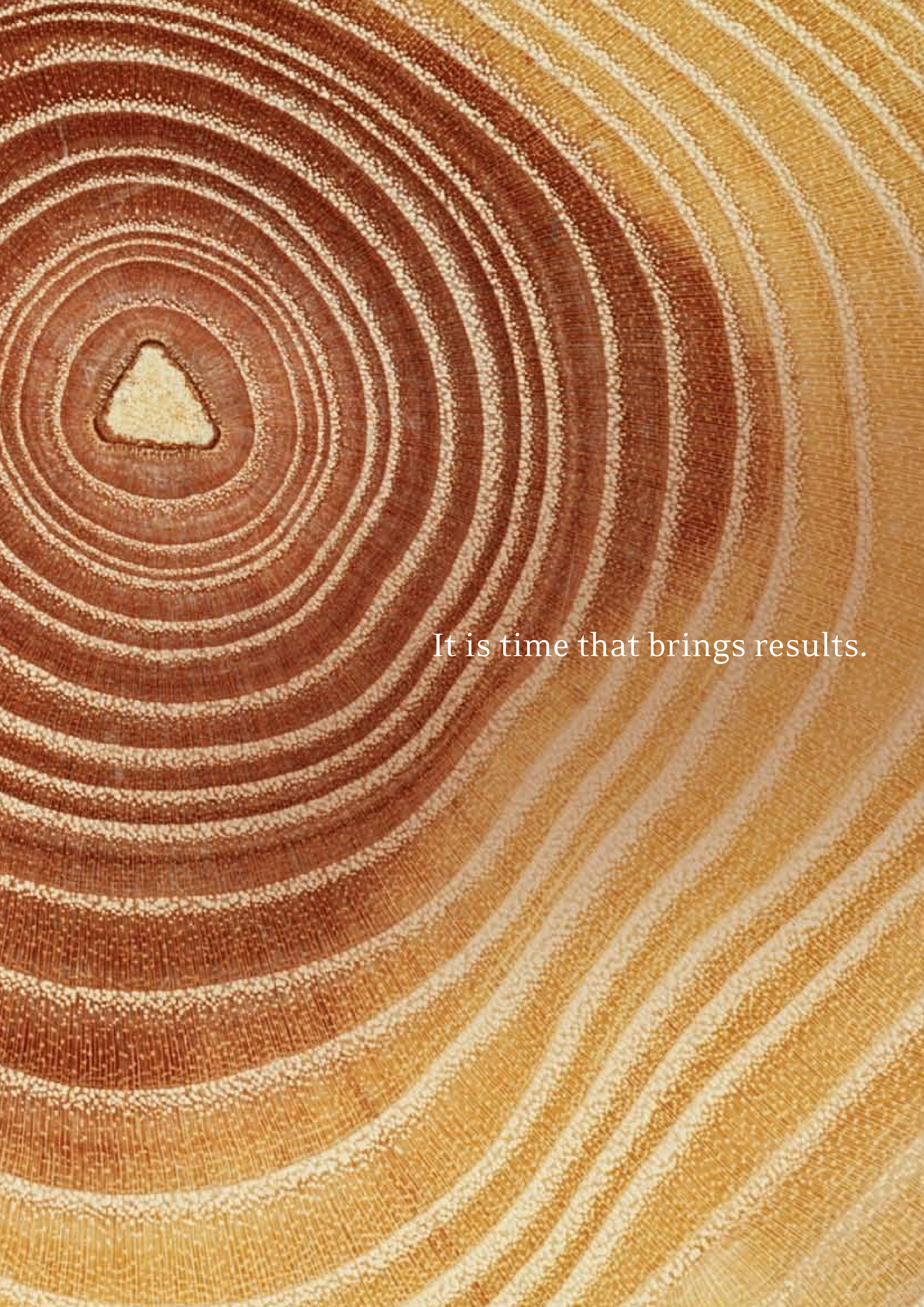
It is time that brings results.

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

Introduction to the financial statements 96
Statement of compliance 96
Consolidated financial statements of the Krka Group 97
Consolidated balance sheet 97
Consolidated income statement 98
Consolidated statements of changes in equity 99
Consolidated cash flow statement 100
Notes to the consolidated financial statements 101
Auditor's report 135
Financial statements of Krka, d. d., Novo mesto 136
Balance sheet 136
Income statement 137
Statement of changes in equity 138
Cash flow statement 139
Notes to the financial statements 140
Auditor’s report 177

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.
4

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

EUR thousand	31 December 2007 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**

EUR thousand	31 December 2006 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.

