



Annual report 2007



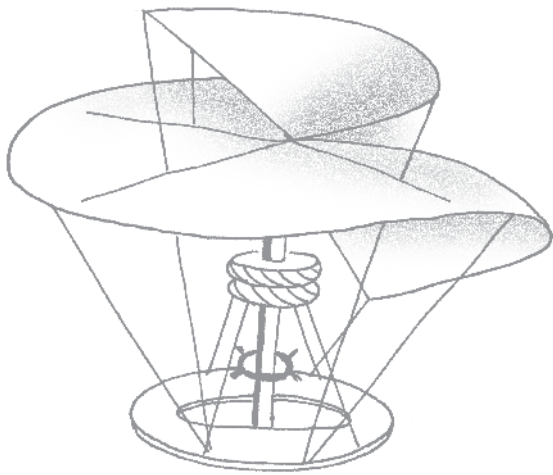
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Reaching the heights allows us to see further than the rest.

Introduction



*The height we grow to depends
on the strength of our roots.*

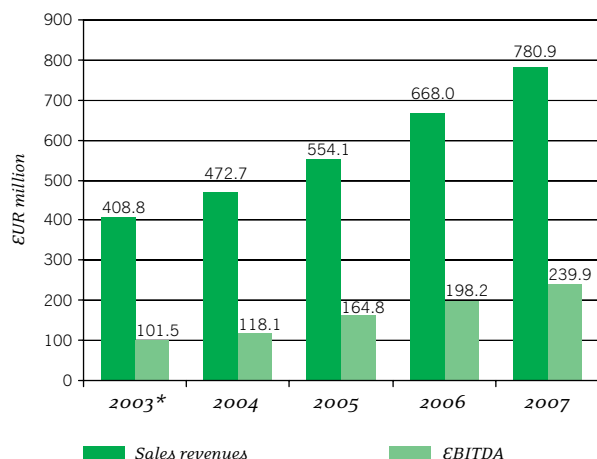
We're not afraid of heights.

*We are building on a rich tradition,
heading for the summit, where unlimited opportunities
for further growth will unfold.*



Significant achievements

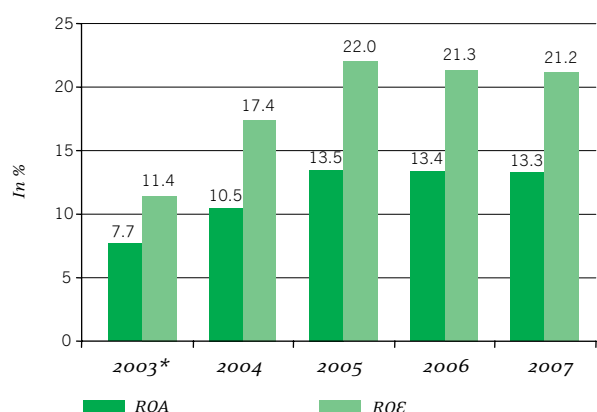
SALES REVENUES AND EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (EBITDA)



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

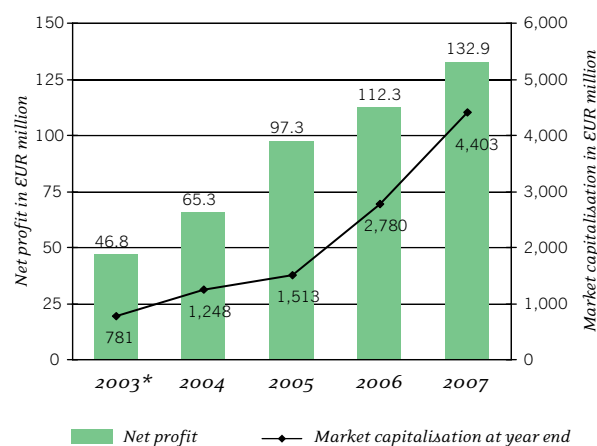
EBITDA grew by 21%, and the EBITDA margin increased by one percentage point.

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



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

NET PROFIT AND MARKET CAPITALISATION



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

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

The Krka Group financial highlights

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

¹ Net profit/average equity balance over period

² Net profit/average total asset balance over period

³ To aid comparison the new number of shares following the September 2007 1:10 share split are used in calculated data per share.

⁴ Net profit of Krka Group majority shareholders/average number of shares issued in the period (no own shares)

⁵ Share capital on 31 December/total number of shares issued

ID Card of the Krka Group

Data on the controlling company

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

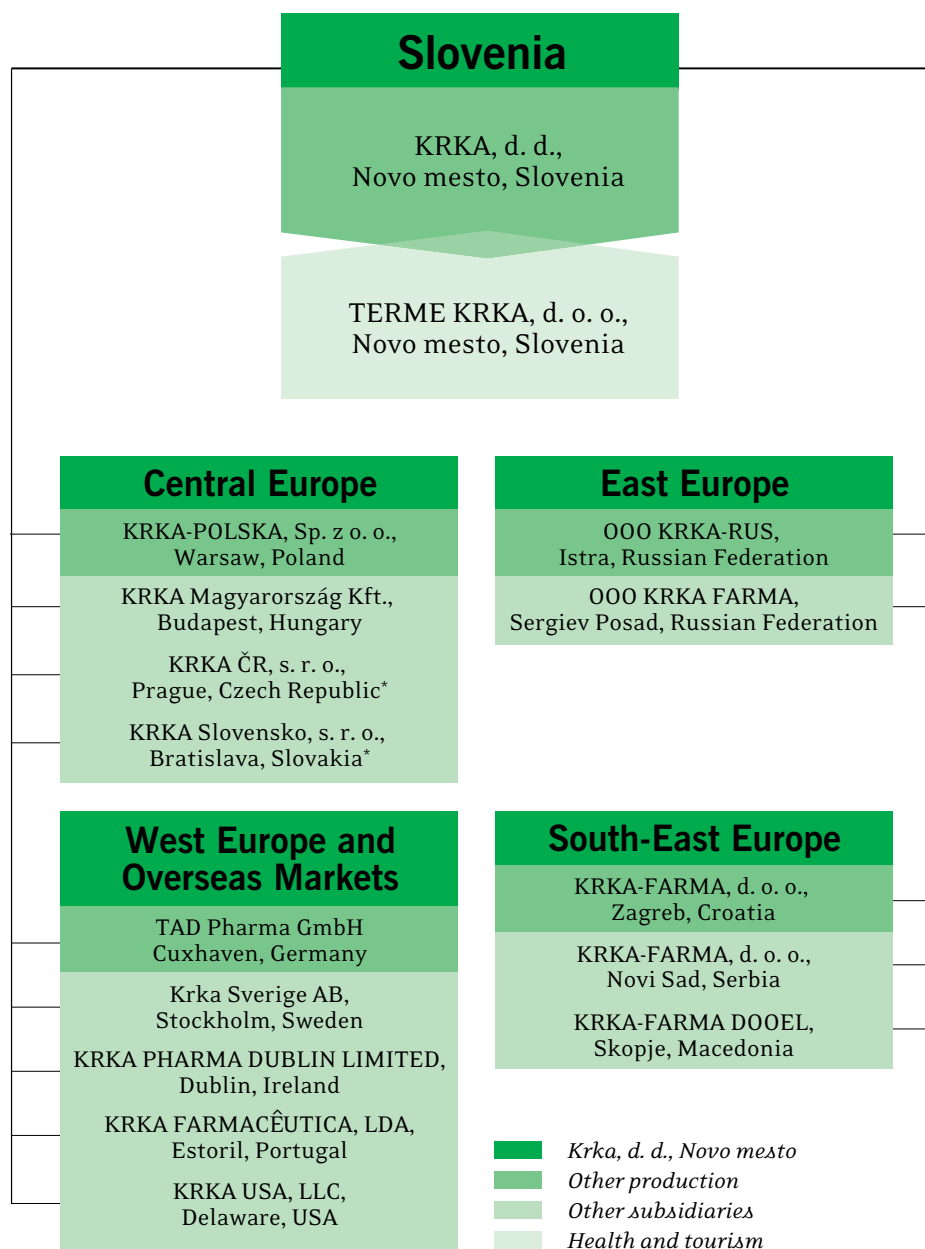
Registered office:	Šmarješka cesta 6, 8501 Novo mesto, Slovenia
Telephone:	+ 386 7 331 21 11
Fax:	+ 386 7 332 15 37
E-mail:	info@krka.biz
Website:	www.krka.si
Basic activity:	Production of pharmaceutical preparations
Activity code:	21.200
Year established:	1954
Registration entry:	1/00097/00, Novo mesto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

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

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

Abbreviated company names are used in the text below.

Organisational chart of the Krka Group



The chart includes active companies.

* Active from 1 January 2008.

Significant events and awards in 2007

January

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

February

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

March

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

April

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

May

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

June

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

July

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

September

- Krka received a gold award for innovative solutions

for its formulation of a perindopril-erbumin preparation (Prenessa® tablets).

October

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

November

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

December

- Krka received the highest national award for quality – the Business Excellence Award of the Republic of Slovenia (PRSP0) for 2007.
- The Ljubljana Stock Exchange granted Krka its Portal 2007 award recognising it as the most transparent public limited company (d.d.) in Slovenia.
- According to the Company Reputations 2007 research prepared by the agency Kline & Partner, the Slovenian business community considered Krka as the best reputed company.
- Krka opened its new injection production plant. This EUR 15.5 million investment increased injection production by 30%.

Events after the accounting period

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

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

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

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

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

Statement by the President of the Management Board



Dear shareholders, business partners and employees,

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

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

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

Krka has a modern sales programme, which is reflected in the large number of new products it contains. The proportion of products coming from the vertical business model is increasing. Prescription pharmaceuticals are the most important, and the fastest growing sales segment, with growth of 18% meaning their sales were worth EUR 631 million. The Krka product range

also includes self-medication products, cosmetics, and animal health products. The Krka Group has over 400 employees engaged in research and development, working to modernise the Group's product range. In 2007 there were over 100 development projects under way. Last year 8% of sales revenues were allocated to R&D. Another point of note in the Krka Group's sales results, is the double-digit growth in health resort and tourist services, a segment we see as a supplementary area that makes us even more effective in fulfilling the Krka mission: "Living a Healthy Life."

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

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

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

In the business environment, where changes are the only constant, human capital has become the main source of competitive advantage. Last year Krka was voted the employer with the best reputation in Slovenia, and is often the first choice for job seekers in

Slovenia. Our doors are always open to those with the right knowledge and desire to work. I am very pleased that over the past year we have taken on over one thousand new employees. We are also planning a high level of recruitment in 2008, particularly in marketing and R&D.

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

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

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



Jože Colarič

President of the Management Board and Chief Executive

2007 Report of the Supervisory Board



Dear shareholders,

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

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

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

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

- It proposed that the Annual Meeting reappoint KPMG Slovenija, podjetje za revidiranje, d. o. o., Ljubljana as the company auditor for the 2007 financial year.
- In line with a resolution by the Slovenian Government, it proposed that the Annual Meeting adopt a new resolution on attendance fees and remuneration of supervisory board members.
- At the final meeting of 2007, the Supervisory Board was presented the Krka Group business strategy for 2008-2012, an update to the 2006-2010 strategy adopted two years ago, extended for two years.
- At the same meeting, it discussed the 2008 business plan for the Krka Group and Krka Company, which included the planned sales figures, planned scale of capital expenditure, R&D investment, recruitment, and the planned financial performance indicators.
- Every quarter it discussed the interim reports on Krka Company and Group operations, and monitored their compliance with existing business and development plans, assessing the Group's operations and the work of the Management Board on each occasion.
- At the final meeting of 2007 the members of the Supervisory Board were informed of the Management Board's intention to acquire the company TAD Pharma GmbH from Cuxhaven, Germany, which it supported.
- As every year, the Supervisory Board twice deliberated data (for 2006 and the first half of 2007) on benchmarking of Krka operations with those of a select group of other pharmaceutical companies.
- In accordance with the Rules on Treasury Shares it also studied information on the acquisition and disposal of treasury shares each quarter.
- As each year, it also studied the state of legal claims brought against the Krka Company and the Krka Group by foreign companies in 2007.
- At the July meeting, the Board was informed of Marko Kranjec's letter of resignation from the Supervisory Board, following his appointment as Governor of the Bank of Slovenia by the National Assembly. Since Kranjec was also the Deputy President of the Supervisory Board, Mateja Božič, MSc, was appointed Deputy President.
- The President of the Supervisory Board signed a contract with Janez Poljanec and Aleš Rotar on 1 August 2007 for work on the Management Board until 31 December 2009, in line with a Supervisory Board resolution from 2006 on their reappointment.
- As Danica Novak Malnar's term-in-office as the

worker director was coming to an end at the end of 2007, at the proposal of the Works Council and with the President of the Management Board's consent, the Supervisory Board reappointed her as worker director.

