,489	7,519
Transfer from IA under construction	0	1,584	5,741	-7,325	0
Disposals	0	-466	-33	0	-499
Transfers from property, plant and equipment	0	0	-247	-6	-253
Cost at 31 Dec 2007	42,278	8,274	92,401	6,582	149,535
Accumulated amortisation at 1 Jan 2007	0	-4,309	-9,987	0	-14,296
Amortisation	0	-1,186	-4,464	-15	-5,665
Disposals	0	1	33	0	34
Transfers from property, plant and equipment	0	4	242	0	246
Accumulated amortisation at 31 Dec 2007	0	-5,490	-14,176	-15	-19,681
Carrying amount at 1 Jan 2007	0	2,847	16,596	4,057	23,500
Carrying amount at 31 Dec 2007	42,278	2,784	78,225	6,567	129,854

Movements of intangible assets in 2006

EUR thousand	R&D cost	Concessions, patents, licences, trademarks and similar rights	IA under construction	Total
Cost at 1 Jan 2006	5,587	21,561	3,519	30,667
Additions	0	0	7,276	7,276
Transfer from IA under construction	1,739	5,020	-6,738	21
Disposals	-170	-7	0	-177
Transfers from property, plant and equipment	0	9	0	9
Cost at 31 Dec 2006	7,156	26,583	4,057	37,796
Accumulated amortisation at 1 Jan 2006	-3,068	-6,601	0	-9,669
Amortisation	-1,243	-3,428	0	-4,671
Disposals	2	51	0	53
Transfers from property, plant and equipment	0	-9	0	-9
Accumulated amortisation at 31 Dec 2006	-4,309	-9,987	0	-14,296
Carrying amount at 1 Jan 2006	2,519	14,960	3,519	20,998
Carrying amount at 31 Dec 2006	2,847	16,596	4,057	23,500

14. Investments in associates

The Group concluded the financial year without an associate. Terme Krka namely increased its share in the associate Golf Grad Otočec, d. o. o. to the total of 56.37%.

15. Loans

EUR thousand	31 Dec 2007	31 Dec 2006
Long-term loans	3,531	3,564
Short-term loans	1,510	1,095
Total loans	**5,041**	**4,659**

In conformity with internal acts the controlling company as well as some Group companies extended long-term loans to its employees. These loans are mainly used for housing. Loans bear the annual interest rate, which equals the contractually agreed rate set by the Minister of Finance in accordance with the Corporate Income Tax Act that defines the interest rate for related parties. The repayment period must not exceed 15 years.

16. Investments

EUR thousand	31 Dec 2007	31 Dec 2006
Non-current investments	**10,981**	**6,737**
– financial assets available for sale	10,721	6,477
– other non-current investments	260	260
Current investments, including derivatives	**2,936**	**22,972**
– instruments held for trading	538	11,890
– interest-bearing current investments	0	3,774
– derivatives	1,583	1,564
– other current investments	815	5,744
Total investments	**13,917**	**29,709**

Financial assets available for sale include EUR 1,582 thousand of investments in Slovenia and EUR 9,139 thousand of investments abroad.

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

The Group recorded a decrease in current investments by EUR 20,036 thousand compared to the previous period, which is mostly due to the financing of the acquisition of TAD Pharma.

Derivatives include options (EUR 910 thousand) and interest rate swaps (EUR 673 thousand). Other current investments comprise assets under management in the amount of EUR 496 thousand and Slovene mutual funds in the amount of EUR 315 thousand.

Movement of non-current investments

EUR thousand	Financial assets available for sale	Other non-current investments	Total
Balance at 1 Jan 2006	5,082	260	5,342
Increase	1	0	1
Change in fair value	1,394	0	1,394
Balance at 31 Dec 2006	6,477	260	6,737
Increase	25	0	25
Decrease	-10	0	-10
Change in fair value	4,229	0	4,229
Balance at 31 Dec 2007	10,721	260	10,981

17. Deferred tax assets and deferred tax liabilities

	Assets		Liabilities		Assets – liabilities	
EUR thousand	2007	2006	2007	2006	2007	2006
Investments, property, plant and equipment and intangible assets	186	678	18,264	1,038	-18,078	-360
Receivables and inventories	107	880	1,306	-30	-1,199	910
Provisions for lawsuits	19,177	16,832	0	0	19,177	16,832
Provisions for termination pay	10,025	10,528	-276	0	10,301	10,528
Tax effects of the transition to IFRS	3,192	2,922	556	3,017	2,636	-95
Total	32,687	31,840	19,850	4,025	12,837	27,815

EUR thousand	Balance at 1 Jan 2006	Recognised in profit or loss	Recognised in equity	Balance at 31 Dec 2006	Recognised in profit or loss	Recognised in equity	Attributable to acquisition of TAD Pharma	Balance at 31 Dec 2007
Intangible assets and property, plant and equipment	502	99	-87	514	-126	-63	-16,479	-16,154
Financial assets at fair value through profit and loss	-32	126	32	126	-126	0	0	0
Financial assets available for sale	-781	0	-258	-1,039	0	-885	0	-1,924
Derivatives	-18	38	18	38	-38	0	0	0
Inventories	551	644	-583	612	-641	38	-1,429	-1,420
Receivables	487	285	-474	298	-272	-61	256	221
Provisions for lawsuits	13,043	4,832	-1,043	16,832	2,345	0	0	19,177
Payables to employees	1,632	-214	9,110	10,528	358	-861	276	10,301
Other items – transition to IFRS	0	0	-2,914	-2,914	0	1,520	0	-1,394
Transfer of tax loss	3,365	493	-1,038	2,820	784	16	410	4,030
Total	18,749	6,303	2,763	27,815	2,284	-296	-16,966	12,837

18. Inventories

EUR thousand	31 Dec 2007	31 Dec 2006
Material	52,906	38,230
Work in progress	45,531	30,452
Products	58,824	48,282
Merchandise	20,221	2,008
Advances	146	269
Allowance and inventory write-off	-5,981	-3,316
Total inventories	**171,647**	**115,925**

Cost of material, including the changes in the value of products and work in progress accounted for within production cost of goods sold, amounted to EUR 127,194 thousand in 2007 and EUR 113,865 thousand in 2006.

The write down of inventories to net realisable value amounted to EUR 3,104 thousand (2006: EUR 824 thousand), whereas the write-off of inventories amounted to EUR 3,959 thousand (2006: EUR 3.300 thousand). The write down and write-off of inventories were recognised within other operating expenses (Note 9).

19. Trade and other receivables

EUR thousand	31 Dec 2007	31 Dec 2006
Short-term trade receivables	160,295	140,563
Other short-term receivables	19,539	13,328
Total receivables	**179,834**	**153,891**

In 2007 allowances for receivables and write-offs of receivables charged against the income statement amounted to EUR 1,199 thousand (2006: EUR 1,242 thousand).

SHORT-TERM TRADE RECEIVABLES

EUR thousand	Gross value	Allowances for doubtful and disputable receivables	Net value at 31 Dec 2007	Net value at 31 Dec 2006
Domestic customers	11,941	298	11,643	12,101
Foreign customers	152,082	3,430	148,652	128,462
Total trade receivables	**164,023**	**3,728**	**160,295**	**140,563**

Trade receivables are not secured.

Other short-term receivables

Receivables due from other entities refer mostly to receivables arising from VAT refund.

20. Cash and cash equivalents

EUR thousand	31 Dec 2007	31 Dec 2006
Cash in hand	230	664
Bank balances	15,554	9,735
Total cash and cash equivalents	15,784	10,399

21. Equity

Share capital

Share capital of the controlling company consists of 35,426,120 ordinary registered shares at par value of EUR 1.67. There is solely one class of shares, whereas the first and only issue of shares was carried out in 1995. Pursuant to the resolution of the 12th Annual Meeting dated 5 July 2007, the share capital amounting to SIT 14,170,448,000 was converted into euros by using the method defined in the first paragraph of Article 693 of the Companies Act (ZGD-1), and amounts to EUR 59,126,194.28. The difference in the amount of EUR 6,037.40 that arises in the conversion pursuant to the provision mentioned was transferred to capital reserves and the share capital was reduced by that amount.

At the beginning of September 2007, the controlling company carried out a 1:10 share-split based on the state of the shareholder register as at 31 August 2007.

Own shares

As at 31 December 2007 the controlling company recorded 1,626,620 own shares, their nominal value amounting to EUR 2,715 thousand, i.e. 4.6% of the share capital value. The number of own shares in this reporting period remained unchanged if compared to 2006.

Reserves

The Group's reserves comprise the share premium, legal and statutory reserves, and fair value reserves. None of the aforesaid reserves may be used for payout of dividends and other equity interests.

In 2007, reserves were increased by EUR 6 thousand due to the conversion of Slovenian tolars to euros (refer to Note 'Share capital'). With respect to legal possibilities, the management of the controlling company increased statutory reserves in the reporting period by EUR 2,500 thousand. Fair value reserves record an increase of EUR 3,294 thousand, i.e. the amount of the positive change in fair value of non-current investments. 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).

Retained earnings

Retained earnings have increased based on the profit for the period recorded by the majority shareholder in the amount of EUR 132,552 thousand. The decrease, on the other hand, is a result of allocation of accumulated profit to dividend payout (EUR 27,040 thousand) as confirmed by the 12th Annual Meeting held on 5 July 2007, of an additional formation of statutory reserves (EUR 2,500 thousand), of an adjustment of retained earnings (EUR 193 thousand), and net expenses recognised directly in retained earnings (EUR 733 thousand) which arise from a decrease in deferred tax assets.

The amount of the dividend payout, shown in the cash flow statement, differs from the figure, confirmed by the annual meeting and included in the statement of changes in equity, by the amount of change between the opening and closing balance of liabilities for dividend payout.

Dividends per share

The gross dividends per share amounted to EUR 0.80 per share in 2007 and to EUR 0.69 per share in 2006. For comparability reasons, the 1:10 ratio of the share-split carried out at the beginning of September 2007 was accounted for in the calculation of the dividends per share for both years.

Minority interest

Minority interest includes shares of minority stockholders in the subsidiary of Terme Krka.

22. Earnings per share

Basic earnings per share amounted to EUR 3.92 and showed an increase of 19% compared to the previous year's result (2006: EUR 3.30). The calculation of earnings per share took account of the net profit for the period attributable to the majority shareholders. The number of shares after the 1:10 share-split from the beginning of September 2007 was considered in the calculation for both years. 33,799,500 shares were included in the calculation (1,626,620 own shares were not taken into account), whereas the same number of shares was recorded in 2006 and 2007. All shares issued by the controlling company are ordinary shares, hence the diluted earnings per share ratio was equal to the basic earnings per share.

23. Borrowings

EUR thousand	31 Dec 2007	31 Dec 2006
Long-term borrowings	87,183	34,584
– borrowings from domestic banks	87,183	34,584
Short-term borrowings	62,528	48,769
– borrowings from domestic banks	53,094	24,838
– borrowings from foreign banks	320	11,756
– borrowings from other entities	7,824	11,366
– interest payable	1,290	809
Total borrowings	149,711	83,353

Long-term borrowings are denominated in EUR 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 and current assets. In 2007, the Group raised two new long-term borrowings in the total amount of EUR 104,000 thousand in connection with the acquisition of TAD Pharma, as well as for the purpose of financing the controlling company's operations abroad and need for current assets.

Long-term borrowings obtained from banks are neither secured by mortgages nor by bank guarantees. In previous periods, the Group hedged against possible interest rate changes by using interest rate swaps. One fifth of long-term borrowings from banks is currently secured by interest rate swaps.

The balance of short-term borrowings includes repayments of long-term borrowings that shall mature in 2008 in the amount of EUR 48,780 thousand.