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.
4

Who's Who in Krka

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

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

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

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

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

Deputy Chief Executive
Vinko Manček
T: +386 7 332 27 24
E: vinko.mancek@krka.biz

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

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

Senior Professional Consultant
Jožica Štamcar
T: +386 7 331 25 60
E: jozica.stamcar@krka.biz

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

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

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

Medical Director and Director of Strategic Marketing
Breda Barbič Žagar
T: +386 1 475 13 39
E: breda.zagar@krka.biz

Director of Marketing of Self-Medication and Cosmetics
Samo Komel
T: 01 475 13 76
E: samo.komel@krka.biz

Director of Marketing of Animal Health
Jože Primc
T: +386 1 475 13 76
E: joze.primc@krka.biz

Director of Sales and Director of the Region East Europe
Damjan Možina
T: +386 7 331 23 71
E: damjan.mozina@krka.biz

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

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

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

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

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

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

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

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

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

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

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

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

Director of API production
Milan Bezeg
T: +386 7 332 38 87
E: milan.bezeg@krka.biz

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

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

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

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

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

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

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

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

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

Head of Internal Audit
Mira Rataj Siročić
T: +386 7 331 22 20
E: mira.rataj-sirocic@krka.biz

Head of the Department for Companies and Representative Offices Abroad
Mojca Vidmar Berus
T: +386 7 331 24 02
E: mojca.vidmar-berus@krka.biz

Representative offices of Krka, d. d., Novo mesto abroad

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

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

Belarus
220030 Minsk, Ul. Engelsa 34a, str. 2, of. 511
Director **Natallia Tretsyakevich**
T: + 375 17 328 35 11
E: natallia.tretsyakevich@krka.biz

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

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

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

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

Estonia
11317 Tallinn, Pärnu mnt. 139C
Director **Merit Kiili**
T: + 372 6 597 365
E: merit.kiili@krka.biz

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

India
560066 Bangalore,
2nd Floor, Evoma Business Incubation Facility
82/83 Borewell Road, Opposite Whitefield Post Office
Whitefield
Director **Saša Kolarič**
T: + 91 80 41 74 31 22
E: sasa.kolaric@krka.biz

Kazakhstan
050004 Almaty, Nauryzbay Batyr 17, of. 303, 304
Director **Luiza Beata Nocun**
T: + 7 727 244 82 05
E: luiza.nocun@krka.biz

Kosovo
10000 Prishtina, Rr. Pashko Vasa, Nr. 18, kati i III
Qytetza Pejton
Director **Hatixhe Haziri**
T: + 381 382 40 688
E: hatixhe.haziri@krka.biz

Latvia
1010 Riga, Kr. Valdemara 37
Director **Elita Šukele**
T: + 371 733 86 10
E: elita.sukele@krka.biz

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

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

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

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

Serbia
11070 Belgrade, Jurija Gagarina 26v
Director **Radivoj Topalov**
T: + 381 11 22 88 722
E: radivoj.topalov@krka.biz

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

Uzbekistan
100027 Tashkent, Afrosiyab Str. 28/14, of. 403, 405
Director **Guzal Niyazova**
T: + 998 71 150 10 44
E: guzal.niyazova@krka.biz

Krka Company subsidiaries

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

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

Germany
TAD Pharma GmbH, Cuxhaven
27472 Cuxhaven, Heinz-Lohmann Straße 5
Director **Stefan Grieving**
T: + 49 4721 606 200
E: grieving@tad.de

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

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

Macedonia
KRKA-FARMA DOOEL, Skopje
1000 Skopje, Servisna zona jug, reon 40
Novoproektirana bb
Director **Svetlana Stanoevska**
T: + 389 2 27 20 310
E: svetlana.stanoevska@krka.biz

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

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

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

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

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

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

Slovakia
KRKA Slovensko, s.r.o., Bratislava
811 05 Bratislava, Moyzesova 4
Director **Marjan Vrbnjak**
T: + 421 2 571 04 501
E: marjan.vrbnjak@krka.biz

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

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

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

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

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

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

www.krka.si

Published by: Krka, d. d., Novo mesto
Design and production: Mayer McCann d.o.o.
Text: Krka, d. d., Novo mesto
Photography: Tomaž Gregorič, archives
Translation: Paul Townend, Suzana Ščavničar, Damjana Jakoš
Print: Gorenjski tisk, Kranj
Published: 2008