- In line with the Rules on Management Board Remuneration, the Supervisory Board decided on bonus for the Management Board for work in 2006 and the first half of 2007, based on the operating results of the Krka Company and Group.
- It amended a number of quantitative performance indicators in the Rules on the Management Board Remuneration, which were taken into account in calculations. Qualitative performance indicators were included to take account of social responsibility (attitude to the environment, etc.), company reputation, public relations (with employees and external public) and investor relations, with the Management Board's report used to assess performance under these criteria.
- At the Supervisory Board's request, Aleš Rotar, Management Board member and Director of Research and Development, who also has responsibility for the Quality Management Division within the Management Board, presented the Krka Group's research and development at one meeting and the quality management at another.
- During 2007, members of the Supervisory Board inspected production at Krka's Beta plant, as well as reviewing the Wellness Centre at Terme Šmarješke Toplice, and attending the opening and tour of the new Sinteza 4 plant.

The work of the Supervisory Board committees

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

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

auditor also prepared a report entitled Potential Tax Optimisation, which was also presented at one of the Committee's meetings.

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

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

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

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

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

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

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

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

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

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

Work of the Management Board and Supervisory Board

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

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

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

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

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

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

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

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

ing of 2 April 2008. With this, the Annual Report was formally adopted in accordance with Article 282 of the Companies Act and Krka's Articles of Association.

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

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

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

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



Gregor Gomišček, PhD
President of the Supervisory Board

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



Business report



*We want to be first, so we always have to be
one step ahead of the rest. From breadth comes
understanding, opening a range of opportunities
from which to choose.*

*The right attitude, knowledge, commitment and
innovation always lead us to our goal.*

Corporate Governance

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

The company's governing bodies are:

- the General Meeting,
- the Supervisory Board and
- the Management Board.

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

General Meeting

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

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

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

The Twelfth General Meeting of the Krka Company was held on 5 July 2007, and shareholders:

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

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

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

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

Supervisory Board



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

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

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

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

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

The same chapter also covers Supervisory Board members' **ownership of shares** in the Company. Members of the Supervisory Board report any acquisition

or disposal of company shares to the company and competent institutions. Krka makes this information public.

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

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

Shareholder representatives

Gregor Gomišček, PhD, 51 years

President of the Supervisory Board

Gregor Gomišček completed his natural science studies at the University of Ljubljana, and attained a

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

Marko Kranjec, PhD, 68 years

Deputy President of the Supervisory Board

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

Mateja Božič, MSc, 41 years

Deputy President of the Supervisory Board

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

Draško Veselinovič, PhD, 49 years

President of the Supervisory Board's Audit Committee

Draško Veselinovič attained his doctorate at the Faculty of Economics in Ljubljana. He finished several specialisation studies abroad on global finance, international marketing and international banking. From 1989 to 2004 he was the founding president and CEO of the Ljubljana Stock Exchange. He is now the President of the Management Board of the Deželna Banka Slovenije, d. d., Ljubljana, associate professor of inter-

national finance and capital markets at the Faculty of Economics in Ljubljana, and in charge of several postgraduate programmes at institutions including the Faculty of Economics and Business in Maribor, IEDC Bled, and Vienna University and others. He is a member – and representative of all new EU member states – of the European Payments Council (EPC) in European Banking Federation (EBF).

Anton Rous, 68 years

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

Alojz Zupančič, 69 years

President of the Supervisory Board's Human Resource Committee

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

Employee representatives

Sonja Kermc, 56 years

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

Mateja Vrečer, PhD, 41 years

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

Tomaž Sever, MSc, 40 years

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

Management Board



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

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

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

The Management Board **comprises** five members:

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

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

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

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

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

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

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

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

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

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

Members of the Management Board

Jože Colarič, 52 years

President of the Management Board and Chief Executive

Jože Colarič graduated from the Faculty of Economics in Ljubljana. He has worked for Krka since 1982, and began work in the Financial Sector. In 1989 he took charge of the Exports Service within the Import-Export sector. In 1993 he was named as the deputy to the Chief Executive for the area of marketing and finance, and in September of the same year started work as the Director of Marketing and Sales. In 1997 he was appointed as a Member of the Management Board. The following year the company's Supervisory Board appointed him as Deputy President of the Board, and in 2002 acknowledged him as future President of the Management Board, placing him in charge of the

proposal for the new Management Board team. At its meeting of 12 July 2004, the Supervisory Board appointed him as President of the Management Board and CEO, with a five-year term-in-office starting on 1 January 2005.

Janez Poljanec, 61 years

Member of the Management Board and Director of Product Supply

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

Aleš Rotar, PhD, 48 years

Member of the Management Board and Director of Research and Development

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

Zvezdana Bajc, 55 years

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

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

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

Danica Novak Malnar, 51 years

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

Danica Novak Malnar is a graduate of the Faculty of Natural Science and Technology in Ljubljana and has worked for Krka since 1982. In 1986 she became Head

of the Pharmaceutical Division in Ljutomer, and then for six years led the Division for Operative Production Planning. In 1994 she was placed in charge of the Production Planning Department. In 1998 she was appointed to the Management Board as the worker director, and was most recently reappointed by the Works Council and approved by the Supervisory Board in 2007, with her latest term-in-office beginning on 1 January 2008. Since 1999 she has been in charge of pharmaceutical production.

Governance of the Krka Group

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

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

To improve the cohesion of the Group and offer the best possible supervision of subsidiaries' operations,

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

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

Internal auditing

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

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

Internal audits were carried out in the fields of pharmaceutical production, sales, information technology, and health and safety at work. The internal auditors were able to give assurance that the internal con-

trols for these processes were in place and functioning effectively, and supported risk management. Two subsidiaries and a number of representative offices abroad were also subject to internal audits.

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

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

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

External auditing

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

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

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

Corporate Governance Code Compliance Statement

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

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

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



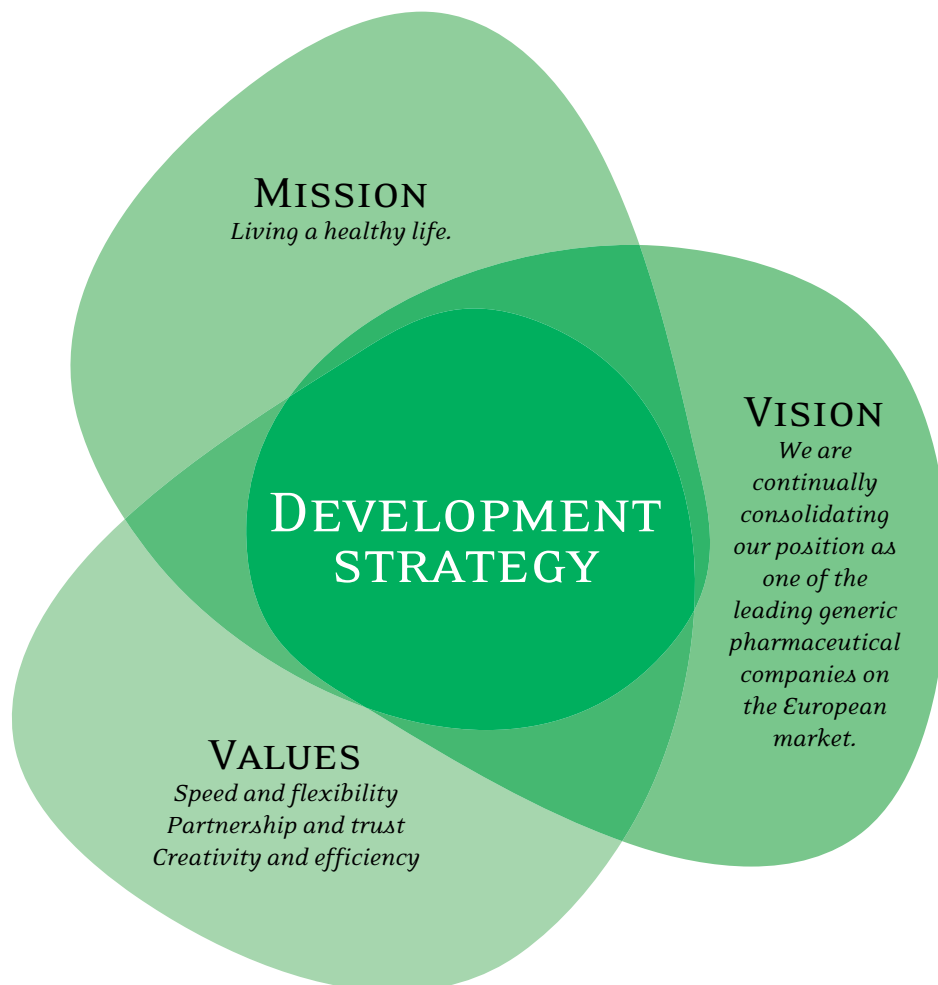
Jože Colarič
President of the Management Board



Gregor Gomišček, PhD
President of the Supervisory Board

Novo mesto, 2 April 2008

The Krka Group development strategy



KEY STRATEGIC OBJECTIVES – TO 2012

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

At the end of 2007 the Krka Group adopted a new development strategy for 2008 to 2012. At the same time the performance criteria used to assess the implementation of the strategy at all three levels were updated. The corporate performance criteria are monitored by the Management Board, while criteria at the level of product groups and

business functions, which have been combined with improvement objectives for greater transparency and standardisation are monitored by the relevant committees. The guiding principle in managing the criteria system is to increase the competitiveness of individual companies and the entire Group.

KEY STRATEGIES – TO 2012

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

KRKA GROUP'S BUSINESS OBJECTIVES FOR 2008

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

Macroeconomic environment forecast for 2008

Macroeconomic conditions affect business performance on individual markets and long-term government health policies. The macroeconomic conditions forecast for 2008 on Krka's key markets plus Romania, Ukraine and the Czech Republic – three countries

where the volume of sales are close to those achieved on the key markets – are set out below. It is our opinion that the macroeconomic conditions in these countries will make a positive contribution to achieving the Krka Group's business objectives.

MACROECONOMIC ENVIRONMENT FORECASTS IN 2008

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

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

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

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

Slovenia

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

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

Croatia

Rapid economic growth is expected to continue, and will be primarily tied to household spending and business investment activity. Business optimism is expected to continue in the field of corporate investment, buoyed by a favourable economic climate and a supportive environment. Public spending in the 2008

post-election year is expected to calm somewhat, with the actions of the central bank expected to calm domestic spending. Real wages are expected to remain behind the growth in productivity, which means businesses' cost effectiveness is expected to improve. The country's foreign trade balance remains one of its major macroeconomic challenges given the relatively high external borrowing. A moderate increase in inflationary pressure is expected, which will probably be mitigated by the Government's restrictive fiscal policy.

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

Russian Federation

The Russian Federation remains a key market for the Krka Group and offers significant economic potential. After the liberalisation of capital flows, an upturn in investment activity was detectable, which had an extremely favourable impact on the country's economic growth. The Russian Federation is expected to have one of the highest rates of economic growth in the world over the coming year. High oil prices have had a positive impact on the value of Russian exports and contributed to a large trade surplus. Inflation remains relatively high, and is not expected to fall in the short

term, also due to increases in public sector wages. Reducing inflation remains one of the key medium-term challenges for the Russian economy. Strengthening the rouble, which has so far proved to be an effective instrument for mitigating inflation, will continue over the coming year, and will also have a positive effect on business investment activity.