24. Provisions

EUR thousand	Balance at 31 Dec 2006	Formation	Utilisation	Reversal	Balance at 31 Dec 2007
Provisions for termination pay and anniversary bonuses	45,775	3,644	1,999	12	47,408
Other provisions:	76,779	19,637	14	169	96,233
– provisions for lawsuits	76,254	14,103	1	0	90,356
– provisions for ecological restoration	360	0	29	169	162
– other provisions	165	5,534	-16	0	5,715
Total provisions	**122,554**	**23,281**	**2,013**	**181**	**143,641**

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 EUR 14,103 thousand, in particular to the alleged patent infringement referring to the atorvastatin. As for the income statement, the newly formed and utilised provisions are included among other operating expenses or other operating income. Provisions for lawsuits are not discounted due to the lawsuits' nature.

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

- discount rate of 5.85% p.a. that grounds on the profitability of 10-year corporate bonds of high credit rating in the euro-zone;
- valid amounts of termination pays and anniversary bonuses as defined by internal acts of individual companies or local regulations;
- employee turnover depending in particular upon the employees' age;
- mortality level calculated on the basis of last mortality tables available;
- increase in wages and salaries attributable to inflation rate and career promotion.

The 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 and no material deviations from the assumptions applied are expected in the near future. The projected unit method was applied in the calculation. Actuarial deficits and/or surpluses that have occurred in connection with termination pays and retirement benefits are recognised in the income statement either as expense or income.

25. Government grants and EU grants

EUR thousand	Balance at 31 Dec 2006	Grants received	Elimination of grants	Balance at 31 Dec 2007
Grants for the subsidiary Krka-Rus	10	0	-10	0
Grants for the plant Beta in Šentjernej	302	0	-44	258
Assets for the health resorts Dolenjske and Šmarješke Toplice	2,329	0	-143	2,186
Grants by the European Regional Development Fund	26	17	-4	39
Free receipt of property, plant and equipment	111	516	-11	616
Total grants received	**2,778**	**533**	**-212**	**3,099**

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

26. Trade payables

EUR thousand	31 Dec 2007	31 Dec 2006
Payables to domestic suppliers	36,633	35,703
Payables to foreign suppliers	41,145	24,719
Payables from advances	684	466
Total trade payables	**78,462**	**60,888**

27. Other current liabilities

EUR thousand	31 Dec 2007	31 Dec 2006
Accrued contractual discounts on products sold to other customers	14,263	7,416
Payables to employees – gross wages, other charges	20,966	17,241
Other	6,901	2,948
Total other current liabilities	**42,130**	**27,605**

28. Contingent liabilities

EUR thousand	31 Dec 2007	31 Dec 2006
Guarantees issued	5,290	1,170
Other	952	670
Total contingent liabilities	**6,242**	**1,840**

29. Financial instruments

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

Credit risk

Credit risk is hedged by the assessment of the customers' credit rating as well as by debt collection procedures. No major debt write-offs due to customers' failures of payments were recorded in 2007.

Credit risk exposure

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

EUR thousand	Note	31 Dec 2007	31 Dec 2006
Financial assets available for sale	16	10,721	6,477
Financial assets at fair value through profit or loss		1,353	21,408
Loans	15	5,041	4,659
Receivables	19	179,834	153,891
– thereof trade receivables		160,295	140,563
Cash and cash equivalents	20	15,784	10,399
Interest bearing derivatives (assets)	16	673	723
Foreign currency derivatives (assets)	16	910	841
Total		**214,316**	**198,398**

Majority of credit risk refers to receivables. Their maximum exposure to credit risk is shown in terms of geographic regions:

EUR thousand	31 Dec 2007	31 Dec 2006
Slovenia	21,514	20,777
South-East Europe	47,737	43,026
Eastern Europe	48,095	49,373
Central Europe	24,968	26,234
Western Europe and overseas markets	37,520	14,481
Total	**179,834**	**153,891**

Short-term trade receivables are not secured.

Ageing structure of receivables as at the balance sheet date

EUR thousand	Gross value 2007	Allowance 2007	Gross value 2006	Allowance 2006
Undue receivables	143,001	499	126,947	180
Receivables due up to 20 days	18,590	183	9,984	-2
Receivables due from 21 to 50 days	10,133	208	6,482	78
Receivables due from 51 to 180 days	8,205	338	10,006	570
Receivables due over 180 days	3,633	2,500	4,656	3,358
Total	183,562	3,728	158,075	4,184

Movement of allowances for receivables

in EUR thousand	2007	2006
Balance at 1 January	4,185	4,951
Formation of allowance	1,652	988
Reversal of allowance	-2,282	-1,644
Effect by exchange differences	-24	-110
Increase by the amount of newly included companies	197	0
Balance at 31 December	3,728	4,185

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 2007.

Maturity of financial liabilities

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

Maturity of financial liabilities as at 31 December 2007

		Contractual cash flows				
EUR thousand	Carrying amount	Total	Up to 6 months	Between 6 and 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Long-term borrowings from banks	135,963	151,613	40,010	14,617	26,104	70,882
Short-term borrowings from banks	4,634	4,773	4,773	0	0	0
Other short-term borrowings	7,824	8,211	5,121	3,090	0	0
Trade and other payables	124,204	124,204	124,204	0	0	0
Derivative financial liabilities						
Other futures contracts for securing inflows	910	916	916	0	0	0
Total	273,535	289,717	175,024	17,707	26,104	70,882

MATURITY OF FINANCIAL LIABILITIES AS AT 31 DECEMBER 2006

EUR thousand	Carrying amount	Contractual cash flows				
		Total	Up to 6 months	Between 6 and 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Long-term borrowings from banks	47,962	53,238	7,875	7,763	13,014	24,586
Short-term borrowings from banks	23,216	24,181	24,181	0	0	0
Other short-term borrowings	11,366	11,565	11,315	250	0	0
Trade and other payables	95,513	95,513	95,513	0	0	0
Derivative financial liabilities						
Other futures contracts for securing inflows	841	841	841	0	0	0
Total	**178,898**	**185,338**	**139,725**	**8,013**	**13,014**	**24,586**

Foreign currency risk

Exposure to foreign currency risk

EUR thousand	31 December 2007				
	EUR	USD	PLN	HRK	RUB
Trade and other receivables	57,016	45,444	19,814	26,675	22,682
Borrowings from banks	-145,702	-2,719	0	0	0
Trade payables	-61,856	-9,998	-2,266	-1,155	-569
Balance sheet exposure (gross)	**-150,542**	**32,727**	**17,548**	**25,520**	**22,113**
Estimated sales	550,000	99,178	110,199	49,926	73,167
Estimated purchases	-460,000	-78,120	-8,334	0	0
Exposure (gross)	**90,000**	**21,058**	**101,865**	**49,926**	**73,167**
Net exposure	**-60,542**	**53,785**	**119,413**	**75,446**	**95,280**

EUR thousand	31 December 2006				
	EUR	USD	PLN	HRK	RUB
Trade and other receivables	36,668	39,058	22,875	28,014	22,239
Borrowings from banks	-75,829	-6,715	0	0	0
Trade payables	-49,066	-7,297	-2,098	-188	-456
Balance sheet exposure (gross)	**-88,227**	**25,046**	**20,777**	**27,826**	**21,783**
Estimated sales	367,388	240,617	89,325	44,287	12,889
Estimated purchases	-386,320	-73,386	-1,804	-23	0
Exposure (gross)	**-18,932**	**167,231**	**87,521**	**44,264**	**12,889**
Net exposure	**-107,159**	**192,277**	**108,298**	**72,090**	**34,672**

Estimated sales and purchases for 2008 ground on the plan of Group's operations for 2008 while the estimated sales and purchases for 2006 include the actual value of Group's sales and purchases made. With Krka planning to change the billing system in 2008, Eastern Europe in particular, the US-dollar invoicing system will be replaced by the EUR invoicing system. Accordingly, the open position denominated in US dollar will significantly decrease compared to 2007.

Significant foreign exchange rates

	Average exchange rate*		Final exchange rate*	
	2007	2006	2007	2006
USD	1.37	1.25	1.47	1.32
PLN	3.78	3.89	3.59	3.83
HRK	7.34	7.32	7.33	7.34
RUB	35.02	34.13	35.99	34.68

* number of local currency's units for 1 euro

Sensitivity analysis

A 1 percent increase of the euro value in respect of currencies stated as at 31 December would increase (decrease) the net profit referring to values stated below. The analysis assumes that other remaining elements, interest rates in particular remain unchanged. The 2006 analysis was prepared on the same basis. The Group recorded no impact on the equity since futures contracts are not used as hedge against the foreign currency risk.

	Impact on the profit or loss	
EUR thousand	2007	2006
USD	-533	-1,904
PLN	-1,182	-1,072
HRK	-747	-714
RUB	-943	-343

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

Interest rate risk

In 2004, three non-current loans (two of them denominated in US dollars, one in EUR) were hedged by using interest rate swaps. No further hedging instruments were applied in 2007. As at 31 December 2007, the contract value of the hedged item amounted to EUR 27,156 thousand, and the Group's interest rate swaps recorded at fair value amounted to EUR 673 thousand.

Exposure to interest rate risk

EUR thousand	2007	2006
Financial instruments at fixed interest rate	**-24,869**	**-12,091**
Financial assets	3,300	3,256
Financial liabilities	-28,169	-15,347
Financial instruments at variable interest rate	**-120,021**	**-66,888**
Financial assets	231	308
Financial liabilities	-120,252	-67,196

Analysis of sensitivity of the financial instrument's fair value by applying the fixed interest rate

The Group holds no derivatives with reference to fixed interest rate, recognised at fair value through profit or loss, and no derivatives designated as a fair value hedge. Thus, a change of the interest rate as at the balance sheet date would have no impact on the profit or loss.

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

Change of the interest rate by 100 basis points on the date of reporting would increase (decrease) the net profit or loss referring to values stated below. The analysis assumes that all elements, foreign exchange rate in particular remain unchanged; the 2006 analysis was prepared on the same basis.

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

EUR thousand	Increase by 100 basis points	Decrease by 100 basis points
Financial instruments at variable interest rate	-1,200	1,200
Contract on the interest rate swap	760	-760
Net variability of cash flow	**-440**	**440**

IMPACT OF THE POSSIBLE INTEREST RATE CHANGE ON THE PROFIT OR LOSS AS AT 31 DECEMBER 2006

EUR thousand	Increase by 100 basis points	Decrease by 100 basis points
Financial instruments at variable interest rate	-669	669
Contract on the interest rate swap	1,139	-1,143
Net variability of cash flow	**470**	**-474**

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

LONG-TERM BORROWINGS

EUR thousand	31 Dec 2007	31 Dec 2006
Long-term borrowings	135,963	47,962
– short-term portion of long-term borrowings	48,780	13,378
Average balance of long-term borrowings	91,963	58,005
Interest paid (financial year)	2,657	2,172
Average cost of long-term borrowings (financial year)	2.89%	3.74%
Contracted to mature in three years or less	6%	18%
Contracted to mature in more than three years	94%	82%
Currency structure of long-term borrowings		
- US dollar	2%	14%
- euro	98%	84%
- Slovenian tolar	0%	2%
Structure of long-term borrowings in terms of interest rates		
- variable	100%	100%

Short-term borrowings

EUR thousand	31 Dec 2007	31 Dec 2006
Short-term borrowings including short-term portion of long-term borrowings:	61,238	47,960
- from banks	53,414	36,594
- from other entities	7,824	11,366
Short-term borrowings	12,458	34,582
Average balance of short-term borrowings (financial year)	23,520	26,337
Interest paid (financial year)	1,285	1,206
Other costs of raising short-term borrowings	6	3
Average cost of short-term borrowings (financial year)	5.49%	4.59%
Currency structure of short-term borrowings		
- euro	100%	68%
- Slovenian tolar	0%	32%
Structure of short-term borrowings in terms of interest rates		
- variable	54%	68%
- fixed	46%	32%

Fair value

	Carrying amount	Fair value	Carrying amount	Fair value
EUR thousand	2007	2007	2006	2006
Long-term loans	3,531	3,531	3,564	3,564
Non-current investments	10,981	10,981	6,737	6,737
– shares and interests	10,721	10,721	6,477	6,477
– other non-current investments	260	260	260	260
Short-term loans	1,510	1,510	1,095	1,095
Current investments	1,353	1,353	21,407	21,407
– instruments held for trading	538	538	11,890	11,890
– interest-bearing current investments	0	0	3,774	3,774
– other current investments	815	815	5,743	5,743
Trade and other receivables	179,834	179,834	153,891	153,891
Cash and cash equivalents	15,784	15,784	10,399	10,399
Interest bearing derivatives	673	673	723	723
– assets	673	673	723	723
Foreign currency derivatives	910	910	841	841
– assets	910	910	841	841
Borrowings	-149,711	-139,560	-83,353	-82,881
Trade and other payables	-78,462	-78,462	-60,888	-60,888
Total	**-13,597**	**-3,446**	**54,416**	**54,888**

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.

Options, futures contracts and interest rate swaps

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

Financial assets available for sale

If the shares are listed on the stock exchange market, their fair value equals 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 was accounted for by applying the discounted cash flow of the principal and the interest. The government securities' profitability in Europe for the period of two years was taken into account for defining the discounted interest rate, which was illustrated in a report prepared by Abanka in relation to the situation on the financial markets as at 31 December 2007. The yield to maturity referring to these papers was set at 3.997%. 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.

30. Transactions with related parties

Data on groups of persons

As at the year-end, the members of the Management Board of the Krka Company held 58,990 of shares in the Krka Company, representing a 0.167% of the total equity, and the Managing Directors of subsidiaries held 7,655 of shares or 0.022% of the total equity. A questionnaire on related entities is completed by the members of the Management Board and other management staff on a yearly basis, which is afterwards used by the Group to check the occurrence of any other business relations between every single subsidiary and the employees. No such business relations were recorded in 2007.

Emoluments of groups of persons in 2007

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

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

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

Loans granted to groups of persons

EUR thousand	Loan balance at 31 Dec 2007	Repayments in 2007
Members of the Management Board	14	4
Members of the Supervisory Board / Boards of Directors (employee representatives)	1	1
Persons employed under individual employment contracts	353	87
Total loans to groups of persons	**368**	**92**

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

31. Group profile

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

	Ownership share 31 Dec 2007	Share capital	Currency	Number of employees at 31 Dec 2007	Number of employees at 31 Dec 2006
Controlling company					
KRKA, d. d., Novo mesto	100%	59,126,194	EUR	4891	4272
Subsidiaries					
Terme Krka, d. o. o., Novo mesto	100%	14,753,239	EUR	646	630
KRKA-FARMA d. o. o., Zagreb, Croatia	100%	143,027,200	HRK	141	115
KRKA-FARMA, d. o. o., Novi Sad, Serbia	100%	111,080	RSD	9	9
KRKA-FARMA DOOEL, Skopje, Macedonia	100%	49,060,618	MKD	25	23
OOO KRKA-RUS, Istra, Russian Federation	100%	1,111,374,765	RUB	105	83
OOO KRKA FARMA, Sergiev Posad, Russian Federation	100%	3,874,800	RUB	24	17
KRKA-Polska, Sp. z o. o., Warsaw, Poland	100%	17,490,000	PLN	649	507
KRKA Magyarország Kft, Budapest, Hungary	100%	12,600,000	HUF	101	98
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	5
KRKA Aussenhandels GmbH, Munich, Germany*	100%	255,646	EUR	0	0
KRKA PHARMA GmbH, Frankfurt, Germany*	100%	25,000	EUR	0	
KRKA FARMACÉUTICA, Unipessoal Lda., Estoril, Portugal*	100%	10,000	EUR	13	
KRKA USA, LLC, Delaware, USA*	100%	10,000	USD	0	
TAD Pharma GmbH, Cuxhaven, Germany*	100%	6,650,000	EUR	168	

* companies were established or taken over in 2007, hence no data on the number of employees is provided for 2006

Subsidiary Terme Krka holds shares in the company Terme Krka – Strunjan, d. o. o. (51%) and in Golf Grad Otočec, d. o. o. (56.37%).

EDUCATIONAL STRUCTURE OF EMPLOYEES IN THE GROUP

	2007		2006	
	Headcount	Share (in %)	Headcount	Share (in %)
PhD	63	1.0	56	1.0
MSc	166	2.7	156	2.8
University education	2720	43.8	2232	40.6
Higher professional education	371	6.0	266	4.8
Vocational college education	226	3.6	214	3.9
Secondary school education	1214	19.6	1120	20.4
Skilled workers	1232	19.8	1202	21.9
Unskilled workers	217	3.5	248	4.5
Total (average for the period)	**6209**	**100.0**	**5494**	**100.0**

32. Transactions with audit firms

The annual service fee for audit services amounted to EUR 326 thousand. In addition to audit services, some of the said companies provided also tax advisory services, which amounted to EUR 58 thousand.

33. Events after the balance sheet date

The subsidiaries KRKA ČR, s. r. o. in the Czech Republic and KRKA Slovensko, s. r. o. in Slovakia, both 100%-owned by Krka, started operations in January 2008. The Slovakian company is new, while the company in the Czech Republic was previously dormant.

At the start of the year 2008 work began to merge KRKA Aussenhandels GmbH, Munich and KRKA PHARMA GmbH, Frankfurt with TAD Pharma. The companies will be deleted from the court register of companies, and TAD Pharma will take over all their assets, capital, rights and obligations.

On 1 February 2008 Ljubljana District Court issued a temporary injunction against Krka, prohibiting it from producing and marketing the pharmaceutical Zolrix® or any other product containing the active ingredient olanzapine. In doing so, the court upheld the motion filed by the company Eli Lilly Company Limited, Hampshire, UK, for a temporary injunction on production and sales, before the court adjudicated on whether Krka had violated Eli Lilly's patent or not.

On 10 March 2008 we also received a lawsuit filed by Eli Lilly at the Ljubljana District Court, which alleged that Krka's production and sale of the Zolrix® product was breaching Eli Lilly's patent. We are sure we have sound arguments that can prove that we are not violating this patent, so we expect the court to reject the case. In 2007 sales of Zolrix® in Slovenia were worth less than EUR 100,000.

The High Court in Ljubljana rejected an appeal by Merck Frosst Canada Limited against a resolution of the Ljubljana District Court of 17 October 2007 rejecting a motion Merck Frosst had filed for a temporary injunction prohibiting Krka, d. d., Novo mesto and Salus, d.d., Ljubljana from producing, sales, offering for sale, marketing and importing the pharmaceutical product Monkasta® or any other product containing the active ingredient montelukast. Salus, d.d., Ljubljana markets the Monkasta® product produced by Krka, d. d., Novo mesto.

Events stated afore have had no impact on the 2007 financial statements.

Auditor's report

KPMG

Independent Auditor's Report

To the Shareholders 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 2007, 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 2007, the result of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted 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
Director

Ljubljana, 20 March 2008

KPMG Slovenija, d.o.o.
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Financial statements of Krka, d. d., Novo mesto

BALANCE SHEET

EUR thousand	Note	31 Dec 2007	31 Dec 2006
Assets			
Property, plant and equipment	11	422,891	377,442
Intangible assets	12	24,466	22,400
Investments in subsidiaries	13	218,178	121,513
Deferred tax assets	16	28,653	27,648
Long-term loans	14	6,936	5,324
Non-current investments	15	10,773	6,529
Other non-current assets		366	178
Total non-current assets		**712,263**	**561,034**
Inventories	17	127,276	99,480
Trade and other receivables	18	188,872	157,484
Short-term loans	14	23,575	9,173
Current investments, including derivatives	15	2,932	22,617
Cash and cash equivalents	19	2,340	4,498
Total current assets		**344,995**	**293,252**
Total assets		**1,057,258**	**854,286**
Equity			
Share capital	20	59,126	59,132
Own shares	20	-19,489	-19,489
Reserves	20	156,990	151,140
Retained earnings	20	475,383	379,135
Total equity		**672,010**	**569,918**
Liabilities			
Long-term borrowings	22	83,200	29,143
Provisions	23	131,994	116,806
Government grants and EU grants	24	913	448
Deferred tax liabilities	16	3,319	3,954
Total non-current liabilities		**219,426**	**150,351**
Trade payables	25	67,542	56,304
Short-term borrowings	22	65,747	47,105
Income tax liabilities		2,132	6,698
Other current liabilities	26	30,401	23,910
Total current liabilities		**165,822**	**134,017**
Total liabilities		**385,248**	**284,368**
Total equity and liabilities		**1,057,258**	**854,286**

Income statement

EUR thousand	Note	2007	2006
Sales revenues	5	686,729	586,102
Production cost of goods sold		-241,052	-213,248
Gross profit		**445,677**	**372,854**
Other operating income	6	1,328	2,000
Sales and marketing		-174,467	-133,943
R&D costs		-58,300	-51,764
Administrative expenses		-46,155	-42,182
Result from operating activities		**168,083**	**146,965**
Financial income	9	16,360	14,779
Financial expenses	9	-20,245	-14,494
Net financial income / expenses		**-3,885**	**285**
Profit before tax		**164,198**	**147,250**
Income tax expense	10	-37,677	-34,223
Profit for the period		**126,521**	**113,027**
Earnings per share (in EUR)	**21**	**3.74**	**3.34**
Diluted earnings per share (in EUR)	**21**	**3.74**	**3.34**

Statement of changes in equity

EUR thousand	Called capital	Own shares	Reserves: Share premium	Reserves: Legal reserves	Reserves: Statutory reserves	Reserves: Fair value reserves	Retained earnings: Other revenue reserves	Retained earnings: Net profit for the period	Retained earnings: Net profit carried forward	Total equity
Balance at 1 Jan 2006	59,132	-19,489	120,986	14,990	9,598	2,344	225,254	59,593	5,190	477,598
Entry of net profit for the period	0	0	0	0	0	0	0	113,027	0	113,027
Formation of statutory reserves	0	0	0	0	2,086	0	0	-2,086	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board	0	0	0	0	0	0	20,030	-20,030	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	0	-59,593	59,593	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	0	30,512	0	-30,512	0
Dividends paid	0	0	0	0	0	0	0	0	-23,499	-23,499
Changes in the fair value of financial assets available for sale	0	0	0	0	0	1,136	0	0	0	1,136
Tax effects of the transition and adjustment to IFRS	0	0	0	0	0	0	0	0	1,378	1,378
Refund of default interest that had been over-charged by the tax office	0	0	0	0	0	0	0	0	278	278
Balance at 31 Dec 2006	59,132	-19,489	120,986	14,990	11,684	3,480	275,796	90,911	12,428	569,918
Balance at 1 Jan 2007	59,132	-19,489	120,986	14,990	11,684	3,480	275,796	90,911	12,428	569,918
Entry of net profit for the period	0	0	0	0	0	0	0	126,521	0	126,521
Formation of statutory reserves	0	0	0	0	2,500	0	0	-2,500	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board	0	0	0	0	0	0	43,000	-43,000	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	0	-90,911	90,911	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	-6	0	6	0	0	0	38,149	0	-38,149	0
Dividends paid	0	0	0	0	0	0	0	0	-27,040	-27,040
Changes in the fair value of financial assets available for sale	0	0	0	0	0	3,344	0	0	0	3,344
Refund of default interest that had been over-charged by the tax office	0	0	0	0	0	0	0	0	-733	-733
Balance at 31 Dec 2007	59,126	-19,489	120,992	14,990	14,184	6,824	356,945	81,021	37,417	672,010