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

Poland

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

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

Western Europe

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

Central bank measures, particularly major assistance to commercial banks, can be expected to mitigate

problems on the financial markets, which will have a positive impact on the economic situation in the western EU member states.

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

Romania

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

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

Ukraine

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

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

Czech Republic

After expansion in 2007, economic growth is expected to calm, which is partially the consequence of a more restrictive fiscal policy, and partially due to reduced investment activity, which had already fallen slightly behind expectations in 2007. The restrictive budgetary policy will be at least partially compensated by growing domestic demand, underlined particularly by wage growth and borrowing. Growth in exports is ex-

pected, particularly in industrial products, which will have a positive impact on the country's foreign trade balance. Inflation increased towards the end of 2007, so a tighter monetary policy is expected in future. The central bank wants to maintain the annual inflation rate within a band between 2 to 4%.

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

Risk management

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

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

source committee, economics and finance committee, and the information technology committee).

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

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

OPERATIONAL RISK

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

Insurance companies offer cover for three groups of risk: risk of damage to property, risk of claims for

damages and civil lawsuits, and risk of financial losses due to business interruption.

FINANCIAL RISK

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

Operational risk

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

Research and Development

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

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

ing a new medicine and lasts throughout the entire life cycle of a product. We assess our development solutions for an individual product together with the regulatory authorities using official advisory mechanisms and the planned content of marketing authorisation documentation. This reduces the risk of problems or even failure occurring during the product registration and extended authorisation procedures. Krka actively participates in the preparation of legislation via working groups of industry associations.

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

Reliability of suppliers and contractual partners

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

Availability of production capacity

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

Environmental protection

Some accidents can have a negative impact on the environment, so it is important to take effective action and reduce the risk of accidents. Krka's internal procedure – Recognising Accidents – identifies and evaluates all potential accidents, and the relevant respons-

es should they occur. Preventive measures reduce the likelihood of such accidents occurring. Training and drills are used to ensure any accident that does occur will have a minimal impact on the environment. Two accidents occurred in 2007 (spillage of minor quantities of hazardous substances). Effective action, taken in accordance with the internal instructions, meant there was no harmful environment impact in either case.

Information resources

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

Workforce

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

Health and safety at work

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

Asset protection

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

Financial risk

Foreign exchange risk

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

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

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

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

OVERVIEW OF THE CONTROLLING COMPANY'S FOREIGN EXCHANGE INFLOWS, OUTFLOWS AND OPEN CURRENCY POSITIONS

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

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

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

Interest rate risk

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

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

Credit risk

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

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

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

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

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

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

Liquidity risk

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

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

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

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

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

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

Current ratio = current assets / current liabilities

Quick ratio = (current assets – inventories) / current liabilities

Acid test ratio = (financial investments + cash and cash equivalents) / current liabilities

Receivables turnover ratio = net sales revenues / accounts receivable and other receivables

Working capital = (current assets – cash and cash equivalents) – (current liabilities – short-term borrowings)

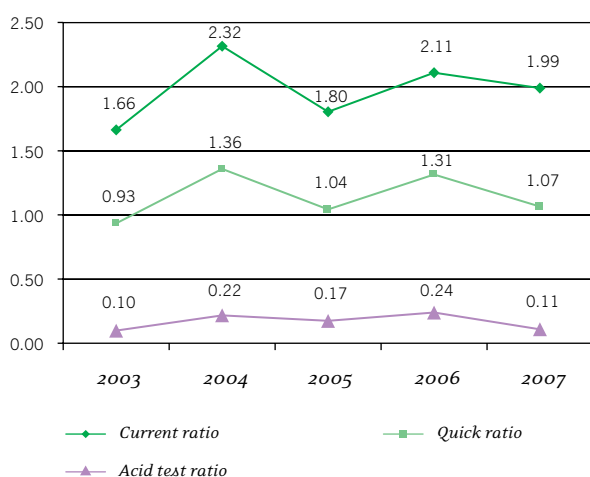
* Slovenian Accounting Standards

** Own calculations based on Reuters data for selected comparable companies (Teva, Stada, Zentiva, Egis)

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

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

MOVEMENT IN LIQUIDITY RATIOS FOR THE KRKA GROUP



Property, business interruption and liability insurance

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

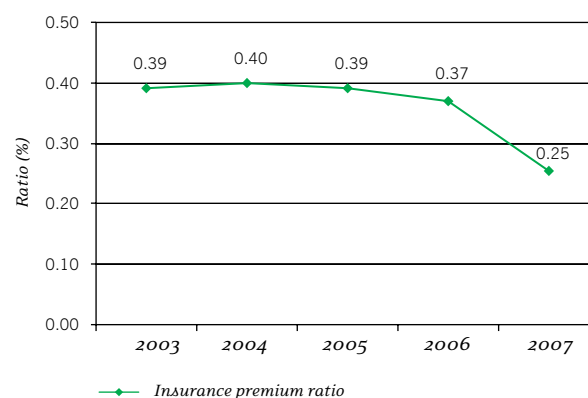
The ratio between the sum insured and the deductible is subject to careful scrutiny on an annual basis, and has a significant effect on the insurance premium. Minor damage is covered by own funds, while larger and catastrophic damage is covered by policy proceeds or compensation from insurance companies. In 2007 the Krka Group cancelled its machinery breakdown insurance based on research into exposure to damage

and breakdown of production and transport equipment, machine installations and electronic equipment, and an analysis of loss events over several years, transferring payment of damages to its account.

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

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

RATIO OF INSURANCE PREMIUM TO SALES REVENUES



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

Investor information

Shareholder return

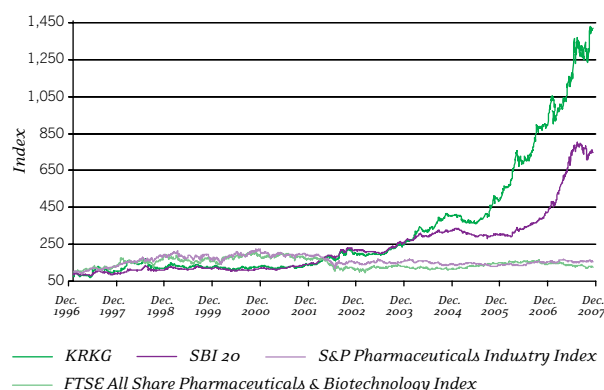
KRKA SHARE PRICE

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

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

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

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



Source: Reuters

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

Dividend policy

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

DIVIDENDS

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

¹ Net profit of Krka Group majority shareholders / average number of shares issued in the period, excluding own shares

² Dividend paid for previous period / average number of shares issued in the period

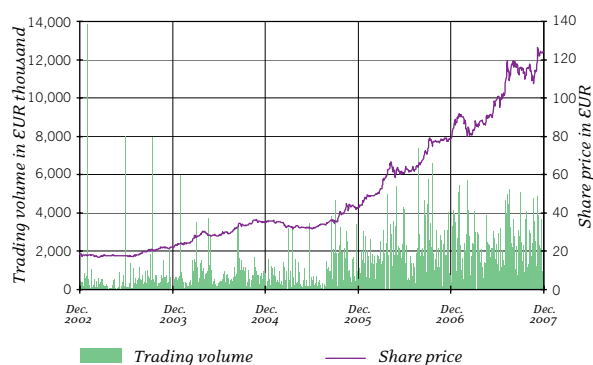
³ Gross dividend per share / earnings per share from previous period

⁴ Gross dividend per share / share price on 31 December of the year
The number of shares following the 1:10 share split is used for all periods. The EURSIT exchange rate on 31 December of each year is used for conversion to EUR for period 2003-2006.

Share trading and shareholding

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

TRADING IN KRKA SHARES



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

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

SHAREHOLDER STRUCTURE ON 31 DECEMBER (%)



10 LARGEST SHAREHOLDERS ON 31 DECEMBER 2007

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

Business operations analysis

All financial data since 2004 are presented in accordance with the International Financial Reporting Standards (IFRS), while the Slovenian Accounting Standards (SAS) were used in 2003. The analysis in-

cludes data for the Krka Group and the Krka Company, while the commentary relates primarily to the Krka Group.

Sales

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

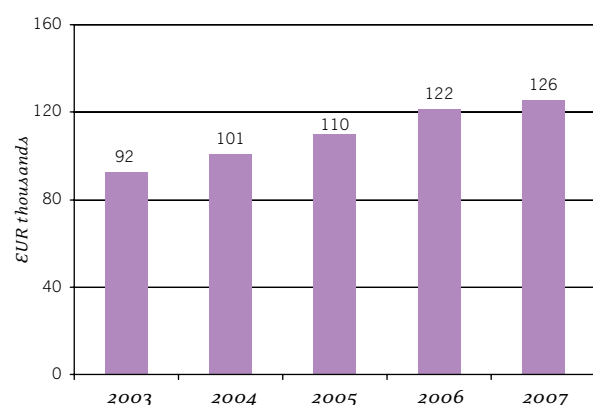


Krka Group's main strategic objective defined in the 2008-2012 development strategy remains focused on the average annual overall sales growth of over 10%. The graph illustrates the stable growth achieved. The average annual sales growth over the past five years has been 17%.

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

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

SALES PER EMPLOYEE FOR THE KRKA GROUP



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

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

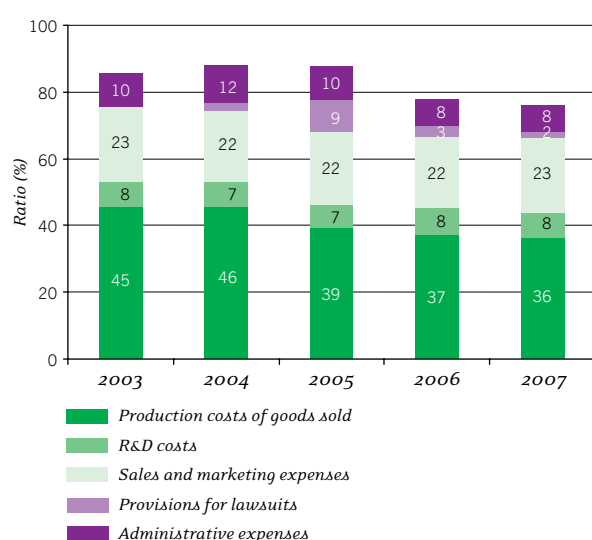
Operating expenses

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

The Krka Group's operating expenses include EUR 282.8 million for production costs of goods sold,

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

STRUCTURE OF OPERATING EXPENSES



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

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

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

Financing income and expenses

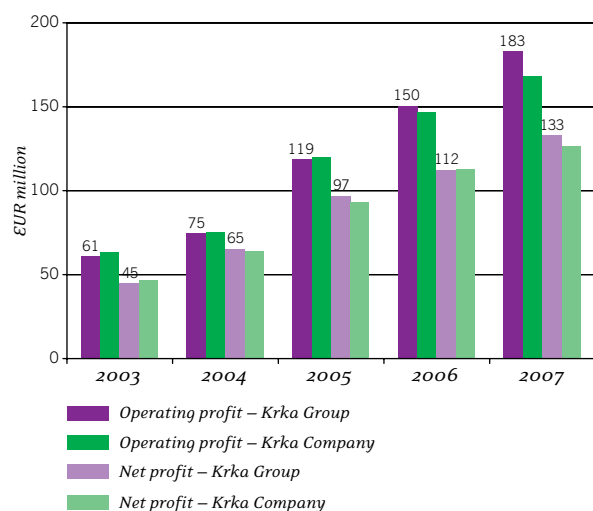
Despite systematic management of foreign exchange and interest rate risk within the Krka Company and the Krka Group, the financing result deteriorated

in 2007. This is primarily due to the greater exchange losses generated by the Krka Group due to the falling value of the US dollar (see Risk Management).

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

Operating results

OPERATING PROFIT AND NET PROFIT



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

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

Assets

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

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

the proportion of non-current assets increasing by 1.5 percentage points to 67%.