Cash flow statement

EUR thousand	Note	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		126,521	113,027
Adjustments for:		79,603	68,429
– amortisation / depreciation		44,383	36,193
– foreign exchange gain		-1,859	-1,507
– foreign exchange loss		3,905	4,782
– investment income		-12,698	-11,637
– investment expense		4,466	2,978
– interest expense and other financial expense		3,729	3,119
– income tax		37,677	34,223
– other		0	278
Operating profit before changes in net operating current assets and provisions		206,124	181,456
Change in trade receivables		-32,021	-20,087
Change in inventories		-27,796	12,701
Change in operating debts (liabilities)		11,325	3,392
Change in provisions		15,188	22,110
Change in government grants and EU grants received		464	83
Change in other current liabilities		6,446	-4,072
Income taxes paid		-45,501	-63,170
Cash generated from operations		134,229	132,413
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		756	901
Proceeds from sale of current investments		1,263	1,014
Dividends received		216	201
Proportionate profit of subsidiaries		4,400	2,027
Proceeds from sale of property, plant and equipment		907	1,176
Sale of subsidiary		56	0
Purchase of intangible assets	12	-7,291	-6,459
Purchase of property, plant and equipment	11	-86,360	-84,822
Acquisition of subsidiaries and capital increase	13	-96,857	-6,501
Given long-term loans	14	-3,389	-1,557
Proceeds from repayment of long-term loans		1,506	1,646
Acquisition of non-current investments		-163	-141
Proceeds from sale of non-current investments		3	0
Acquisition of current investments		-41,121	-32,344
Proceeds from sale of current investments and repayment of short-term loans		45,518	18,946
Payments in connection with derivative financial instruments		-63	-586
Proceeds from derivative financial instruments		2,164	2,403
Net cash used in investing activities		-178,455	-104,096
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		-3,145	-3,011
Repayment of long-term borrowings		-12,913	-17,084
Proceeds from long-term borrowings		104,000	0
Repayment of short-term borrowings		-318,218	-147,084
Proceeds from short-term borrowings		299,559	164,029
Dividends paid		-26,993	-23,468
Net cash used in financing activities		42,290	-26,618
Net increase in cash and cash equivalents		-1,936	1,699
Cash and cash equivalents at beginning of period		4,498	3,166
Effect of exchange rate fluctuations on cash held		-222	-367
Net cash and cash equivalents at end of period		2,340	4,498

Notes to the financial statements

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

1. Basis of preparation

Statement of compliance

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

The financial statements of the Company were approved by the Management Board on 18 February 2008.

Basis of measurement

The financial statements have been prepared on the historical cost basis, with the exception of derivative financial instruments, financial instruments at fair value through profit or loss and financial assets available for sale, where the fair value has been taken into account. Methods applied in the measurement of fair value are presented in Note 3.

Functional and reporting currency

The financial statements are presented in euro, which is the Company's functional currency. All financial information presented in euro has been rounded to the nearest thousand.

The use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information on significant estimates about uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is presented in the following notes:
- Note 23 – measurement of defined benefit obligations,
- Note 23 – provisions for lawsuits and contingent liabilities,
- Note 28 – valuation of financial instruments.

2. Significant accounting policies

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

The comparable data are in accordance with the information referring to the current financial year. Where necessary, they were adjusted so as to comply with the information referring to the current financial year.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to euro (i.e. the Company's functional currency) at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to euro at the exchange rate at that date. Non-monetary assets and liabilities initially denominated in foreign currencies are retranslated to euro at the exchange rate effective at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are 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, a financial liability designated as a hedge, or qualifying cash flow hedges, which are recognised directly in equity.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value. With instruments not recognised at fair value through profit or loss, fair value is increased by any directly attributable transaction costs associated with the instrument's purchase or issue. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

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

Available-for-sale financial assets

The Company's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value. Changes in fair value are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss. Impairment losses and foreign exchange gains and losses on available-for-sale monetary items are recognised directly in profit or loss.

Investments at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value and in accordance with the Company's investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Receivables and loans

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

Derivative financial instruments

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

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

Economic hedges

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

Investments in subsidiaries

Investments made in equity of subsidiaries included in consolidated financial statements are valued at cost. Participation in the profit of subsidiary is recognised in the income statement of the controlling company when the latter retains the right to profit distribution. If the investment is required to be impaired due to subsidiary's loss, the amount of loss due to impairment is measured as a difference between the carrying amount and the present value of expected future cash flows.

Share capital

Repurchase of share capital

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

Dividends

Dividends are recognised as a liability in the period in which they are declared by the Annual Meeting.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (see accounting policy 'Impairment'). The cost of property, plant and equipment as at 1 January 2004, the date of transition to IFRS, is determined by reference to its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other directly attributable cost of preparing the asset for its intended use, and (if applicable) costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

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

Subsequent costs

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

Depreciation

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

The estimated useful lives are as follows:

- for buildings 15 to 60 years,
- for plant and equipment 2 to 20 years,
- for furniture 5 years,
- for computer equipment 4 to 6 years,
- for means of transportation 5 to 15 years.

Intangible assets

Research and development

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 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 (except for goodwill, trademarks and the customer list) from the date that they are available for use.

The estimated useful lives are as follows:
- for recognised development costs (registration documentation) 10 years,
- for software 2 to 10 years,
- for other intangible assets 10 years.

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, such as: direct labour, direct cost of depreciation, direct cost of services, energy, maintenance and quality management. Inventories of work in progress and finished products are carried at 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 are stated at the lower of cost and net realisable value.

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

Non-financial assets

The carrying amounts of the Company's non-financial assets (except for inventories and deferred tax liabilities) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in the previous periods.

Long-term employee benefits

Provisions for 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 5.85% and represents the return on 10-year corporate bonds with a high credit rating in the euro-zone. The calculation is performed by the use of the projected unit credit method. All actuarial gains and losses are recognised upon accrual in the profit or loss.

Provisions

A provision is recognised if, as a result of a past event, the 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 referring to alleged patent infringements. The eligibility of provisions formed in terms of the lawsuit's favourable or unfavourable outcome is assessed on an annual basis. The amounts of provisions are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated potential amount, if the indemnification claim is not yet disclosed.

Sales revenues

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

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

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

Government grants

Other government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Company will comply with the conditions associated with the grant. Grants that compensate the Company for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Company for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

Financial income and expenses

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

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

Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. The amount of deferred tax bases on the expected way of settling the carrying amount of assets and liabilities, using tax rates enacted at the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Earnings per share

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

Segment reporting

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

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

Geographical segments include following: the European Union, South-East Europe and Eastern Europe. Within the structure of business segments, the share of human health products represents more than 90% of the Company's sale in terms of value.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related revenue, loans and borrowings and related expenses, corporate assets and head office expenses, liabilities related to provisions for lawsuits, and income tax assets and liabilities.

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

New standards and interpretations not yet adopted

The list below presents the new standards, amendments to standards and interpretations that are not yet effective for the year ended 31 December 2007, and have thus not been applied in preparing the financial statements.

IFRS 8 Operating segments

The segment reporting shall introduce the so-called core principal that the Company will have to take into account during the preparation of the 2009 financial statements. Currently the Company presents segment information in respect of its geographical and business segments (refer to Note 5).

IAS 23 Borrowing costs

Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Company's 2009 financial statements and will constitute a change in accounting policy for the Company. In accordance with the transitional provisions the Company will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.

FRIC 11 IFRS 2 Group and Treasury Share Transactions

It requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Company's 2008 financial statements, with retrospective application required. It is not expected to have any impact on the financial statements.

IFRIC 12 Service Concession Arrangements

It provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Company's 2008 financial statements, is not expected to have any effect on the financial statements.

IFRIC 13 Customer Loyalty Programmes

It addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Company's 2009 financial statements, is not expected to have any impact on the financial statements.

IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

It clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14, which becomes mandatory for the Company's 2008 financial statements, is not expected to have any impact on the financial statements.

3. Determination of fair values

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

Investments in equity 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.

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 2007 and 31 December 2006, the income statement for the year that ended 31 December 2007, as well as additional data required for the adjustment of inflows and outflows.

4. Financial risk management

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

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

The Company monitors the risks systematically and in connection with financial risks applies also adequate quantitative methods for studying the exposure to and size of possible damage. Since much of attention is given to risk management, the Company successfully decreased the risk's negative impact on operations in the reporting period.

A brief summary of risk management policies is given below; for more details refer to the Management Report.

Credit risk

Company's exposure to credit risk depends upon individual customers and economic situations in respective countries. The Company generates sales revenues in five regions that are quite balanced in terms of the sales share, hence the concentration of credit risk from the geographical point of view is not so much explicit. The respective risk does not concentrate on individual business partner as the number of individual customers is quite high.

The credit control is conducted by the Risk Management Division on a centralised basis. The Company applies uniform procedures and rules for customers of the controlling company and its subsidiaries, whereas new buyers undergo an assessment of their credit rating prior to being offered standard terms of supply and payment.

The results of the credit control are positive and indicate a decrease in the total amount due, an improvement of the ageing structure of total receivables, as well as a favourable relation between the average balance of trade receivables and the value of sales.

We believe that the credit risk is well managed and no significant receivable write-offs due to default have been recorded in 2007.

Liquidity risk

As for the area of liquidity risk, the Company tries to asses whether it will be able to meet its financial obligations as they fall due and whether it will have sufficient liquidity to meet its liabilities when due.

The Company assesses cash flow requirements on a weekly, monthly and quarterly basis, while possible cash deficits that could probably not be covered by current operations, are secured in advance by banks based on agreed-upon credit lines; possible cash surplus is allocated to current investments. In order to improve short-term and long-term liquidity, the Company has optimised the monitoring of cash balance and upgraded the liquidity planning system in 2007.

Liquidity ratios (current, acid test and quick ratio) together with ratios showing management of current and non-current assets and liabilities, are comparable with the ratios of other sector-related companies. The share of the working capital in Company's sales revenues recorded a decrease indicating a more efficient management of assets and liabilities.

In addition to the issue of settling current liabilities, the Company tries to establish whether it will be able to settle loans and other financial liabilities based on generated cash flows. The value of ratios shows that the Company's exposure to liquidity risk is extremely low.

Currency risk

The Company is exposed to currency risks due to its extensive international operations. The emphasis lies on the US dollar exchange rate, while also other foreign currencies – like the Polish zlot, the Croatian kuna and the Macedonian denar – defined through our companies abroad are deemed significant as well.

In the reporting period the Company actively hedged against the change of US dollar, whereby no hedging was applied as for other foreign currencies.

Part of the planned open position denominated in US dollar was hedged for certain periods by applying financial instruments as required by the foreign currency risk management policy, while the other part was not hedged. The Company used simple derivative financial instruments such as future contracts and options.

Due to the fall of the US dollar the Company recorded exchange losses in 2007 referring to the revaluation of assets denominated in US dollar. Based on derivative financial instruments, the Company generated exchange gains but not in a sufficient amount to fully neutralise the exchange losses.

Interest rate risk

By the end of the year, all long-term loans with the 6-month LIBOR (denominated in US dollar) were fully hedged against interest rate risk.

However, two long-term loans with a 6-month EURIBOR have not been hedged against the interest rate risk by the end of 2007, as the key interest rate of the European Central Bank no longer fluctuates. By the end of the reporting period, solely one fifth of the principal amount of long-term loans with the 6-month EURIBOR is hedged.

Capital management

The Company's management has decided to maintain a large amount of equity in order to keep the confidence and to secure further development of the Company. Return on equity was defined by the Company as one of the key ratios, namely as a relation between the generated net profit for the period and the average value of the equity. The Company is making efforts to keep the balance between high yields that would be realised through higher indebtedness, and advantages and safety of a strong capital structure.

The Company implements the method of moderately increasing the dividend amount, paid out on an annual basis. The Management Board and the Supervisory Board of the Company define the amount of the dividend. Dividends are paid from the accumulated profit which is formed pursuant to regulations applicable in Slovenia and allocated pursuant to the resolution adopted by the Annual Meeting.

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

The Company has no specific goals as regards the ownership share held by employees, as well as no programme of share options. There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

5. Geographical and business segments

Segment information is presented in respect of the Company's geographical and business segments. The Company's primary format for segment reporting is based on geographical segments. Geographical segments are presented by location of customers.

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

Geographical segments

	European Union		South-East Europe		Eastern Europe		Other markets		Unallocated		Total	
EUR thousand	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Sales revenues	416,849	334,461	73,423	60,501	174,172	177,370	22,285	13,770	0	0	686,729	586,102
Segment's results from operations	134,932	105,887	27,406	19,897	17,611	37,185	791	3,007	0	0	180,740	165,976
Other operating income									1,328	2,000	1,328	2,000
Unallocated costs									-13,985	-21,011	-13,985	-21,011
Operating profit											168,083	146,965
Net financial income / expenses									-3,885	285	-3,885	285
Income tax expense									-37,677	-34,223	-37,677	-34,223
Profit for the period											126,521	113,027
Total assets	557,363	483,168	57,523	50,988	115,260	98,292	11,234	6,455	315,878	215,383	1,057,258	854,286
Intangible assets	14,851	12,783	2,616	2,312	6,205	6,779	794	526	0	0	24,466	22,400
Total liabilities	233,847	162,276	41,190	29,354	97,709	86,057	12,502	6,681	0	0	385,248	284,368
Capital expenditure	94,678	88,756	0	0	0	63	0	0	0	0	94,678	88,819
Depreciation of property, plant and equipment	20,814	18,018	2,107	1,865	4,184	3,506	401	227	12,119	8,251	39,625	31,867
Amortisation of intangible assets	2,888	2,468	509	447	1,207	1,309	154	102	0	0	4,758	4,326
Impairment of intangible assets, property, plant and equipment, and other non-current assets									55	60	55	60

Business segments

	Human health products		Other		Total	
EUR thousand	2007	2006	2007	2006	2007	2006
Sales revenues	661,295	563,221	25,434	22,881	686,729	586,102
Capital expenditure	94,028	88,229	650	590	94,678	88,819
Assets	1,021,312	826,949	35,946	27,337	1,057,258	854,286

6. Other operating income

EUR thousand	2007	2006
Reversal of non-current provisions, government grants and EU grants	238	224
Reversal of allowances for receivables	0	57
Profit from the sale of property, plant and equipment	483	581
Other operating income	607	1,138
Total other operating income	**1,328**	**2,000**

Utilised non-current provisions for ecological improvements in the amount of EUR 170 thousand represent the major item within reversal of non-current provisions, government grants and amounts granted by the European Union. Compensations received (EUR 242 thousand) and the collected receivables from previous periods (EUR 108 thousand) represent the major item of other operating income.

7. Employee benefits cost

EUR thousand	2007	2006
Gross wages and salaries and continued pay	111,852	99,547
Social security contributions and payroll tax	22,244	21,763
Other employee benefits cost	5,978	5,329
Termination pay and anniversary bonuses	3,231	3,620
Total employee benefits cost	**143,305**	**130,259**

Other employee benefits cost in the reporting period include the vacation bonus and travel allowances.

Compulsory pension and disability insurance (comprising both the employee's and the employer's contribution) payable in 2007 amounted to EUR 22,090 thousand. Additional pension insurance amounted to EUR 3,233 thousand.

8. Other operating expenses

EUR thousand	2007	2006
Grants, assistance	2,363	2,078
Environmental levies	1,625	1,319
Other charges	2,923	1,438
Loss in the sale of property, plant and equipment	1,358	919
Allowance and inventory write-off	5,049	3,835
Impairments and receivable write-off	589	660
Other costs	2,185	1,722
Total other operating expenses	**16,092**	**11,971**

In the income statement, other operating expenses were accounted for within 'Administrative expenses'.

9. Financial income and financial expenses

EUR thousand	2007	2006
Exchange differences	4,569	4,318
Interest income	897	900
Change in fair value of investments through profit or loss	1,793	1,656
Gain on the sale of securities	2,064	1,082
Income from derivative financial instruments	2,421	4,595
– inflows	2,164	2,404
– changes in fair value	257	2,191
Dividend income	216	2,228
Proportionate profit of subsidiaries	4,400	0
Total financial income	**16,360**	**14,779**
Exchange differences	-13,802	-10,004
Interest expense	-3,651	-3,039
Change in fair value of investments through profit or loss	-1,613	-550
Income from derivative financial instruments	-302	-753
– outflows	-63	-586
– changes in fair value	-239	-167
Other financial expenses	-877	-148
Total financial expenses	**-20,245**	**-14,494**
Net financial income / expenses	**-3,885**	**285**

10. Income tax expenses

EUR thousand	2007	2006
Income tax	39,479	40,747
Deferred tax	-1,802	-6,524
Total income tax	**37,677**	**34,223**
Profit before tax	164,198	147,250
Income tax calculated using the 23-percent tax rate (25-percent for 2006)	37,765	36,813
Tax exempt expenses	4,679	3,322
Tax incentives	-3,694	-5,462
Tax exempt revenues	-1,073	-773
Other items	0	323
Total income tax expenses	**37,677**	**34,223**

Investments in research and development (EUR 2,068 thousand) and other incentives (additional pension insurance, donations, part of the salaries and wages paid out to the disabled, etc.) account for the major portion of tax incentives.

11. Property, plant and equipment (PPE)

EUR thousand	31 Dec 2007	31 Dec 2006
Property	13,662	13,153
Plant	172,362	168,783
Equipment	165,489	141,431
PPE under construction	67,447	49,116
Advances for PPE	3,931	4,959
Total property, plant and equipment	**422,891**	**377,442**

The investment in the third phase of the Notol project in the amount of EUR 18,431 thousand, which will be used to enlarge the packaging facility to enable the launch of new product lines, represents the major investment in 2007. The project is to be completed in 2008. The company invested EUR 8,999 thousand in the extension of the central weighing facilities and product storage facilities as well as the renovation of the existing raw materials storage facilities and EUR 6,390 thousand in the new section of the injection production plant.

Movements of property, plant and equipment in 2007

EUR thousand	Property	Plant	Equipment	PPE under construction	Advances for PPE	Total
Cost at 1 Jan 2007	13,153	284,747	359,867	49,116	4,959	711,842
Additions	0	0	0	87,388	-1,028	86,360
Capitalisation – transfer from PPE under construction	668	17,397	50,845	-69,057	0	-147
Disposals, deficits, surpluses, other	-159	-1,565	-9,037	0	0	-10,761
Cost at 31 Dec 2007	13,662	300,579	401,675	67,447	3,931	787,294
Accumulated depreciation at 1 Jan 2007	0	-115,964	-218,436	0	0	-334,400
Depreciation	0	-13,449	-26,176	0	0	-39,625
Disposals, deficits, surpluses, other	0	1,196	8,426	0	0	9,622
Accumulated depreciation at 31 Dec 2007	0	-128,217	-236,186	0	0	-364,403
Carrying amount at 1 Jan 2007	13,153	168,783	141,431	49,116	4,959	377,442
Carrying amount at 31 Dec 2007	13,662	172,362	165,489	67,447	3,931	422,891

Movements of property, plant and equipment in 2006

EUR thousand	Property	Plant	Equipment	PPE under construction	Advances for PPE	Total
Cost at 1 Jan 2006	12,137	246,481	317,701	57,787	2,482	636,588
Additions	0	0	0	82,359	2,477	84,836
Capitalisation – transfer from PPE under construction	1,073	39,708	50,140	-91,030	0	-109
Disposals, deficits, surpluses	-57	-1,253	-8,154	0	0	-9,464
Transfer to intangible assets	0	-189	180	0	0	-9
Cost at 31 Dec 2006	13,153	284,747	359,867	49,116	4,959	711,842
Accumulated depreciation at 1 Jan 2006	0	-106,487	-204,178	0	0	-310,665
Depreciation	0	-10,450	-21,417	0	0	-31,867
Disposals, deficits, surpluses, other	0	972	7,152	0	0	8,124
Transfer to intangible assets	0	2	7	0	0	9
Accumulated depreciation at 31 Dec 2006	0	-115,963	-218,436	0	0	-334,399
Carrying amount at 1 Jan 2006	12,137	139,994	113,523	57,787	2,482	325,923
Carrying amount at 31 Dec 2006	13,153	168,783	141,431	49,116	4,959	377,442

Based on the contracts that had been signed in connection with the ongoing investments, the Company accounted for EUR 40,083 thousand of future liabilities resulting from acquisition of property, plant and equipment as at the balance sheet date.

12. Intangible assets (IA)

EUR thousand	31 Dec 2007	31 Dec 2006
R&D costs	2,602	2,617
Concessions, patents, licences, trademarks and similar rights	17,656	15,730
Intangible assets under construction	4,208	4,053
Total intangible assets	24,466	22,400

An upgrade of the SAP system referring to the sales forecasting and production planning tools in the amount of EUR 1,511 thousand and a product storage facility in the amount of EUR 466 thousand represent two major items within 'Concessions, patents, licences, trademarks and similar rights', and the capitalisation of the completed registration procedure for venlafaxin in the amount of EUR 302 thousand was the most significant item within R&D costs.

Intangible assets under construction include research projects (EUR 3,724 thousand) and information technology and telecommunications projects (EUR 484 thousand).

Movements of intangible assets in 2007

EUR thousand	R&D cost	Concessions, patents, licences, trademarks and similar rights	IA under construction	Total
Cost at 1 Jan 2007	6,611	24,580	4,053	35,244
Additions	0	30	7,260	7,290
Transfer from IA under construction	1,561	5,544	-7,105	0
Disposals	-466	-32	0	-498
Cost at 31 Dec 2007	7,706	30,122	4,208	42,036
Accumulated amortisation at 1 Jan 2007	-3,994	-8,850	0	-12,844
Amortisation	-1,110	-3,648	0	-4,758
Disposals	0	32	0	32
Accumulated amortisation at 31 Dec 2007	-5,104	-12,466	0	-17,570
Carrying amount at 1 Jan 2007	2,617	15,730	4,053	22,400
Carrying amount at 31 Dec 2007	2,602	17,656	4,208	24,466

Movements of intangible assets in 2006

EUR thousand	R&D cost	Concessions, patents, licences, trademarks and similar rights	IA under construction	Total
Cost at 1 Jan 2006	5,040	20,423	3,483	28,946
Additions	0	0	6,459	6,459
Transfer from IA under construction	1,741	4,148	-5,889	0
Disposals	-170	0	0	-170
Transfers from property, plant and equipment	0	9	0	9
Cost at 31 Dec 2006	6,611	24,580	4,053	35,244
Accumulated amortisation at 1 Jan 2006	-2,825	-5,684	0	-8,509
Amortisation	-1,169	-3,157	0	-4,326
Transfers from property, plant and equipment	0	-9	0	-9
Accumulated amortisation at 31 Dec 2006	-3,994	-8,850	0	-12,844
Carrying amount at 1 Jan 2006	2,215	14,739	3,483	20,437
Carrying amount at 31 Dec 2006	2,617	15,730	4,053	22,400

13. Investments in subsidiaries

Movements of investments in subsidiaries in 2007

EUR thousand	Investments in subsidiaries
Cost at 1 Jan 2007	121,513
Investment in the acquisition of TAD Pharma	97,000
Capital increase	42
Sale of investment	-192
Refund of overpaid additional capital contribution	-185
Balance at 31 Dec 2007	218,178
Carrying amount at 1 Jan 2007	121,513
Carrying amount at 31 Dec 2007	218,178

Movements of investments in subsidiaries in 2006

EUR thousand	Investments in subsidiaries
Cost at 1 Jan 2006	115,012
Capital increase, share purchase	6,501
Balance at 31 Dec 2006	121,513
Carrying amount at 1 Jan 2006	115,013
Carrying amount at 31 Dec 2006	121,513

Interests in subsidiaries

	Share in equity	Share capital	Value of share — carrying amount	
EUR thousand	31 Dec 2007	31 Dec 2007	31 Dec 2007	31 Dec 2006
Terme Krka, d. o. o., Novo mesto, Slovenia	100%	14,753	45,407	45,407
KRKA-FARMA, d. o. o., Zagreb, Croatia	100%	19,510	19,738	19,738
KRKA-FARMA, d. o. o., Novi Sad, Serbia	100%	1	42	42
KRKA-FARMA DOOEL, Skopje, Macedonia	100%	794	802	802
OOO KRKA-RUS, Istra, Russian Federation	100%	30,884	33,019	33,019
OOO KRKA FARMA, Sergiev Posad, Russian Federation	100%	108	492	492
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	100%	4,867	18,697	18,697
KRKA Magyarország Kft, Budapest, Hungary	100%	50	1,704	1,889
KRKA ČR, s. r. o., Prague, Czech Republic	100%	4	3	3
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100%	1	1	1
KRKA Sverige AB, Stockholm, Sweden	100%	16	827	827
KRKA Aussenhandels GmbH, Munich, Germany	100%	256	404	404
KRKA PHARMA GmbH, Frankfurt, Germany	100%	25	25	0
KRKA FARMACÉUTICA, Unipessoal Lda., Estoril, Portugal	100%	10	10	0
KRKA USA, LLC, Delaware, USA	100%	7	7	0
TAD Pharma GmbH, Cuxhaven, Germany	100%	6,650	97,000	0
HELVETIUS-S. R. L., Trieste, Italy			0	192
Total			218,178	121,513

Three new subsidiaries were established abroad in 2007, in which the Company holds a 100-percent share: KRKA PHARMA GmbH, Frankfurt, Germany, KRKA FARMACÉUTICA, Unipessoal Lda., Estoril, Portugal and KRKA USA, LLC, Delaware, USA.