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

The most important item among non-current assets – which had a total value of EUR 749.7 million – was property, plant and equipment, worth EUR 572.2 million, an increase of 13% due largely to new invest-

ments. However, as a proportion of total assets they decreased from 58% in 2006 to 51%. The value of intangible assets increased by 453% to EUR 129.9 million, and represents almost 12% of total assets. The high increase in the value of intangible assets largely came from increased investment in the goodwill and trademark of TAD Pharma (for more details refer to Notes to the Krka Group's Consolidated Financial Statements).

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

Equity and liabilities

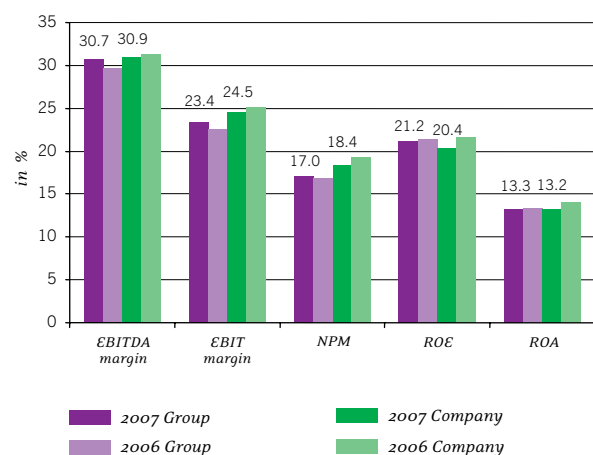
EUR thousand	Krka Group					Krka Company				
	2007	Prop. in %	2006	Prop. in %	Index 07/06	2007	Prop. in %	2006	Prop. in %	Index 07/06
Equity	680,913	60.7	570,905	64.9	119	672,010	63.6	569,918	66.7	118
Non-current liabilities	253,773	22.6	163,941	18.7	155	219,426	20.7	150,351	17.6	146
Current liabilities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

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

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

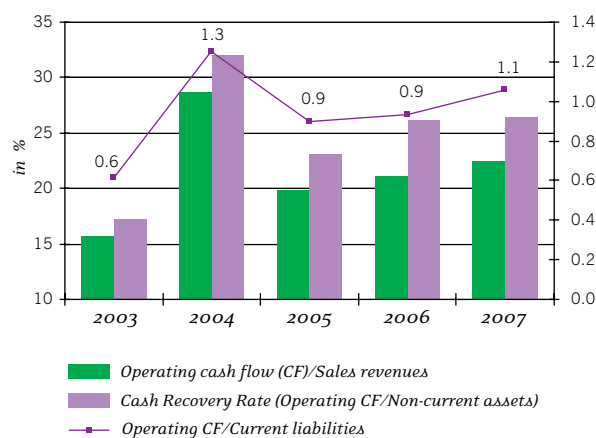
Performance ratios

PROFITABILITY RATIOS



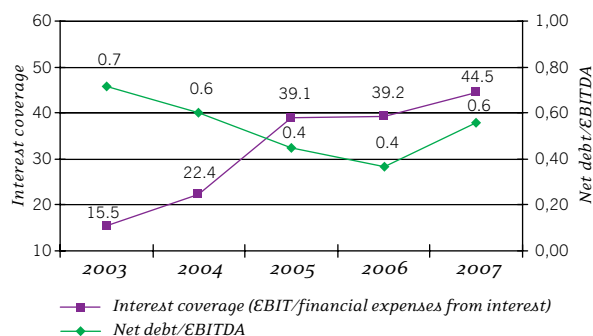
In 2006 the performance ratios were in compliance with the strategic guidelines and annual objectives. Compared to 2006 the Group achieved a higher return on sales. The return on equity and return on assets ratios remained at 2006 levels.

CASH FLOW RATIOS



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

LIQUIDITY RATIOS



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

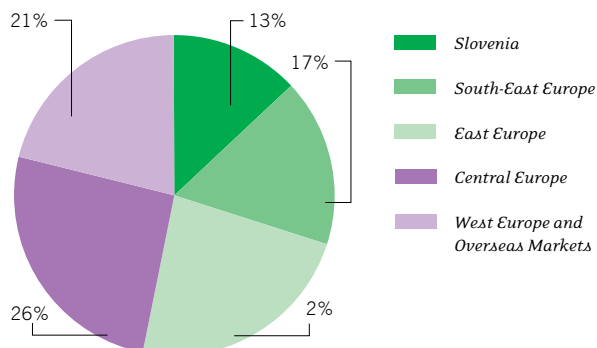
OPERATING FIGURES 2003-2007

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

Marketing and sales

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

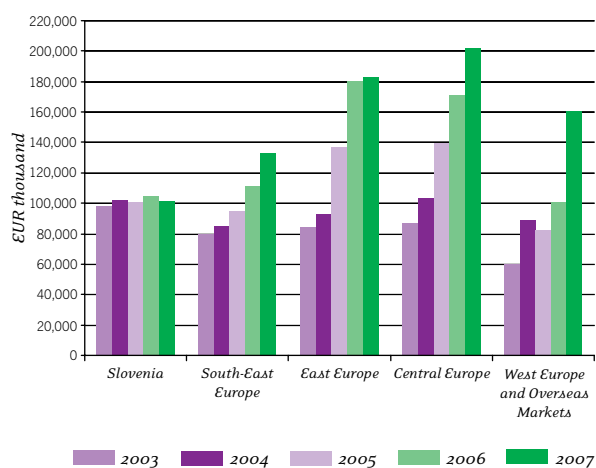
KRKA GROUP SALES BY REGION IN 2007



KRKA GROUP AND KRKA COMPANY SALES BY REGION

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

KRKA GROUP SALES BY REGION



Slovenia

Group sales in Slovenia underwent a 3% drop compared to the previous year, and were worth EUR 101.6 million. Prescription pharmaceuticals represented the largest proportion of sales. The reduction in their price was largely due to the Rules on the Prices

of Medical Products coming into effect, and contributed most to the overall negative growth sales in the region. Terme Krka grew 10%, and generated sales of health resort and tourist services worth EUR 30.8 million.

KRKA GROUP MARKET POSITION IN SLOVENIA

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

Our products are market leaders:

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

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

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

Krka's leading products, and the most important, on the Slovenian market by sales were Ultop®, Atoris®, Vasilip®, Enap® and Lorista®. There was an increase in our market share in the group of products for treatment of the central nervous system and the urinary tract that

we started marketing in 2006 and 2007. Competition among generics intensified and there was a growth in the number of products. We are adapting to changing circumstances by introducing new products in varied forms and concentrations.

South-East Europe

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

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

KRKA GROUP MARKET POSITION IN CROATIA

Krka is the leading foreign generic pharmaceutical company.

Krka is the third-ranked pharmaceutical company overall.

Our products are market leaders:

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

Our products are among the market leaders:

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

In **Romania**, the second most important market in the region by sales, the Krka Group product sales were worth EUR 37.7 million. Since Krka's sales growth was higher than the sales growth for the overall market, our market share increased to 3%. The growth in sales came from newer products, primarily Rawel® SR, Ul-top®, Vasilip®, Tenox® and Coryol®. We also increased

sales of two products that already held leading market shares – Bilobil® and Ciprinol®.

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

KRKA GROUP MARKET POSITION IN ROMANIA

Krka is the second-ranked foreign generic pharmaceutical company.

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

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

Our products are among the market leaders:

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

East Europe

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

The Krka Group achieved product sales worth EUR 122 million in the **Russian Federation**, the largest market in the region, which represents a fall of slightly over 6% compared to 2006. Expressed in US dollars sales grew by 7%. The largest contribution to sales – EUR 88.1 million – came from pharmaceutical products, although the largest fall was recorded

for this group due to the restrictions in the reimbursement programme. A high level of growth was achieved in all other areas: sales of self medication products were up 24%, animal products were up 29%, and cosmetics 12%. Sales of pharmaceutical products on the open market, i.e. outside the state reimbursement system, generated growth of 40%. The best-selling products in the Russian Federation were Enap®, Vasilip®, Macropen®, Nolicin®, Cordipin®, Pikovit®, Duovit®, Septolette®, Fromilid® and Bilobil®. We also started the successful production of Zyllt®, the new medicine for treatment of cardiovascular disease.

KRKA GROUP MARKET POSITION IN THE RUSSIAN FEDERATION

Krka is the fifth-ranked foreign generic pharmaceutical company.

Our products are market leaders:

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

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

Ukraine is the second largest market in the region, but entered a period of economic stagnation in the third quarter of 2007. Despite the challenging conditions, particularly for self-medication products,

our coordinated promotional and commercial activities achieved sales growth of almost 17%, reaching EUR 36.6 million. The best selling products were Enap[®], Herbion[®], Macropen[®] and Naklofen[®].

KRKA GROUP MARKET POSITION IN UKRAINE

Krka is the second-ranked foreign generic pharmaceutical company.

Our products are market leaders:

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

All remaining markets in Region East Europe (**Belarus, Moldova, Azerbaijan, Armenia, Georgia, Kazakhstan, Uzbekistan** and the **central Asian states**),

recorded growth in 2007, with Uzbekistan achieving the highest growth, at 75%.

Central Europe

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

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

KRKA GROUP MARKET POSITION IN POLAND

Krka is the third-ranked generic pharmaceutical company.

Our products are market leaders:

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

Our products are among the market leaders:

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

In the **Czech Republic**, our second largest market in the region, the Krka Group achieved product sales worth EUR 38 million, meaning growth of almost 25%. The best selling medicines were Atoris®, Lorista®, Enap®, Ampril® and Lanzul®, which together contrib-

uted over half of overall sales on the market. One self-medication product worthy of particular mention is Septolete®, sales of which were very successful and up one quarter on the 2006 figures, representing almost a half of all self-medication product sales.

KRKA GROUP MARKET POSITION IN THE CZECH REPUBLIC

Krka is the second-ranked foreign generic pharmaceutical company.

Our products are among the market leaders:

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

High sales growth and high market shares were achieved in most of the other markets in the region.

Mention should be made of **Hungary** with high growth of 77% and **Slovakia**, where growth was 51%.

West Europe and Overseas Markets

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

The most important markets in the region are Germany, the United Kingdom, the Nordic countries, Portugal where Krka started selling its own products via its own marketing work, and Italy. The Region record-

ed its highest growth in sales compared to the previous year in southern EU member states, Africa and on the Arabian Peninsula. In 2008 we are planning for the highest increase in sales to take place in the northern European Union member states. We achieved high-volume market shares on the markets of western Europe for individual generic products, primarily the sale of the generics lansoprazole, enalapril and carvedilol. The new products introduced to this market were the generics olanzapine, venlafaxine and pantoprazole, and the generics enrofloxacin and florfenicol in the animal health product group.

KRKA GROUP MARKET POSITION ON WESTERN EUROPEAN MARKETS

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

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

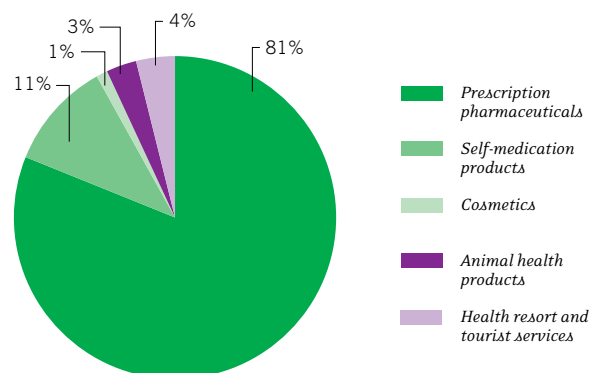
In the Nordic countries and Portugal, Krka sells prescription pharmaceuticals under its own brand.

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

Product and service groups

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

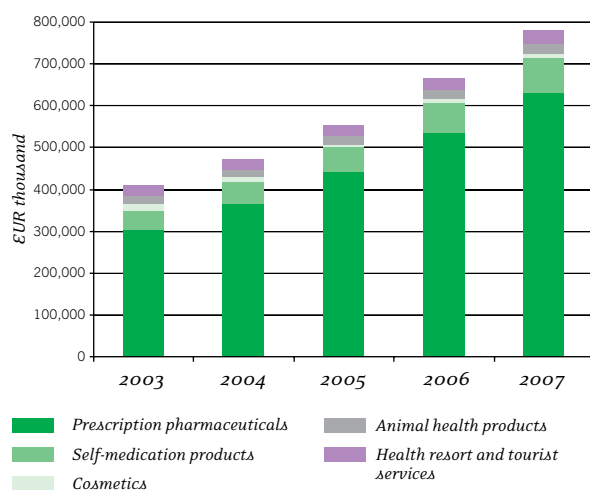
KRKA GROUP SALES BY PRODUCT AND SERVICE GROUP IN 2007



KRKA GROUP AND KRKA COMPANY SALES BY PRODUCT AND SERVICE GROUP

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

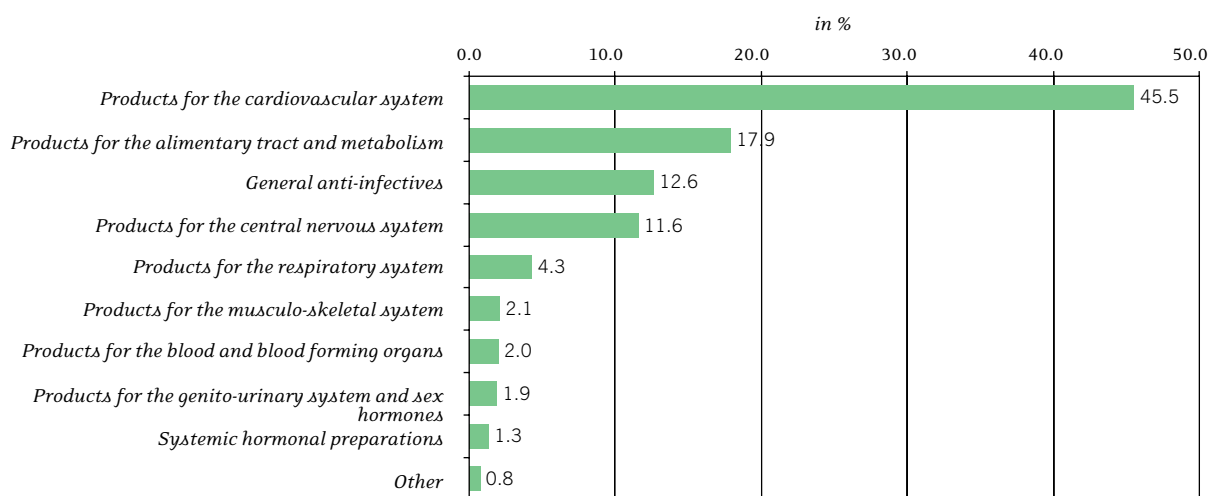
KRKA GROUP SALES BY PRODUCT AND SERVICE GROUP



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

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

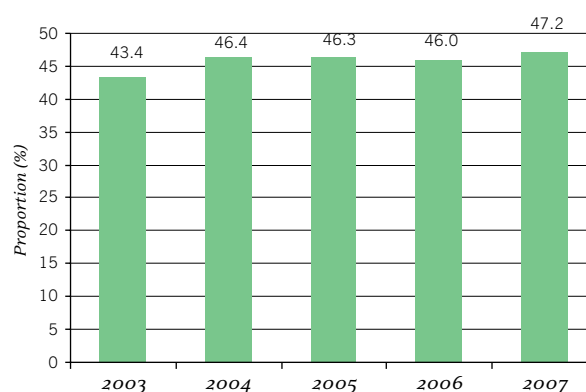
KRKA GROUP PRESCRIPTION PHARMACEUTICAL AND SELF-MEDICATION PRODUCT SALES IN 2007 BY INDICATION GROUP



New products

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

PROPORTION OF NEW PRODUCTS* IN KRKA GROUP SALES



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

NEW PRODUCTS FOR 2007

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

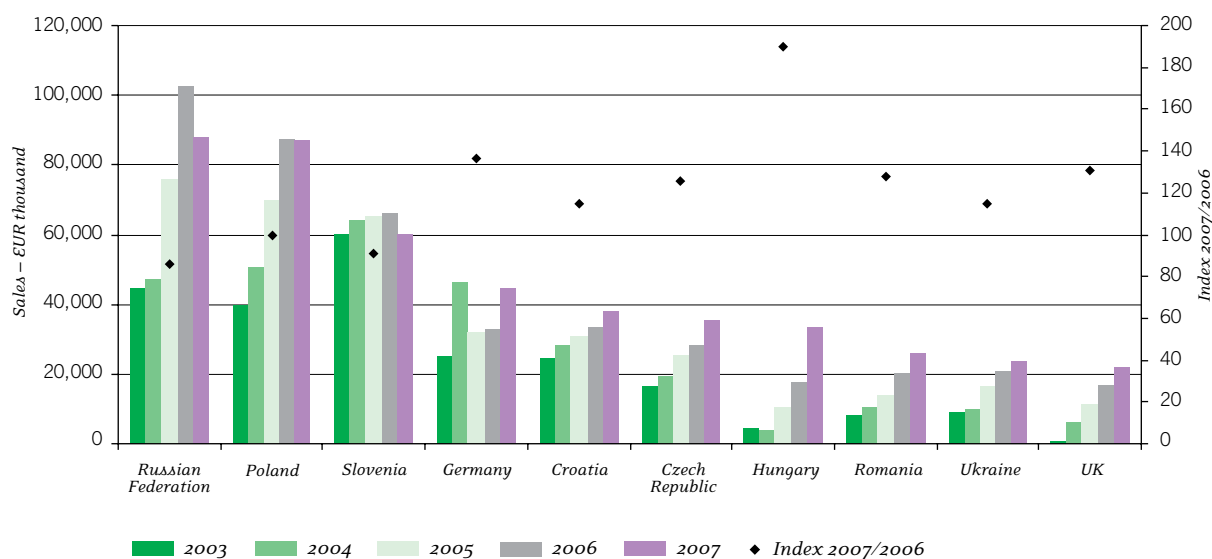
Prescription pharmaceuticals

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

On the 10 largest markets, the highest increases in sales were in Hungary, Germany, Ukraine, the UK,

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

PRESCRIPTION PHARMACEUTICALS SALES ON THE 10 LARGEST MARKETS



Medicines for the treatment of cardiovascular diseases

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

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

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

Prenessa® (perindopril) is the latest ACE inhibitor, and the only generic perindopril available on our tra-

ditional markets. It is establishing itself very well, and achieving high market shares. In 2007 we expanded the range of products to include **Prenessa® 8 mg** and **Co-Prenessa®/Prenewel®** – a fixed-dose combination of perindopril and indapamide.

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

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

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

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

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

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

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

Medicines for the treatment of infections

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

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

Medicines for the treatment of central nervous system diseases

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

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

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

Medicines for the urinary tract

In recent years Krka has strengthened its position as the supplier of medicines for the treatment of benign prostatic hyperplasia. The well-established **Kamiren®** (doxazosin) has been joined on the mar-

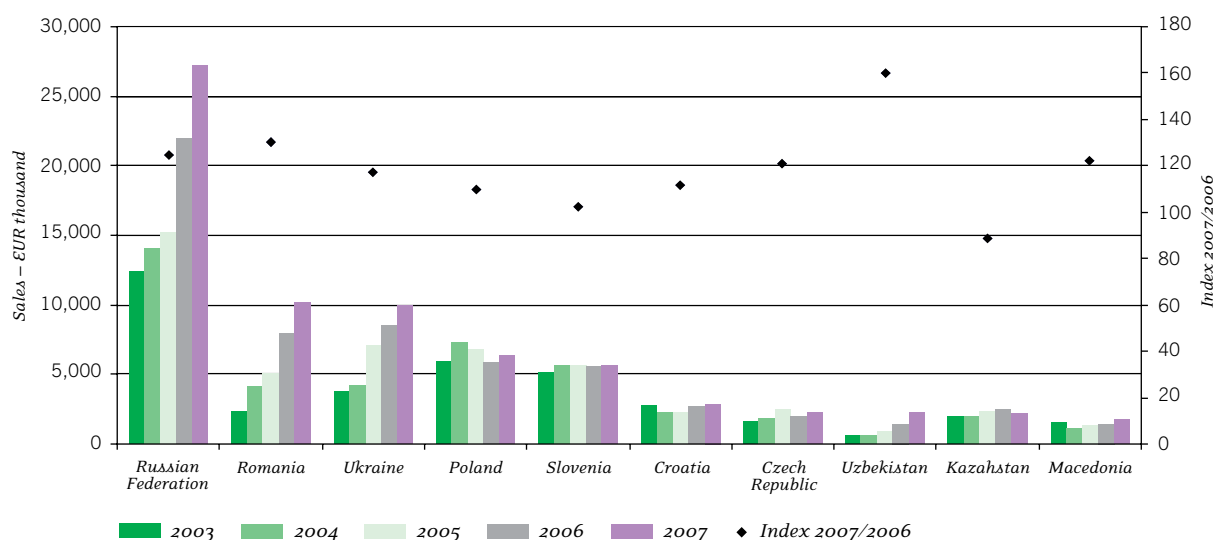
ket by **Kamiren® XL** (a prolonged-release doxazosin). **Tanyz®** (tamsulosin) is already available on 15 markets, mainly in the countries of central and south-eastern Europe. The use of **Finpros®/Finster®** (finasteride) has been expanded to many central European markets.

Self-medication products

The Krka Group generated self-medication product sales worth EUR 83.6 million in 2007, a growth of 18% on the previous year. The largest increases in sales on its top-10 markets came in the Russian Federa-

tion, Uzbekistan, Romania, Macedonia, and the Czech Republic, while the largest increases on Krka's other markets were achieved in Bulgaria, Armenia, Georgia, Moldova, Slovakia and Belarus.

SELF-MEDICATION PRODUCT SALES ON THE 10 LARGEST MARKETS



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

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

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

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

beauty, and **Duovit® Osteo** to prevent osteoporosis. A modern packaging design was introduced for existing products.

Pikovit® is the umbrella brand for a group of vitamin and mineral products for children that is marketed on over 30 markets. Confidence in these products is supported by recommendations from professional groups

and associations in numerous countries, the Polish consumers' Gold Otis award, and a product of the year prize for vitamin and mineral products in Kazakhstan, which was also consumer-selected.