Krka carried out an acquisition of the company TAD Pharma GmbH, Cuxhaven, Germany in 2007, thus becoming its sole shareholder. The purchase price in the amount of EUR 97,000 thousand was paid in cash. An increase of capital stock was carried out in the company Krka Farma Novi Sad (EUR 42 thousand).

In 2008 the companies KRKA Aussenhandels GmbH, Munich and KRKA PHARMA GmbH, Frankfurt will be merged with TAD Pharma and consequently deleted from the Register of Companies. TAD Pharma will assume all its assets, capital, rights and obligations.

The subsidiary HELVETIUS-S. R. L. in Trieste, in which the Company had held an 80% participating interest, was finally dissolved.

The company KRKA Magyarország Kft, Budapest, Hungary carried out a refund of overpaid additional capital contribution (EUR 185 thousand).

14. Loans

EUR thousand	31 Dec 2007	31 Dec 2006
Long-term loans:	6,936	5,324
– long-term loans to subsidiaries	3,524	1,898
– long-term loans to other entities	3,412	3,426
Short-term loans:	23,575	9,173
– short-term loans to subsidiaries	22,289	8,148
– short-term loans to other entities	1,286	1,025
Total loans	30,511	14,497

In conformity with internal acts the Company extends long-term loans to its employees. These loans are mainly used for housing. Loans bear the annual interest rate, which equals the contractually agreed rate set by the Minister of Finance in accordance with the Corporate Income Tax Act that defines the interest rate for related parties. In 2007, the interest rate ranged between 4.80% and 5.59%. The repayment period must not exceed 15 years.

Loans to subsidiaries

EUR thousand	31 Dec 2007	31 Dec 2006
Long-term loans to subsidiaries	3,524	1,898
OOO KRKA-RUS, Istra, Russian Federation	1,701	1,898
KRKA-FARMA, d. o. o., Novi Sad, Serbia	1,023	0
KRKA FARMACÉUTICA, Unipessoal Lda., Estoril, Portugal	800	0
Short-term loans to subsidiaries	22,289	8,148
Terme Krka, d.o.o., Novo mesto, Slovenia	5,375	6,849
OOO KRKA-RUS, Istra, Russian Federation	694	1,299
KRKA-FARMA, d. o. o., Novi Sad, Serbia	27	0
KRKA FARMACÉUTICA, Unipessoal Lda., Estoril, Portugal	14	0
TAD Pharma GmbH, Cuxhaven, Germany	16,078	0
KRKA PHARMA GmbH, Frankfurt, Germany	101	0
Total loans to subsidiaries	25,813	10,046

15. Investments

EUR thousand	31 Dec 2007	31 Dec 2006
Non-current investments	10,773	6,529
- financial assets available for sale	10,513	6,269
- other non-current investments	260	260
Current investments, including derivatives	2,932	22,617
- instruments held for trading	538	11,890
- interest-bearing current investments	0	3,424
- derivatives	1,583	1,564
- other current investments	811	5,739
Total investments	13,705	29,146

Financial assets available for sale include EUR 1,374 thousand of investments in Slovenia and EUR 9,139 thousand of investments abroad.

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

The Company recorded a decrease in current investments by EUR 19,685 thousand compared to the previous period, which is mostly due to the financing of the acquisition of TAD Pharma.

Derivatives include options (EUR 910 thousand) and interest rate swaps (EUR 673 thousand).

Other current investments comprise assets under management in the amount of EUR 496 thousand and Slovene mutual funds in the amount of EUR 315 thousand.

Movement of non-current investments

EUR thousand	Financial assets available for sale	Other non-current investments	Total
Balance at 1 Jan 2006	4,874	260	5,134
Increase	1	0	1
Change in fair value	1,394	0	1,394
Balance at 31 Dec 2006	6,269	260	6,529
Increase	25	0	25
Decrease	-10	0	-10
Change in fair value	4,229	0	4,229
Balance at 31 Dec 2007	10,513	260	10,773

16. Deferred tax assets and deferred tax liabilities

EUR thousand	Assets		Liabilities		Assets - liabilities	
	2007	2006	2007	2006	2007	2006
Investments, property, plant and equipment and intangible assets	0	165	1,925	1,040	-1,925	-875
Receivables	168	400	0	0	168	400
Inventories	135	598	0	0	135	598
Provisions for lawsuits	19,177	16,832	0	0	19,177	16,832
Provisions for termination pay	9,173	9,653	0	0	9,173	9,653
Tax effects of the transition to IFRS	0	0	1,394	2,914	-1,394	-2,914
Total	28,653	27,648	3,319	3,954	25,334	23,694

EUR thousand	Balance at 1 Jan 2006	Recognised in profit or loss	Recognised in equity	Balance at 31 Dec 2006	Recognised in profit or loss	Recognised in equity	Balance at 31 Dec 2007
Financial assets at fair value through profit and loss	-32	126	32	126	-126	0	0
Financial assets available for sale	-781	0	-258	-1,039	0	-886	-1,925
Derivatives	-18	38	18	38	-38	0	0
Inventories	491	598	-491	598	-463	0	135
Receivables	402	97	-99	400	-232	0	168
Provisions for lawsuits	13,043	4,832	-1,043	16,832	2,345	0	19,177
Payables to employees	1,362	833	7,458	9,653	317	-797	9,173
Other items – transition to IFRS	0	0	-2,914	-2,914	0	1,520	-1,394
Total	14,467	6,524	2,703	23,694	1,803	-163	25,334

17. Inventories

EUR thousand	31 Dec 2007	31 Dec 2006
Material	45,936	33,054
Work in progress	37,222	25,444
Products	46,390	42,169
Merchandise	2,122	1,804
Advances	66	13
Allowance and inventory write-off	-4,460	-3,004
Total inventories	127,276	99,480

Cost of material, including the changes in the value of products and work in progress accounted for within production cost of goods sold, amounted to EUR 118,099 thousand in 2007 and EUR 111,813 thousand in 2006.

The write down of inventories to net realisable value amounted to EUR 1,266 thousand (2006: EUR 635 thousand), whereas the write-off of inventories amounted to EUR 3,783 thousand (2006: EUR 3,200 thousand). The impairment and write-off of inventories were recorded within other operating expenses (Note 8).

18. Trade and other receivables

EUR thousand	31 Dec 2007	31 Dec 2006
Short-term receivables due from subsidiaries	100,953	84,278
Trade receivables	77,654	64,882
Receivables due from other entities	10,265	8,324
Total receivables	**188,872**	**157,484**

Short-term receivables due from subsidiaries

EUR thousand	31 Dec 2007	31 Dec 2006
KRKA-Farma d. o. o., Zagreb, Croatia	30,254	29,914
KRKA-FARMA, d. o. o., Novi Sad, Serbia	5,665	3,087
KRKA-Farma DOOEL, Skopje, Macedonia	2,754	2,107
OOO KRKA-RUS, Istra, Russian Federation	9,070	8,787
OOO KRKA Farma, Sergiev posad, Russian Federation	23,819	16,508
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	21,472	21,807
KRKA Sverige AB, Stockholm, Sweden	6,344	2,050
KRKA FARMACÉUTICA, Unipessoal Lda., Estoril, Portugal	528	0
TAD Pharma GmbH, Cuxhaven, Germany	1,000	0
Receivables due from other Group companies	47	18
Total short-term receivables due from subsidiaries	**100,953**	**84,278**

Trade receivables

EUR thousand	Gross value	Allowances for doubtful and disputable receivables	Net value at 31 Dec 2007	Net value at 31 Dec 2006
Domestic customers	9,997	127	9,870	10,952
Foreign customers	69,110	1,326	67,784	53,930
Total trade receivables	**79,107**	**1,453**	**77,654**	**64,882**

In 2007 allowances for receivables charged against the income statement amounted to EUR 589 thousand (2006: EUR 660 thousand).

Receivables due from other entities

Receivables due from other entities in the amount of EUR 10,265 thousand refer mostly to receivables arising from VAT refund.

19. Cash and cash equivalents

EUR thousand	31 Dec 2007	31 Dec 2006
Cash in hand	33	70
Bank balances	2,307	4,428
Total cash and cash equivalents	**2,340**	**4,498**

20. Equity

Share capital

Share capital of the Company consists of 35,426,120 ordinary registered shares at par value of EUR 1.669. There is solely one class of shares, whereas the first and only issue of shares was carried out in 1995. Pursuant to the resolution of the 12th Annual Meeting dated 5 July 2007, the share capital amounting to SIT 14,170,448,000 was converted into euros by using the method defined in the first paragraph of Article 693 of the Companies Act (ZGD-1), and amounts to EUR 59,126,194.28. The difference in the amount of EUR 6,037.40 that arises in the conversion pursuant to the provision mentioned was transferred to capital reserves and the share capital was reduced by that amount.

At the beginning of September 2007, the Company carried out a 1:10 share-split based on the state of the shareholder register as at 31 August 2007.

Own shares

As at 31 December 2007 the Company recorded 1,626,620 own shares, the nominal value amounting to EUR 2,715 thousand, i.e. 4.6% of the share capital value. The number of shares in this reporting period remained unchanged if compared to 2006.

Reserves

The Company's reserves comprise the share premium, legal and statutory reserves, and fair value reserves. None of the aforesaid reserves may be used for payout of dividends and other equity interests. In 2007, reserves were increased by EUR 6 thousand due to the conversion of Slovenian tolars to euros (refer to Note 'Share capital'). With respect to legal possibilities, the Company increased reserves in the reporting period by EUR 2,500 thousand of additionally formed statutory reserves. Fair value reserves record an increase of EUR 3,344 thousand, i.e. the amount of the revaluation of non-current investments to market value.

Retained earnings

Retained earnings of the Company were increased by the profit for the period amounting to EUR 126,521 thousand. The decrease, on the other hand, is a result of allocation of accumulated profit to dividend payout (EUR 27,040 thousand) as confirmed by the 12th Annual Meeting held on 5 July 2007, of an additional formation of statutory reserves (EUR 2,500 thousand) and net expenses recognised directly in retained earnings (EUR 733 thousand) which arise from a decrease in deferred tax assets.

The amount of the dividend payout, shown in the cash flow statement, differs from the figure, confirmed by the Annual Meeting and included in the statement of changes in equity, by the amount of change between the opening and closing balance of liabilities for dividend payout.

Dividends per share

The gross dividends per share amounted to EUR 0.80 per share in 2007 and to EUR 0.69 per share in 2006. For comparability reasons, the 1:10 ratio of the share-split carried out at the beginning of September 2007 was accounted for in the calculation of the dividends per share for both years.

Accumulated profit

EUR thousand	2007	2006
Compulsory appropriation of net profit		
Net profit for the period	126,521	113,027
– 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	-2,500	-2,086
Net profit after compulsory appropriation	124,021	110,941
– formation of other income reserves pursuant to a decision adopted by the Management Board and Supervisory Board	-43,000	-20,030
Surplus of net profit	81,021	90,911
Identification of accumulated profit		
– surplus of net profit	81,021	90,911
– retained earnings from previous periods	37,416	12,428
Accumulated profit	118,437	103,339

21. Earnings per share

Basic earnings per share amounted to EUR 3.74 and showed an increase of 11.9% compared to the previous year's result (2006: EUR 3.34). The number of shares after the 1:10 share-split from the beginning of September 2007 was accounted for in the calculation of earnings per share for both years. 33,799,500 shares were included in the calculation, whereas 1,626,620 own shares were not taken into account. All shares issued by the Company are ordinary shares, hence the diluted earnings per share ratio was equal to the basic earnings per share.

22. Borrowings

EUR thousand	31 Dec 2007	31 Dec 2006
Long-term borrowings	83,200	29,143
– borrowings from domestic banks	83,200	29,143
Short-term borrowings	65,747	47,105
– borrowings from subsidiaries	5,000	0
– borrowings from domestic banks	51,638	35,136
– borrowings from other entities	7,824	11,268
– interest payable	1,285	701
Total borrowings	148,947	76,248

Long-term borrowings are denominated in EUR 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 and current assets. In 2007, the Company raised two new long-term borrowings in the total amount of EUR 104,000 thousand in connection with the acquisition of TAD Pharma, as well as for the purpose of financing the Company's operations abroad and need for current assets.

Long-term borrowings obtained from banks are neither secured by mortgages nor by bank guarantees.

The Company applied interest rate swaps to hedge long-term borrowings. As at the reporting date, 21% of long-term borrowings from banks were hedged by using interest rate swaps.

Short-term borrowings are denominated in EUR 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. In 2007 the Company was granted a loan from its subsidiary Krka Sverige in the amount of EUR 5,000 thousand.

The balance of short-term borrowings includes repayments of long-term borrowings that shall mature in 2008 in the amount of EUR 48,637 thousand.

23. Provisions

EUR thousand	Balance at 31 Dec 2006	Formation	Utilisation	Reversal	Balance at 31 Dec 2007
Provisions for termination pay and anniversary bonuses	41,969	3,231	-1,889	0	43,311
Other provisions:	74,837	14,016	0	-170	88,683
– provisions for lawsuits	74,506	13,985	0	-1	88,490
– provisions for ecological restoration	331	0	0	-169	162
– other provisions	0	31	0	0	31
Total provisions	**116,806**	**17,247**	**-1,889**	**-170**	**131,994**

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 EUR 13,985 thousand, in particular to the alleged patent infringement referring to the atorvastatin. As for the income statement, the newly formed and utilised provisions are included among other operating expenses or other operating income. Provisions for lawsuits are not discounted due to the lawsuits' nature.

Provisions for payables to employees arising from termination pay and anniversary bonuses are based on a calculation performed by a certified actuary and they were accounted for under following assumptions:

- discount rate of 5.85% p.a. that grounds on the profitability of 10-year corporate bonds of high credit rating in the euro-zone;
- valid amounts of termination pays and anniversary bonuses as defined by internal acts of individual companies or local regulations;
- employee turnover depending in particular upon the employees' age;
- mortality level calculated on the basis of last mortality tables available;
- increase in wages and salaries attributable to the inflation rate and career promotion.

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 and no material deviations from the assumptions applied are expected in the near future. The projected unit method was applied in the calculation. Actuarial deficits and/or surpluses that have occurred in connection with termination pays and retirement benefits are recognised in the income statement either as expense or income.

24. Government grants and EU grants

EUR thousand	Balance at 31 Dec 2006	Grants received	Elimination of grants	Balance at 31 Dec 2007
Grants for the subsidiary Krka-Rus	10	0	-10	0
Grants for the plant Beta in Šentjernej	302	0	-44	258
Grants by the European Regional Development Fund	26	17	-4	39
Free receipt of property, plant and equipment	110	517	-11	616
Total grants	448	534	-69	913

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

25. Trade payables

EUR thousand	31 Dec 2007	31 Dec 2006
Payables to subsidiaries	10,050	1,677
Payables to domestic suppliers	29,269	32,657
Payables to foreign suppliers	27,769	21,641
Payables from advances	454	329
Total trade payables	67,542	56,304

Payables to subsidiaries

EUR thousand	31 Dec 2007	31 Dec 2006
Terme Krka, d.o.o., Novo mesto, Slovenia	89	85
KRKA-Farma d. o. o., Zagreb, Croatia	179	271
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	8,134	262
KRKA Magyarország Kft, Budapest, Hungary	1,436	517
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	209	541
KRKA Sverige AB, Stockholm, Sweden	1	1
KRKA USA, LLC, Delaware, USA	2	0
Total payables to subsidiaries	10,050	1,677

26. Other current liabilities

EUR thousand	31 Dec 2007	31 Dec 2006
Accrued contractual discounts on products sold to subsidiaries	347	528
Accrued contractual discounts on products sold to other customers	10,906	7,416
Payables to employees – gross wages, other charges	17,154	15,305
Other	1,994	661
Total current liabilities	30,401	23,910

27. Contingent liabilities

EUR thousand	31 Dec 2007	31 Dec 2006
Guarantees issued	1,468	1,098
Other	620	620
Total contingent liabilities	2,088	1,718

28. Financial instruments

Long-term stability of the Company's performance is managed by means of active risk management policies as presented in detail under '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 exposure

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

EUR thousand	Note	31 Dec 2007	31 Dec 2006
Financial assets available for sale	15	10,513	6,269
Financial assets at fair value through profit or loss		1,349	21,053
Loans	14	30,511	14,497
Receivables	18	188,872	157,484
– thereof trade receivables (including subsidiaries)		178,607	149,160
Cash and cash equivalents	19	2,340	4,498
Interest bearing derivatives (assets)	15	673	723
Foreign currency derivatives (assets)	15	910	841
Total		235,168	205,365

Receivables are mostly exposed to credit risk if considering the value. Their maximum exposure to credit risk is shown in terms of geographic regions:

EUR thousand	31 Dec 2007	31 Dec 2006
Slovenia	18,142	17,979
South-East Europe	54,719	46,726
Eastern Europe	58,017	52,112
Central Europe	26,855	25,556
Western Europe and overseas markets	31,139	15,111
Total	**188,872**	**157,484**

Short-term trade receivables are not secured.

AGEING STRUCTURE OF RECEIVABLES AS AT THE BALANCE SHEET DATE

EUR thousand	Gross value 2007	Allowance 2007	Gross value 2006	Allowance 2006
Undue receivables	147,936	354	122,921	172
Receivables due up to 20 days	17,077	42	9,871	-11
Receivables due from 21 to 50 days	6,901	9	7,999	41
Receivables due from 51 to 180 days	16,219	186	15,504	33
Receivables due over 180 days	2,192	862	3,418	1,994
Total	**190,325**	**1,453**	**159,713**	**2,229**

MOVEMENT OF ALLOWANCES FOR RECEIVABLES

EUR thousand	2007	2006
Balance at 1 January	**2,229**	**2,152**
Formation of allowance	507	420
Reversal of allowance	-1,262	-289
Effect of exchange differences	-21	-54
Balance at 31 December	**1,453**	**2,229**

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 2007.

Maturity of financial liabilities

Financial liabilities in terms of maturity are outlined in continuation.

Maturity of financial liabilities as at 31 December 2007

EUR thousand	Carrying amount	Contractual cash flows				
		Total	Up to 6 months	Between 6 and 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Long-term borrowings from banks	131,837	146,951	39,010	13,617	25,104	69,220
Short-term borrowings from banks	3,000	3,022	3,022	0	0	0
Other short-term borrowings	12,824	13,211	7,621	5,590	0	0
Trade and other payables	100,075	100,075	100,075	0	0	0
Derivative financial liabilities						
Other futures contracts for securing inflows	910	916	916	0	0	0
Total	**248,646**	**264,175**	**150,644**	**19,207**	**25,104**	**69,220**

Maturity of financial liabilities as at 31 December 2006

EUR thousand	Carrying amount	Contractual cash flows				
		Total	Up to 6 months	Between 6 and 12 months	From 1 to 2 years	From 2 to 5 years
Non-derivative financial liabilities						
Long-term borrowings from banks	41,064	45,674	6,875	6,763	12,014	20,022
Short-term borrowings from banks	23,215	24,180	0	24,180	0	0
Other short-term borrowings	11,268	11,298	11,048	250	0	0
Trade and other payables	86,912	86,912	86,912	0	0	0
Derivative financial liabilities						
Other futures contracts for securing inflows	841	849	849	0	0	0
Total	163,300	168,913	105,684	31,193	12,014	20,022

Foreign currency risk

Exposure to foreign currency risk

	31 December 2007		
EUR thousand	EUR	USD	PLN
Trade and other receivables	88,481	78,244	21,495
Borrowings from banks	-145,279	-2,378	0
Trade payables	-52,984	-10,000	-2,710
Balance sheet exposure (gross)	**-109,782**	**65,866**	**18,785**
Estimated sales	590,000	99,178	83,206
Estimated purchases	-400,000	-71,327	-6,957
Exposure (gross)	**190,000**	**27,851**	**76,249**
Net exposure	**80,218**	**93,717**	**95,034**

	31 December 2006		
EUR thousand	EUR	USD	PLN
Trade and other receivables	93,050	64,361	0
Borrowings from banks	-57,715	-13,015	0
Trade payables	-47,422	-7,297	0
Balance sheet exposure (gross)	**-12,087**	**44,049**	**0**
Estimated sales	414,262	243,888	25,013
Estimated purchases	-345,504	-66,716	-3,944
Exposure (gross)	**68,758**	**177,172**	**21,069**
Net exposure	**56,671**	**221,221**	**21,069**

Estimated sales and purchases for 2008 ground on the plan of Group's operations for 2008 while the estimated sales and purchases for 2006 include the actual value of Group's sales and purchases made. With Krka planning to change the billing system in 2008, Eastern Europe in particular, the US-dollar invoicing system will be replaced by the EUR invoicing system. Accordingly, the open position denominated in US dollar will significantly decrease compared to 2007.

SIGNIFICANT FOREIGN EXCHANGE RATES

	Average exchange rate*		Final exchange rate*	
	2007	2006	2007	2006
USD	1.37	1.25	1.47	1.32
PLN	3.78	3.89	3.59	3.83

* number of local currency's units for 1 euro

Sensitivity analysis

A 1 percent increase of the euro value in respect of currencies stated as at 31 December would increase (decrease) the net profit referring to values stated below. The analysis assumes that other remaining elements, interest rates in particular remain unchanged. The 2006 analysis was prepared on the same basis. The Company recorded no impact on the equity since futures contracts are not used as hedge against the foreign currency risk.

EUR thousand	Impact on the profit or loss	
	2007	2006
USD	-920	-2,193
PLN	-941	-209

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

Interest rate risk

In 2004, three non-current loans (two of them denominated in US dollars, one in EUR) were hedged by using interest rate swaps. No further hedging instruments were applied in 2005, 2006 and 2007.

Exposure to interest rate risk

EUR thousand	2007	2006
Financial instruments at fixed interest rate	**-24,426**	**-7,640**
Financial assets	11,235	17,623
Financial liabilities	-35,661	-25,263
Financial instruments at variable interest rate	**-93,803**	**-49,336**
Financial assets	18,197	947
Financial liabilities	-112,000	-50,283

As at 31 December 2007, the contract value of the hedged item amounted to EUR 27,156 thousand, and the Company's interest rate swaps recorded at fair value amounted to EUR 673 thousand.

Analysis of sensitivity of the financial instrument's fair value by applying the fixed interest rate

The Company holds no derivatives with reference to fixed interest rate, recognised at fair value through profit or loss, and no derivatives designated as a fair value hedge. Thus, a change of the interest rate as at the balance sheet date would have no impact on the profit or loss.