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

Cosmetic products

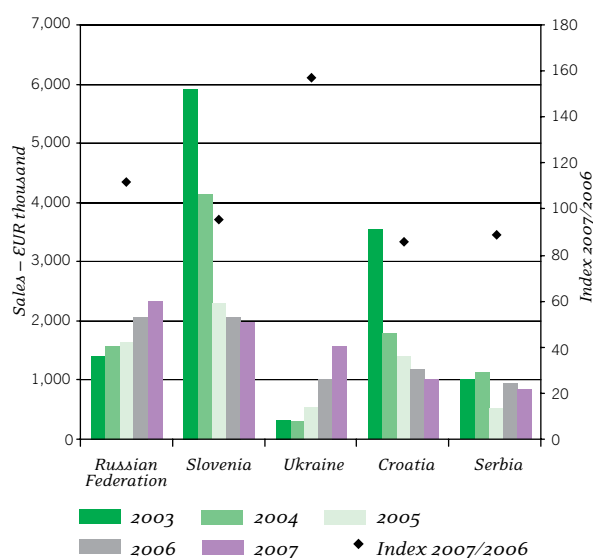
The Krka Group achieved sales of cosmetics worth EUR 10.1 million, growth of 6% on the previous year. On the top-5 markets, sales increased significantly in Ukraine, and were also up in the Russian Federation. In Slovenia, Croatia and Serbia sales continued to fall, which is the consequence of a planned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

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

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

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

COSMETICS SALES ON 5 LARGEST MARKETS

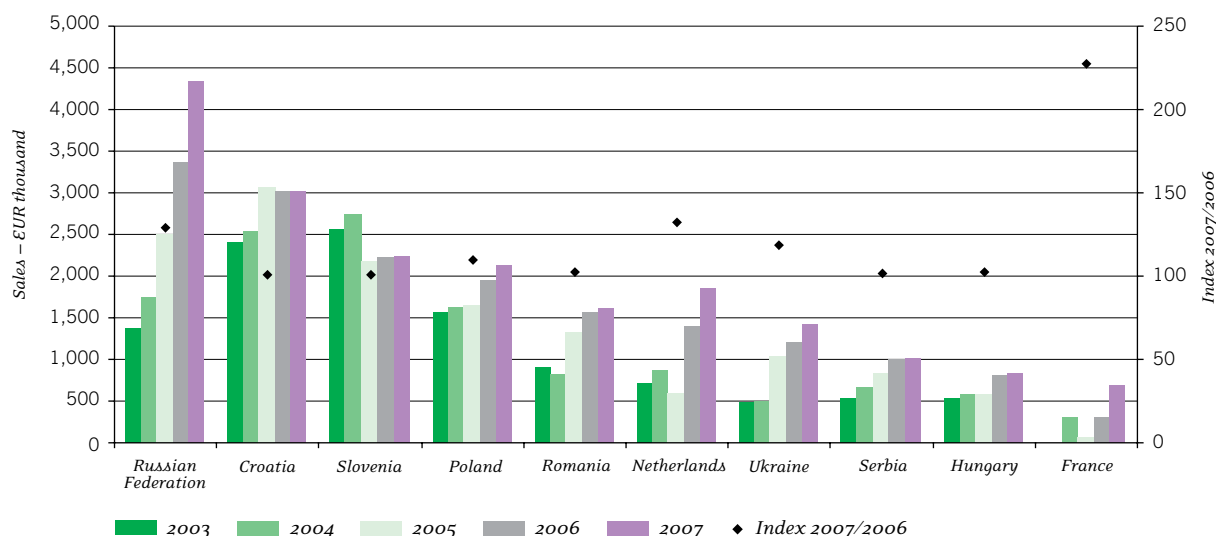


Animal health products

The Krka Group achieved sales of animal health products totalling EUR 24.6 million, or growth of 8% on the previous year. Among the top-10 markets, sales

increased most in France, the Netherlands, the Russian Federation and Ukraine.

ANIMAL HEALTH PRODUCT SALES ON 10 LARGEST MARKETS



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

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

Health resort and tourist services

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

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

The average occupancy for accommodation capacity was 70%, while the average occupancy of health resort capacity was 82%. Close attention is being paid to developing and expanding programmes to maintain and

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

Research and development

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

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

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

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

NUMBER OF NEW MARKETING AUTHORISATIONS FOR THE KRKA GROUP BY REGION

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

Increasing R&D capacity

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

In 2007 Krka expanded and modernised its research and development premises and equipment for the

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

Developing advanced delivery systems

The objective of Krka's research and development work is to develop **innovative generic medicines**, i.e. generic medicines with added value, which give products a key advantage for years after market entry. Krka's Prenessa® (perindopril) tablets with their innovative pharmaceutical form are an example of its research and development team's ability to develop a high-quality product that achieves successful sales, while it also achieved a gold award from the Slovenian Chamber of Commerce and Industry in 2007. Krka has paid particular attention to developing **advanced delivery systems for active pharmaceutical ingredients within the range of solid dosage pharmaceutical forms**. **Glyclada**® (gliclazide) prolonged-release tablets were the first Krka product for the treatment of diabetes from the sulfonylurea group, with its marketing authorisation obtained at the end of the year on most EU markets. The release of the tablet's active substance is adapted to the required changes in blood sugar levels. Starting the day with one prolonged-release **Glyclada**® (gliclazide) tablet ensures control of blood sugar levels over the full 24-hour period. In 2007 Krka added **orodispersible tablets** to its antipsy-

chotic product range, in order to improve compliance in the most demanding patient groups, e.g. patients with psychosis and other behavioural disorders that require lifelong treatment. The already established antipsychotics **Torendo**® Q-Tab® and **Mirzaten**® Q-Tab® have been joined by orodispersible **Zalasta**® (olanzapine) tablets in four strengths, which were authorised on all European Union markets by means of a CP. Krka has used its pellet production technology for several years for products such as the proton pump inhibitor **Lanzul**® (lansoprazole) in capsule form. It has also been used to produce prolonged-release **Alventa**® (venlafaxine) capsules, for which marketing authorisation has been granted on most European markets. The capsules are filled with pellets that provide the prolonged release of venlafaxine and enables administration to take place once a day.

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

Protecting our know-how and intellectual property

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

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

Prescription pharmaceuticals

Krka expanded its group of pharmaceuticals for the treatment of the central nervous system with the new atypical antipsychotic **Kventiax**® (quetiapine) in film-coated tablet form. Marketing authorisation was granted for the medicine in five pharmaceutical forms on most EU markets. Marketing authorisation was granted for orodispersible tablets, and for **Zalasta**® (olanzapine) tablets. The market authorisation of prolonged-release **Helex**® SR (alprazolam) tablets in the Czech Republic offers new treatment opportunities for patients with anxiety disorders. In 2007 Krka suc-

cessfully concluded the marketing authorisation procedure for film-coated **Yasnal**® (donepezil) tablets for the treatment of Alzheimer's disease, on several western European markets. The gastro-resistant tablets, **Nolpaza**® (pantoprazole), are Krka's latest medicine from the proton pump inhibitor group. The marketing authorisation procedures on most western European markets confirm Krka's position as a leading producer of medicines for treatment of peptic ulcers and gastroesophageal reflux.

A marketing authorisation was also obtained in the Russian Federation for the established brand **Lorista®** (losartan) in film-coated tablet form. Krka is successfully obtaining marketing authorisations for a fixed combination of **perindopril** and **indapamide** and keeping up-to-date with the very latest European guide-

lines for the management of arterial hypertension. In the Czech Republic, the range of products for the treatment of cardiovascular diseases was supplemented by the new ACE inhibitor **Cazaprol®** (cilazapril) in film-coated tablet form and in four strengths.

NUMBER OF MARKETING AUTHORISATIONS FOR PRESCRIPTION PHARMACEUTICALS BY REGION

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

Self-medication products

Krka obtained marketing authorisations in the Russian Federation for **Spazmonet®** and **Spazmonet® forte** (drotaverine), which are used to relieve digestion problems. The products **Duovit® Vision** and **Duovit® Energy** were added to the range of dietary supplements. **Duo-vit® Vision** capsules contain lutein and are intended to

maintain healthy vision for people exposed to strong light and radiation. The film-coated **Duovit® Energy** tablets with vitamins and minerals and ginseng root extract are a tonic recommended in cases of stress, mental tension, physical strain, work and sport.

NUMBER OF MARKETING AUTHORISATIONS FOR SELF-MEDICATION PRODUCTS BY REGION

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

Animal health products

The well-received enrofloxacin-based product range, used for the treatment of infections in farm livestock, was expanded in 2007 with a new product, **Enroxil® Max**, in 10%-injection solution form. Krka successfully acquired marketing authorisation for **Ecocid®**, a product used in the field of animal health and human medicine. In 2007 marketing authorisa-

tions were granted for it in the Russian Federation and Ukraine, and a number of countries in western and central Europe. Significant research and development results were achieved for florfenicol, a first-line therapy for the treatment of respiratory infections in cattle and pigs.

NUMBER OF NEW MARKETING AUTHORISATIONS FOR ANIMAL HEALTH PRODUCTS BY REGION

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

Cosmetic products

In 2007 Krka focused on its strategic brand Vitaskin® Pharma. Marketing authorisations were acquired in Croatia, Bosnia and Herzegovina, Serbia and Ukraine for Vitaskin® Pharma Age Formula capsules. Krka directed its development towards the **Vitaskin® Pharma Pure Expert** products for greasy,

problem skin. Test results and the satisfaction of the users participating in the tests have demonstrated the efficacy of these products. Four new products have been developed in the **Sun Mix®** line, in line with new legislative guidelines on sun protection products, and these will partially replace existing products.

Health resort and tourist services

In coming years, Krka will continue to develop and expand its programmes aimed at enhancing well-being, and mental and physical capacity, and overcoming the most common problems of everyday life. This will be supported by relaxation programmes and pro-

grammes to maintain a healthy body weight and vitality, and other programmes. Krka will continue to invest in treatment and rehabilitation equipment, in order to retain its leading market share in health resort care within the public health service.

Product supply

The well-balanced integration of purchasing, logistics and production means optimal utilisation of production capacity in the Krka Company and the Krka subsidiaries. This ensures that our customers receive the products they want, when they want them. In 2007

the expansion and optimisation of the supply chain significantly increased production volume. Additional production capacity has been organised at contracted partners in special circumstances or higher market demand.

Purchasing

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

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

Warehousing and transport

The logistics functions of warehousing and transport include:

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

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

The finished product warehouse gained 7000 pallet-spaces and three automated high-bay lifting devices, and a new receipt-dispatch centre on the first floor. A

higher quality information system was installed in the finished product warehouse, which provides continual information on finished product inventories and their movements.

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

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

Production

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

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

Krka is also keeping up in terms of quality and quantity with the growing production requirements of other products, particularly the technological group of tablets and pellet-capsules. The physical volume realised for all finished products was 20% higher than the

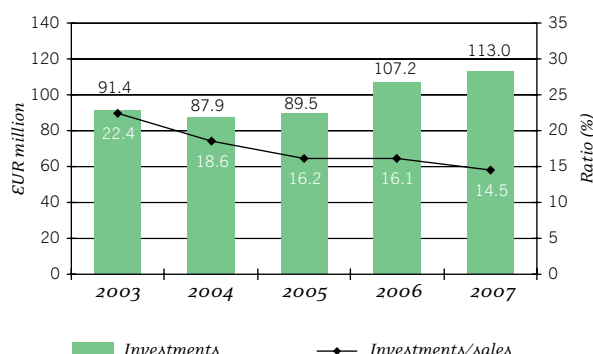
previous year, due to the successful commissioning of the Notol III and Pelete IV newly constructed finished product plants, as well as more effective utilisation of existing capacity.

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

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

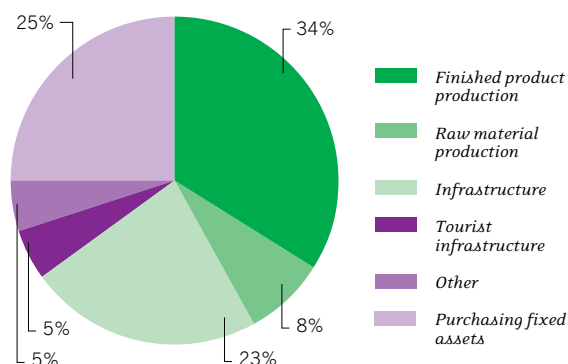
Investments

KRKA GROUP INVESTMENTS 2003–2007



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

STRUCTURE OF THE KRKA GROUP'S INVESTMENT SPENDING IN 2007



Sinteza 4

In June Krka officially opened its new active pharmaceutical ingredient plant, Sinteza 4. Together with the construction of liquid raw material storage facility, we have invested EUR 80 million in the plant, which is part of our vertically integrated production model, which enables control over the entire process from development and production of active pharmaceutical ingredients to finished products, which are at the very highest global level in terms of quality, efficacy and safety. The plant will ensure production of active pharmaceutical ingredients for the medical

products that will form Krka's most promising sales programme over the next five to ten years. It is one of the largest of its kind in Europe, and was constructed in line with the latest technical solutions, GMP and the strictest European standards on health and safety for people and the environment. Careful attention was paid to ensuring personal safety and a high level of environment protection during the planning of Sinteza 4.

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

Injection production plant

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

Notol III

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

Pelete IV

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

Central dispensing facility and raw material warehouse

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

Terme Krka

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

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

Abroad

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

Integrated management system

As a generic producer, Krka is responsible for medicines that can take their place alongside the world's leading pharmaceutical companies in terms of quality, safety and efficacy. Quality, in the broadest sense

of the word, is created, maintained, and the responsibility of all employees. Krka's systematic approach is intended to ensure it exceeds customer requirements and achieve its set operating objectives.