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

Change of the interest rate by 100 basis points on the date of reporting would increase (decrease) the net profit or loss referring to values stated below. The analysis assumes that all elements, foreign exchange rate in particular remain unchanged; the 2006 analysis was prepared on the same basis.

Impact of the possible interest rate change on the profit or loss as at 31 December 2007

EUR thousand	Increase by 100 basis points	Decrease by 100 basis points
Financial instruments at variable interest rate	-938	938
Contract on the interest rate swap	760	-760
Net variability of cash flow	**-178**	**178**

Impact of the possible interest rate change on the profit or loss as at 31 December 2006

EUR thousand	Increase by 100 basis points	Decrease by 100 basis points
Financial instruments at variable interest rate	-493	493
Contract on the interest rate swap	1,139	-1,143
Net variability of cash flow	**646**	**-650**

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

Long-term borrowings

EUR thousand	31 Dec 2007	31 Dec 2006
Long-term borrowings	131,837	41,064
– short-term portion of long-term borrowings	48,637	11,921
Average balance of long-term borrowings	86,450	50,085
Interest paid (financial year)	2,339	1,826
Average interest rate of long-term borrowings (financial year)	2.71%	3.65%
Contracted to mature in three years or less	21%	20%
Contracted to mature in more than three years	79%	80%
Currency structure of long-term borrowings		
– US dollar	2%	16%
– euro	98%	84%
Structure of long-term borrowings in terms of interest rates		
– variable	100%	100%

Short-term borrowings

EUR thousand	31 Dec 2007	31 Dec 2006
Short-term borrowings including short-term portion of long-term borrowings:	64,461	46,404
– from banks	51,637	35,136
– from other entities	12,824	11,268
Short-term borrowings	15,824	34,483
Average balance of short-term borrowings (financial year)	25,154	26,381
Interest paid (financial year)	1,310	1,206
Other costs of raising short-term borrowings	6	3
Average cost of short-term borrowings (financial year)	5.23%	4.58%
Currency structure of short-term borrowings		
– euro	100 %	67%
– Slovenian tolar	0%	33%
Structure of short-term borrowings in terms of interest rates		
– variable	51%	68%
– fixed	49%	32%

Fair value

EUR thousand	Carrying amount 2007	Fair value 2007	Carrying amount 2006	Fair value 2006
Long-term loans	6,936	6,936	5,324	5,324
Non-current investments	10,773	10,773	6,529	6,529
– shares and interests	10,513	10,513	6,269	6,269
– other non-current investments	260	260	260	260
Short-term loans	23,575	23,575	9,173	9,173
Current investments	1,349	1,349	21,053	21,053
– instruments held for trading	538	538	11,890	11,890
– interest-bearing current investments	0	0	3,424	3,424
– other current investments	811	811	5,739	5,739
Trade and other receivables	188,872	188,872	157,484	157,484
Cash and cash equivalents	2,340	2,340	4,498	4,498
Interest bearing derivatives	673	673	723	723
– assets	673	673	723	723
Foreign currency derivatives	910	910	841	841
– assets	910	910	841	841
Borrowings	-150,232	-140,081	-76,248	-76,248
Trade and other payables	-67,542	-67,542	-56,304	-56,304
Total	**17,654**	**27,805**	**73,073**	**73,073**

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.

Options, futures contracts and interest rate swaps

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

Financial assets available for sale

If the shares are listed on the stock exchange market, their fair value equals 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 was accounted for by applying the discounted cash flow of the principal and the interest. The government securities' profitability in Europe for the period of two years was taken into account for defining the discounted interest rate, which was illustrated in a report prepared by Abanka in relation to the situation on the financial markets as at 31 December 2007. The yield to maturity referring to these papers was set at 3.997%. 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.

29. Transactions with related parties

Transactions with Group companies in 2007 are presented below.

INTRAGROUP TRANSACTIONS

EUR thousand	Sales	Expenses	Borrowings	Loans
Terme Krka, d.o.o., Novo mesto, Slovenia *	251	974	0	10,024
KRKA-FARMA, d. o. o., Zagreb, Croatia	35,819	762	0	0
KRKA-FARMA, d. o. o., Novi Sad, Serbia	9,210	0	0	1,023
KRKA-FARMA DOOEL, Skopje, Macedonia	7,262	0	0	0
OOO KRKA-RUS, Istra, Russian federation	6,136	21	0	2,474
OOO KRKA FARMA, Sergiev Posad, Russian federation	30,397	0	0	0
KRKA-POLSKA Sp. z o. o., Warsaw, Poland	66,264	19,663	0	0
KRKA Magyarország Kft, Budapest, Hungary	0	10,317	0	0
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	0	421	0	0
KRKA Sverige AB, Stockholm, Sweden	11,605	27	5,000	0
KRKA PHARMA GmbH, Frankfurt, Germany	0	0	0	100
KRKA FARMACÉUTICA, Unipessoal Lda., Estoril, Portugal	528	0	0	800
KRKA USA, LLC, Delaware, USA	0	10	0	0
TAD Pharma GmbH, Cuxhaven, Germany	1,000	0	0	16,000
Total	**168,472**	**32,195**	**5,000**	**30,421**

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

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

Loans to subsidiaries are described in Note 14, borrowings from subsidiaries in Note 22, short-term receivables due from subsidiaries in Note 18 and trade payables to subsidiaries in Note 25.

Shareholders as related parties

As at the balance sheet date, the members of the Management Board of the Company held 58,990 shares in Krka, d. d., representing 0.167% 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 2007.

As at the balance sheet date, the members of the Supervisory Board held 6,630 shares in the Company, representing 0.019% of the total equity.

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

	2007		2006	
	Number of shares	Share (in %)	Number of shares	Share (in %)
Management Board members				
Jože Colarič	22,500	0.0635	21,000	0.0593
Janez Poljanec	22,060	0.0623	22,060	0.0623
Aleš Rotar	12,770	0.0360	12,770	0.0360
Zvezdana Bajc	1,660	0.0047	1,100	0.0031
Danica Novak Malnar	0	0.0000	0	0.0000
Total Management Board	**58,990**	**0.1665**	**56,930**	**0.1607**
Supervisory Board members				
Gregor Gomišček	120	0.0003	120	0.0003
Mateja Božič	0	0.0000	0	0.0000
Anton Rous	0	0.0000	0	0.0000
Draško Veselinović	10	0.0000	0	0.0000
Alojz Zupančič	3,890	0.0110	5,140	0.0145
Sonja Kermc	2,110	0.0060	2,110	0.0060
Tomaž Sever	500	0.0014	500	0.0014
Mateja Vrečer	0	0.0000	0	0.0000
Total Supervisory Board	**6,630**	**0.0187**	**7,870**	**0.0222**

Emoluments of groups of persons in 2007

EUR thousand	Total emoluments
Members of the Management Board	1,879
Members of the Supervisory Board	146
Persons employed under individual employment contracts	16,716
Total emoluments of groups of persons	**18,741**

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

Emoluments of the Management Board in 2007

EUR thousand	Gross remuneration — fixed portion	Gross remuneration — variable portion	Fringe benefits and other receipts	Total emoluments
Jože Colarič	275	247	9	531
Janez Poljanec	230	204	16	450
Aleš Rotar	217	193	16	426
Zvezdana Bajc	182	163	10	355
Danica Novak Malnar	111	0	6	117
Total emoluments of the Management Board	**1,015**	**807**	**57**	**1,879**

Emoluments of the employees also represent salaries and wages, fringe benefits, vacation bonus and any other receipts (tenure awards, etc.).

Emoluments of the Supervisory Board members represent remuneration for the tasks performed within the Supervisory Board.

Pursuant to the resolution adopted at the Annual Meeting on 5 July 2007, the members of the Supervisory Board shall receive remuneration in the form of participation in profit in accordance with the Company's Articles of Association, and attendance fees shall be paid to the members of the Supervisory Board for attending the supervisory board meetings and its committees. New amounts of attendance fees were approved at the Annual Meeting, effective as at the date when the Annual Meeting took place.

Emoluments of the Supervisory Board in 2007

EUR thousand	Monthly remuneration	Attendance fees	Total
Gregor Gomišček, President	13	8	21
Marko Kranjec	10	4	14
Mateja Božič	11	6	17
Sonja Kermc	10	5	15
Anton Rous	12	3	15
Tomaž Sever	11	6	17
Draško Veselinovič	10	6	16
Mateja Vrečer	10	6	16
Alojz Zupančič	10	5	15
Total	**97**	**49**	**146**

Loans granted to groups of persons

EUR thousand	Loan balance as at 31 Dec 2007	Repayments in 2007
Members of the Management Board	9	3
Members of the Supervisory Board in the Company (employee representatives)	1	1
Persons employed under individual employment contracts	316	80
Total loans to groups of persons	**326**	**84**

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

30. Educational structure of employees

	2007		2006	
	Headcount	Share (in %)	Headcount	Share (in %)
PhD	58	1.3	50	1.2
MSc	145	3.2	135	3.3
University education	1945	42.4	1612	39.2
Higher professional education	232	5.1	183	4.5
Vocational college education	152	3.3	142	3.4
Secondary school education	888	19.4	833	20.2
Skilled workers	1017	22.2	990	24.0
Unskilled workers	144	3.1	173	4.2
Total (average for the period)	**4581**	**100.0**	**4118**	**100.0**

31. Transactions with the audit firm

The fee for the audit services performed in 2007 by the audit company KPMG Slovenija, podjetje za revidiranje, d. o. o. amounted to EUR 127 thousand. KPMG poslovno svetovanje d.o.o., on the other hand, provided tax advisory services in the value of EUR 30 thousand.

32. Events after the balance sheet date

The subsidiaries KRKA ČR, s. r. o. in the Czech Republic and KRKA Slovensko, s. r. o. in Slovakia, both 100%-owned by Krka, started operations in January 2008. The Slovakian company is new, while the company in the Czech Republic was previously dormant.

At the start of the year 2008 work began to merge KRKA Aussenhandels GmbH, Munich and KRKA PHARMA GmbH, Frankfurt with TAD Pharma. The companies will be deleted from the court register of companies, and TAD Pharma will take over all their assets, capital, rights and obligations.

On 1 February 2008 Ljubljana District Court issued a temporary injunction against Krka, prohibiting it from producing and marketing the pharmaceutical Zolrix® or any other product containing the active ingredient olanzapine. In doing so, the court upheld the motion filed by the company Eli Lilly Company Limited, Hampshire, UK, for a temporary injunction on production and sales, before the court adjudicated on whether Krka had violated Eli Lilly's patent or not.

On 10 March 2008 we also received a lawsuit filed by Eli Lilly at the Ljubljana District Court, which alleged that Krka's production and sale of the Zolrix® product was breaching Eli Lilly's patent. We are sure we have sound arguments that can prove that we are not violating this patent, so we expect the court to reject the case. In 2007 sales of Zolrix® in Slovenia were worth less than EUR 100,000.

The High Court in Ljubljana rejected an appeal by Merck Frosst Canada Limited against a resolution of the Ljubljana District Court of 17 October 2007 rejecting a motion Merck Frosst had filed for a temporary injunction prohibiting Krka, d. d., Novo mesto and Salus, d.d., Ljubljana from producing, sales, offering for sale, marketing and importing the pharmaceutical product Monkasta® or any other product containing the active ingredient montelukast. Salus, d. d., Ljubljana markets the Monkasta® product produced by Krka, d. d., Novo mesto.

Events stated afore have had no impact on the 2007 financial statements.

Auditor's Report

KPMG

Independent Auditor's Report

To the Shareholder's of KRKA, d.d., Novo mesto

Report on the Financial Statements

We have audited the accompanying financial statements of the KRKA, d.d., Novo mesto, which comprise the balance sheet as at 31 December 2007, 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 KRKA d.d., Novo mesto as at 31 December 2007, the result of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

The Management Report is in conformity with the audited financial statements.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

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Certified Auditor
Partner

Andrej Korinšek, B.Sc.Ec.
Certified Auditor
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Ljubljana, 20 March 2008

KPMG Slovenija, d.o.o.
4

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