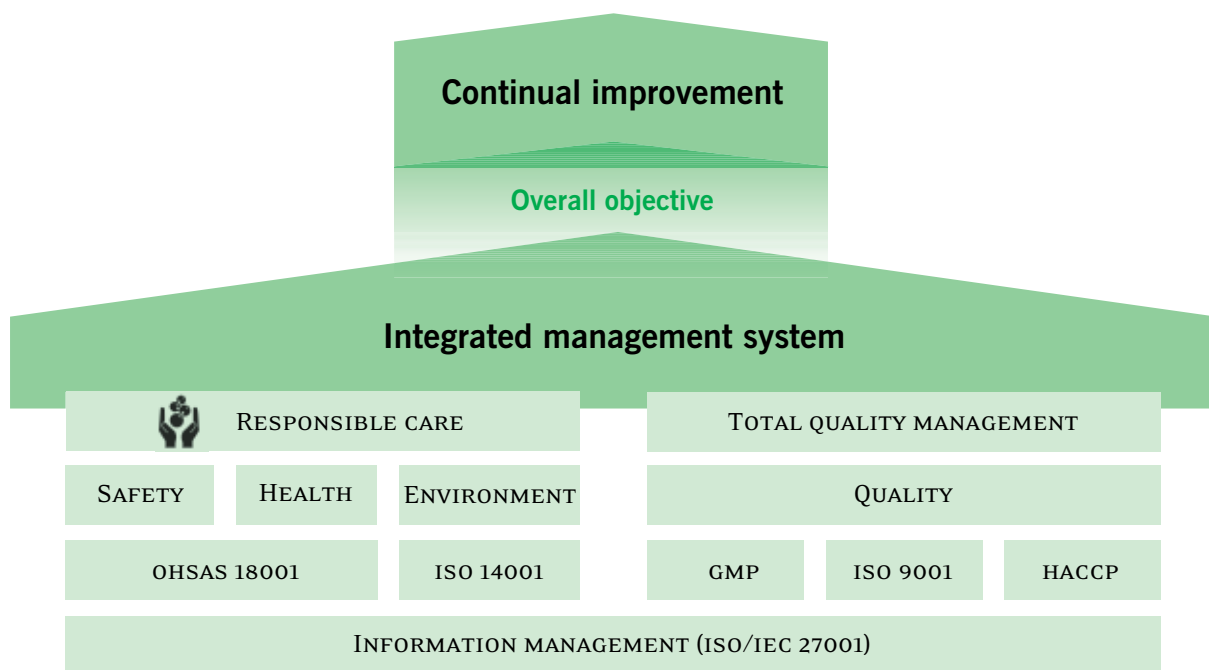
Management system

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

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

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

INTEGRATED MANAGEMENT SYSTEM



Pharmaceutical quality system

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

- Inspectors from the Agency for Medicinal Products and Medical Devices of the Republic of Slovenia (AMPMD) carried out regular follow-up inspections on the quality management system, warehouses, production plants and quality control laboratories and confirmed our compliance with the EU's GMP requirements, which form the basis for re-issuing the GMP certificate and pharmaceutical manufacturing licence.
- Krka also passed an AMPMD verification procedure for the pilot plant for API production, which means that the production of batches for clinical testing can now start.
- Regular inspections were also carried out by the Veterinary Administration of the Republic of Slovenia. They inspected the safety and quality assurance system for products for animal consumption. Krka was approved as a feed business operator in accordance with Regulation (EC) No 1831/2003. The inspectorate also verified the performance of wholesale trade in animal medicines, and found that Krka met the requirements set out by the applicable Medicinal Products Act.
- The compliance of the safety and quality assurance system for foodstuffs and food was subject to regular inspections by the Health Inspectorate of the Republic of Slovenia, which did not find any compliance failures.
- The performance of Krka's IMS was reconfirmed by successfully passing an inspection by SIQ Ljubljana (Slovenian Institute of Quality and Metrology). No compliance failures were found in any of the systems inspected. The 2007 verification was particularly important, since it also certified the informa-

tion security management system (ISO/IEC 27001). Krka is the first major Slovenian manufacturer to acquire the certificate.

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

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

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

Business Excellence Award of the Republic of Slovenia

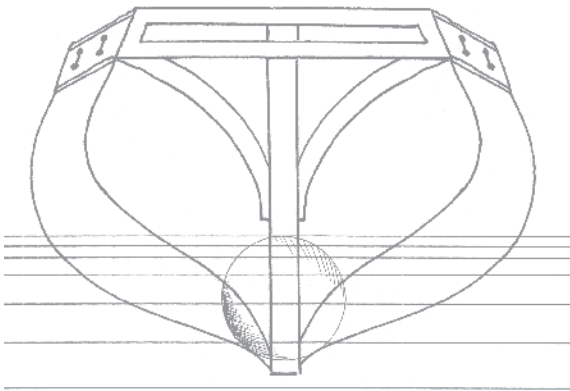
One of Krka's key objectives is to achieve excellence in every area of operation, so it has introduced self-assessment based on the EFQM model, and also takes part in the public competition for the Business Excellence Award of the Republic of Slovenia (PRSPO). This is the highest national recognition in Slovenia in the

field of quality, and covers achievements in the field of quality of operations that are the results of knowledge, innovation and continual improvement. Krka received its 2007 PRSPO award at an official ceremony held on 5 December 2007.

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



Sustainable development



The essence is not outwardly evident.

It is found below the surface, in the depths.

*That's the source of the inspiration, energy and
strength we need to meet everyday challenges.*

*Deep within we feel a responsibility to return the fruits
of work to the environment that sustains us.*

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

Employees

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

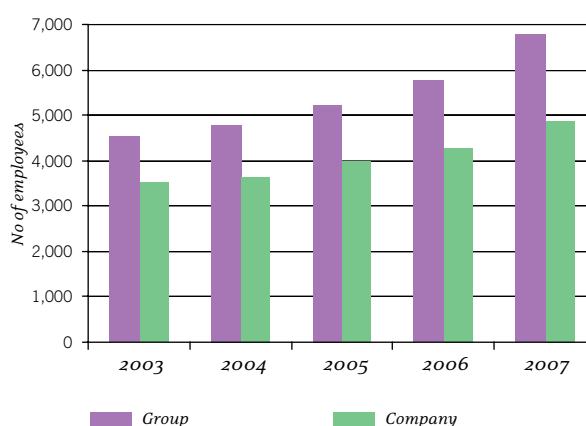
The success of the systematic, long-term work with employees – senior company management, all managers, specialist services and other partners – has been confirmed by numerous prizes and awards. In 2007 Krka also received an award as the employer with best reputation in Slovenia, and a top-10 award for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

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

and representative offices outside Slovenia, which is 43% of all employees in the Krka Group.

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

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



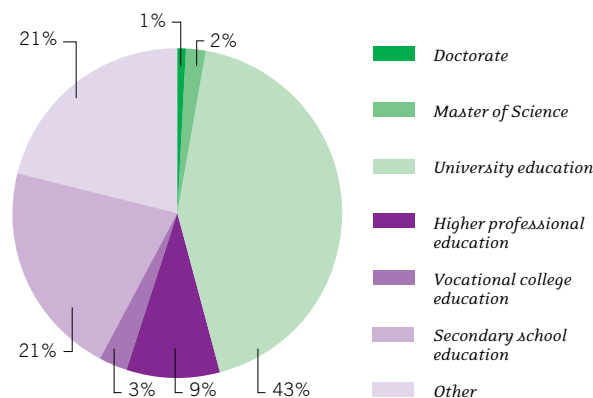
NUMBER OF EMPLOYEES (ON 31 DECEMBER)

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

Educational structure

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

EDUCATIONAL STRUCTURE IN 2007



Education and training

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

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

Krka employees show great interest in continuing their studies and acquiring more advanced qualifications. The company supports them by co-financing school fees and offering study leave. In 2007, 386 Krka employees did part-time courses, 134 of these

at postgraduate level for MSc or PhD degrees. Eighty-four acquired a new, higher level qualification. Krka is the only company in Slovenia to implement testing and certification for the national vocational qualifications in pharmacy. By the end of 2007, 244 employees had already acquired the national vocational qualification, 54 of whom during 2007, while another 121 are still in the process of certification.

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

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

Measuring the organisational climate

A positive organisational climate fosters committed and creative work and the attainment of ambitious objectives, so Krka regularly evaluates its organisational climate and employee satisfaction. It uses its findings to plan and implement measures to improve internal organisation, interpersonal relations, leadership, the conditions required for employee initiative and development, and a unified understanding of the company's mission, vision and objectives. This is all intended to release the inner potential of employees and ensure that Krka's long-term objectives are realised. In par-

allel with the growth in the business results, 2007 also saw a significant increase in scores for organisational climate and employee satisfaction. Investments in leadership development, improving information provision, more efficient organisation, education, a more target-oriented culture, and excellence in all fields have borne fruit. Results indicate that employees express loyalty to the company, and are dedicated to their work, and motivated for personal and professional development.

Employee development

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

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

Leadership

Effective leadership is an important part of Krka's corporate culture. Krka improves the quality of its leadership with the Krka international leadership school and the school for operational level leadership. The Krka style of work demands a great deal of teamwork and coordination, and an educational programme for expert and project teams has been developed to make sure our employees can function as successfully as possible in this form of work. This also helps consoli-

date Krka's multicultural, global identity. The annual appraisal interviews introduced some years ago are now firmly established, and now also include employees with secondary school education. Krka appraisal interviews with key and prospective employees are used to set clear objectives for work and responsibilities and to define expectations relating to an employee's educational and professional development.

Management-employee relations

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

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

Members of the Works Council are very aware of their duties, and keep their colleagues up-to-date with any information and replies received in response to

the questions and initiatives they raise. The Works Council website is used to report their activities, and to publish the minutes of Council meetings and all the questions and initiatives raised at Works Council meetings and worker assemblies. Every Krka employee can pose questions or submit initiatives via the website, and will receive a response from the relevant support services. The Chief Executive has also invited all employees to submit their questions, ideas and proposals directly to him by email.

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

Employee reward scheme

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

In past years, the Krka Awards system has also undergone considerable development. Since 1999 Marketing and Sales have selected and rewarded the best specialist staff in the field, with the selection later being expanded to include district managers, product

managers, internal trainers and heads of marketing. In 2005 Research and Development joined the system by selecting employees of the year in the field of acquiring market authorisations. In 2005 a system was introduced to select and reward employees of the year and managers of the year at the organisational unit level and overall Group level. For decades Krka has been recognising the efforts of its most loyal employees by means of anniversary bonuses and special awards. The anniversary bonuses and Krka Awards at the Group level are presented once a year at the special ceremony known as the Krka Awards Day.

Encouraging inventive work

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

The inventive work system is incorporated into the continual improvement system, the quality system and hence, the integrated management system. Twice a year, heads of organisational units select the fields of innovation for their organisational unit in the coming period. These are areas where useful proposals

and improvement are required to improve processes and/or eliminate problems that have arisen.

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

Employee care

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

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

Health and interpersonal relations at Krka are supported by organising preventive, recreational and social programmes at a wide range of cultural and sporting events. The Krka Trim Club organises preventive

sporting activities in which over 800 employees take part. Krka also has holiday accommodation capacity, where its employees can spend their holidays; discounts and payment by instalment are also offered for holidaying in Krka's and other accommodation. The holiday accommodation is also available to retired Krka staff. Krka also helps its employees resolving housing issues by means of housing loans and the possibility of renting Krka-owned flats.

Krka's Culture and Arts Society offers an art gallery, a choir, a drama club, and creative workshops as well

as organising visits to events, enriching the quality of life for our employees.

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

Health and safety at work

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

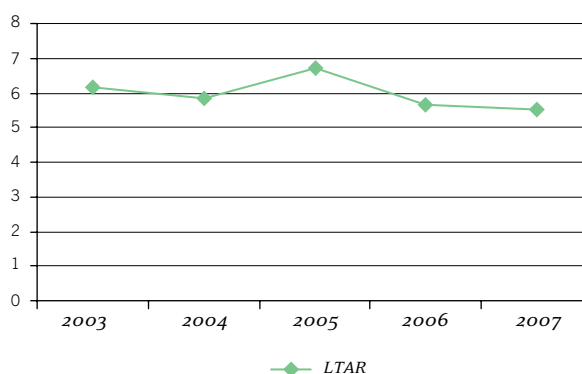
The heads of individual organisation units, personal physicians and occupational health specialists, and the Health and Safety at Work Service are all involved in caring for employee health. Special teams are organised within every organisation unit to resolve social and health problems. Sick leave has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

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

The health and safety at work management system is part of the integrated management system and meets

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

FREQUENCY OF WORKPLACE INJURIES (LTAR)



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

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

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

There is a 66-strong industrial fire service crew, fully organised and equipped to ensure an adequate re-

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

Communications

Communications with investors

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

The main objectives are:

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

We achieve these objectives as follows:

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

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

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

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

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

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

Communications with customers

At Krka we are very aware of the importance of our customers. We classify them into four groups:

- institutions (health, regulatory, industrial property services, health insurance etc.)
- direct customers (distributors, other pharmaceutical companies)
- indirect customers (pharmacies, hospitals, pharmacists, doctors and veterinaries)
- final consumers (patients, customers).

We actively cooperate within institutional customers in regular working procedures and projects and various common projects. Regular working visits, and inspections from regulatory bodies help us to continually improve processes and approaches and to adapt our work to regulatory requirements and good practice. Krka participates in the creation of the regulatory environment through direct contact with authori-

ties, and via industrial and professional associations. It can respond rapidly to any changes and adapt to specific needs of individual markets.

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

ranks as one of the leading generic producers – as a company as a whole and for major individual products – in terms of identity, visibility and importance on all key and major markets.

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

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

fessional meetings. The high scores reflect the high level of organisation, and the relevance and practical application of the selected topics.

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

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

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

Communications with employees

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

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

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

Utrip. For over 40 years, we have been publishing the monthly internal magazine Utrip (which means pulse), aimed at all employees, retired Krka employ-

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

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

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

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

Communications with the media

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

In 2007 we held meetings with the media on a quarterly basis at conferences for business journalists, as well as meeting them at a range of other formal and informal events. We responded promptly and actively

to their questions, and notified them of significant events and business decisions by means of carefully-planned press releases.

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

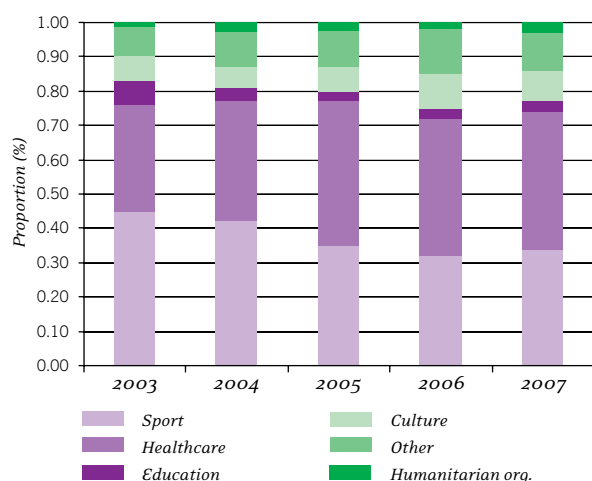
Communications with the community

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

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

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

KRKA SPONSORSHIPS AND GRANTS



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

We develop partnership relations with those we sponsor. In addition to monetary assistance, we also

offer organisational support to our partner organisations and cooperation from our employees on specific projects. At the start of 2007 we organised a meeting for recipients of Krka sponsorship – e.g. associations bearing the Krka name – and presented the company and the strategy for expressing our corporate identity.

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

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

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

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

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

Science and education. At Krka we believe in knowledge. Krka has offered study grants to university and

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

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

Sport. Our commitment to caring for health and quality of life is also expressed in our relations to sport. We primarily sponsor projects and associations that support large-scale participation and work with young people. For many years, we have supported the ski-flying competition at Slovenia's famous ski-jumping centre in Planica, and the Slovenian racing yacht,

Maxi Jena, as well as donating considerable funds to a range of sports clubs. For many years we have been providing funds to the following sports clubs: Krka basketball club, Krka men's handball club, Krka women's handball club, Krka men's volleyball club, Krka women's football club, Krka men's football club, the Krka athletic club, and others.

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

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

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

Environmental communication

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

environmental management system. The information acquired is taken into account in preparing environmental objectives and programmes.

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

Environmental protection

Environmental protection is subject to continual development at Krka and is undergoing systematic changes. The current state of affairs expressed in the integrated management of the field has been reached via many years of actively incorporating environmental protection into every segment of our operations. The short-term and long-term objectives of environ-

mental protection are directed towards promoting sustainable development, maintaining a healthy living environment, and preserving biodiversity. This means that in future we will continue to make responsible use of natural resources, continually reducing emissions, and actively cooperate with the local and wider community on environmental issues.

Improving the environment

Environmental policy has been incorporated in Krka's internal Quality Manual since the introduction of the ISO 14001 standard in 2001. The integrated approach to environmental protection, the realisation of environmental objectives and programmes, and the

support of Krka's top management and all its employees will achieve sustainable improvements to the state of the environment. Our systematic environment care has contributed to the continual improvement in the quality of Krka river water over the past 10 years.

The environmental standard and environmental legislation

In 2007 a regulation on emissions into water was issued for the pharmaceutical industry for the first time. All the measured parameters indicated that Krka already had complied with the regulation's requirements before it actually entered into force, since our efforts have long been directed towards the sustainable improvement of the water quality of the Krka river. The sustainable concept of environmental pro-

tection set out in the environmental standard is also applied to waste, emissions to air, and noise.

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

Environmental protection training

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

and programmes, register of legislation), which is published on the intranet.

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

Significant achievements in the field of environmental protection in 2007

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

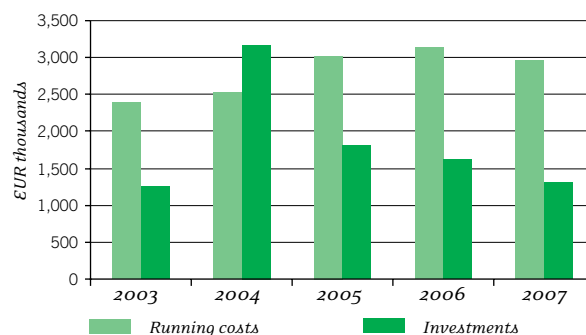
Environmental protection objectives and programmes for 2008

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

Environmental protection costs

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

INVESTMENT IN ENVIRONMENTAL PROTECTION

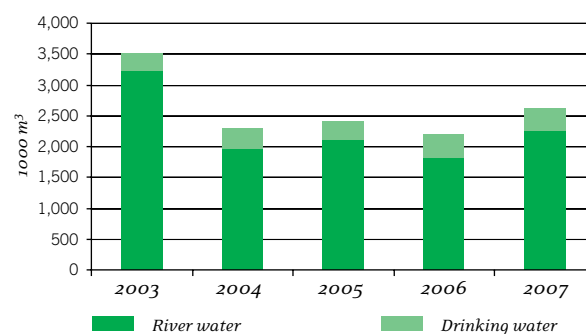


Use of natural resources

Water

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

DRINKING WATER AND RIVER WATER



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

Energy

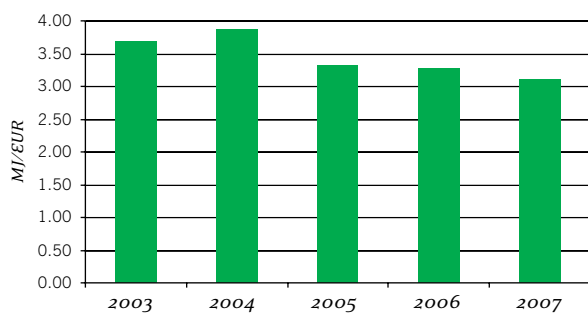
Krka's main sources of energy are:

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

Specific energy consumption

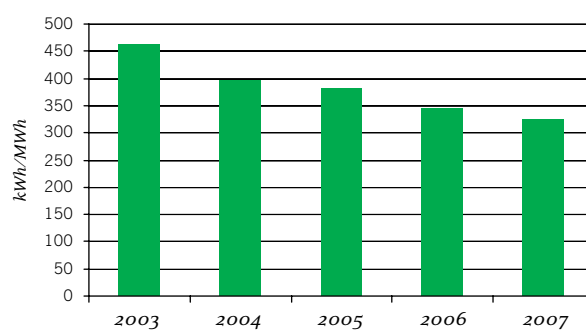
Specific energy consumption is an important indicator for evaluating production efficiency, representing the ratio of energy consumption to production value. Energy consumption has been declining in recent years, due to a range of efficiency measures, such as energy monitoring and targeting of electricity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

SPECIFIC ENERGY CONSUMPTION



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

SPECIFIC ELECTRICITY USE FOR COOLING



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

Emissions

Waste water

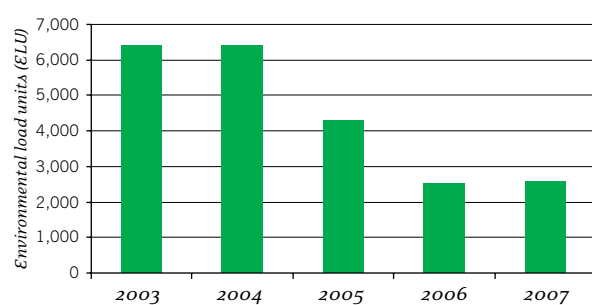
Reducing the pollution levels of waste water remains one of the most important areas of environmental protection. The waste treatment plant at Ločna was upgraded, and in 2005 we introduced new waste-water cleaning technology, which removes nitrogenous substances. Over the past three years the effluent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

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

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

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

WASTE WATER MANAGEMENT

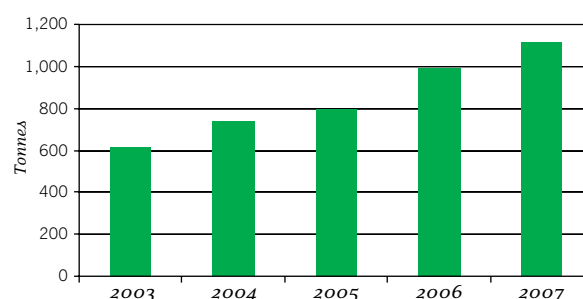


In the coming two years, Krka will be improving the effectiveness of the waste water treatment technology at its own waste treatment plant by upgrading the ultrafiltration technology used for the outflow.

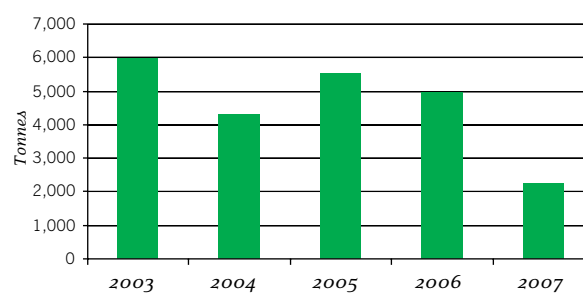
Waste

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

USEFUL SEPARATED WASTE



LANDFILLED WASTE



Noise

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

Air emissions

The first measurements of emissions to air from the new plants (Pelete 4, Sinteza 4), which were carried out in 2007, confirmed that the air cleaning system, which uses thermal oxidation and a volatile organic compound condenser, is extremely efficient. The absolute filtration of all particle emissions has reduced

dust emission to below 0.5 mg/m³, which is less than 0.3% of the legally defined limit value. Special care is taken to reduce emissions with an unpleasant odour, which often occur around the waste treatment plant, and the fermentation production facilities. In 2007 we upgraded the air cleaning system for the waste treatment plant and optimised the performance of the fermentation production air filtration system.

Environmental protection at Krka's foreign subsidiaries

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

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